

**3. Reports by investment analysts for the utility and corporate parent since 2011, where applicable:**

**B. Equity Investment Analyst Reports**

- There are no equity investment analyst reports for FEI or its direct parent, FHI.
- Enclosed are equity investment analyst reports for FEI's ultimate parent, Fortis Inc. (FTS) from the following investment brokerages:
  - Beacon
  - Barclays
  - BMO Capital
  - Cannacord
  - CIBC
  - Credit Suisse
  - Macquarie
  - MorningStar
  - RBC
  - Scotiabank
  - Toronto Dominion
  - Veritas

## FORTIS INC.

### Results Lower on FX; Acquisition Expenses

**Lowering our Numbers:** We reiterate our EW rating on Fortis and lower our price target from CAD35 to CAD33, premised upon the sum-of-the-parts valuation methodology provided later in the report. We are lowering our FY12-14/EPS estimates from CAD1.73/1.83/1.95 to CAD1.73/1.78/1.89 on our updated share count. Our estimates do not include any contribution from CH Energy Group (CHG) which we calculated would be about \$0.02 accretive in the first year.

**Results Impacted by FX; CHG Acquisition Costs:** Fortis reported EPS of CAD0.24 vs CAD0.31 last year, consensus expectations of CAD0.26, and our estimates of CAD0.27. Results were significantly impacted by FX impacts and CHG acquisition costs. Improved performance at the western Canadian electric utilities was partially offset by decreased non-regulated hydroelectric generation, and a higher loss year-on-year at the regulated gas utilities.

**Capex Forecast:** Management projects 2012 capital expenditures at \$1.3bn and sees total capital expenditures at \$5.5bn through 2016. CH Energy Group would add approximately \$0.5bn for the period 2013-16, on our estimates.

**Acquisitions:** In August Fortis Turks & Caicos acquired Turks & Caicos Utilities Ltd. (TCU) for CAD13mn. TCU serves 2,000 customers on Grand Turk and Salt Cay and holds a 50-year license through 2036. In October, Fortis Properties acquired the 126-room StationPark All Suite Hotel in London, Ontario for approximately CAD13mn. FortisBC Electric remains in talks to acquire electric utility assets from the City of Kelowna, which serves 15,000 customers, for CAD55mn. The Kelowna transaction and the CH Energy Group transaction are both expected to close in 1Q 2013.

#### FTS.TO: Quarterly and Annual EPS (CAD)

	2011		2012		2013		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.64A	0.62A	0.62A	0.66A	N/A	N/A	0.70E	-3%	N/A
Q2	0.34A	0.33A	0.33A	0.33A	N/A	N/A	0.36E	-3%	N/A
Q3	0.31A	0.27E	0.24A	0.24A	N/A	N/A	0.26E	-23%	N/A
Q4	0.45A	N/A	0.54E	0.50E	N/A	N/A	0.51E	20%	N/A
Year	1.75A	1.73E	1.73E	1.73E	1.83E	1.78E	1.82E	-1%	3%
P/E	19.4		19.7			19.1			

Source: Barclays Research.  
Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating **EQUAL WEIGHT**  
Unchanged

Industry View **POSITIVE**  
Unchanged

Price Target **CAD 33.00**  
lowered -6% from CAD 35.00

Price (02-Nov-2012) CAD 33.96  
Potential Upside/Downside -3%  
Tickers FTS CN / FTS.TO

Market Cap (CAD mn) 6475  
Shares Outstanding (mn) 190.66  
Free Float (%) 99.64  
52 Wk Avg Daily Volume (mn) 0.5  
Dividend Yield (%) 3.5  
Return on Equity TTM (%) 7.65  
Current BVPS (CAD) 20.68  
Source: FactSet Fundamentals

Price Performance Exchange-TOR  
52 Week range CAD 34.98-31.45



Link to Barclays Live for interactive charting

#### North America Utilities

Ross A. Fowler, CFA  
1.212.526.3432  
ross.a.fowler@barclays.com  
BCI, New York

Daniel Ford, CFA  
1.212.526.0836  
daniel.x.ford@barclays.com  
BCI, New York



## COMPANY SNAPSHOT

Fortis Inc.

North America Utilities

Income statement (CADmn)	2011A	2012E	2013E	2014E	CAGR
EBITDA (adj)	1,185	1,262	1,350	1,432	6.5%
EBIT (adj)	766	804	854	903	5.6%
Pre-tax income (adj)	398	413	435	454	4.5%
Net income (adj)	318	332	350	377	5.8%
EPS (adj) (CAD)	1.75	1.73	1.78	1.89	2.6%
Diluted shares (mn)	182	192	197	199	3.1%
DPS (CAD)	1.16	1.20	1.24	1.28	3.3%

Margin and return data	Average				
EBITDA (adj) margin (%)	31.6	32.8	34.1	35.2	33.4
EBIT (adj) margin (%)	20.4	20.9	21.6	22.2	21.3
Pre-tax (adj) margin (%)	11.6	11.8	12.0	12.5	12.0
Net (adj) margin (%)	8.5	8.6	8.8	9.3	8.8
ROIC (%)	7.1	6.9	7.1	7.1	7.1
ROA (%)	2.3	2.3	2.3	2.4	2.3
ROE (%)	7.8	7.3	7.5	7.7	7.6

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	8,687	9,555	10,249	10,707	7.2%
Total net assets	13,562	14,452	15,163	15,711	5.0%
Capital employed	10,747	11,611	12,105	12,628	5.5%
Shareholders' equity	4,085	4,536	4,642	4,889	6.2%
Net debt/(funds)	5,661	6,074	6,468	6,676	5.7%
Cash flow from operations	904	831	888	948	1.6%
Capital expenditure	-1,116	-1,419	-1,275	-1,060	N/A
Free cash flow	-530	-860	-674	-408	N/A
Pre-dividend FCF	-379	-629	-429	-154	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	19.4	19.7	19.1	17.9	19.0
EV/EBITDA (adj) (x)	10.3	10.0	9.6	9.2	9.7
EV/EBIT (adj) (x)	15.9	15.6	15.2	14.6	15.3
P/BV (x)	1.5	1.4	1.4	1.4	1.4
Dividend yield (%)	3.4	3.5	3.7	3.8	3.6
Total debt/capital (%)	53.5	53.1	54.1	54.1	53.7
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics				
Payout ratio (%)	66.2	69.4	69.8	67.6
Interest cover (x)	3.6	3.6	3.6	3.6
Regulated (%)	87.1	88.2	88.8	88.9

Stock Rating	EQUAL WEIGHT
Industry View	POSITIVE
Price (02-Nov-2012)	CAD 33.96
Price Target	CAD 33.00
Ticker	FTS.TO

## Investment case

**Why Equal Weight?** We are Equal Weight as we see shares as fairly valued. Incremental upside could come from higher sales growth and execution of potential JV transmission project opportunities in Ontario. This upside potential is offset by potential for downside in growth and execution risk related to on time and on budget completion of large construction projects. We don't see a lot of downside risk from current levels given the quality of regulation in British Columbia.

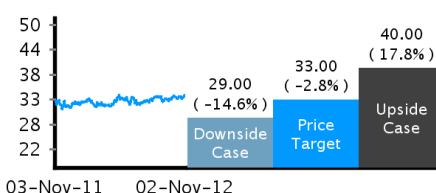
## Upside case CAD 40.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of \$40.

## Downside case CAD 29.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of \$29.

## Upside/Downside scenarios



Source: Barclays Research

Source: Company data, Barclays Research

Note: FY End Dec

## Acquisition Strategy Continues to Move Forward

Fortis continues to execute effectively on its acquisition and rate base growth strategy. Two acquisitions were recently completed.

1. **Turk & Caicos Utilities Ltd:** Fortis Turks & Caicos acquired Turk & Caicos Utilities Ltd. (TCU) for approximately CAD13mn, inclusive of the assumption of CAD5mn in debt. TCU serves 2,000 residential and commercial customers on Grand Turk and Salt Cay, with a diesel generating capacity of 9MWs.
2. **StationPark All Suites hotel:** Fortis Properties acquired the StationPark All Suites hotel, a 126-room property in London, Ontario for approximately CAD13mn.

### Pending Deals

**Utility assets of the City of Kelowna:** FortisBC Electric is continuing negotiations to acquire the electric utility assets of the City of Kelowna. FortisBC Electric currently operates and maintains the city's electrical assets under a contract in existence since 2000. The company also currently provides the city with electricity under a wholesale contract arrangement. The city has approximately 55,000 customers and the price for the acquisition would be approximately CAD55mn. The transaction is subject to certain conditions and approvals, including regulatory approval. The parties expect the transaction to close by the end of the first quarter of next year.

**CH Energy Group (CHG):** Fortis is also currently involved in the pending acquisition of New York-based utility CH Energy Group (CHG). The acquisition still requires approval by the New York Public Service Commission. The acquisition was announced in February of this year for a purchase price of US\$65.00 per share for CHG, or an aggregate purchase price of US\$1.5bn including the assumption of US\$0.5bn in debt. The company expects the transaction to close by the end of the first quarter of next year and be immediately accretive to earnings per share. We estimate about \$0.02/share of accretion in the first year. In June 2012, the company issued 18.5mn subscription receipts at CAD32.50/share, in a bought deal offering raising proceeds of approximately CAD600mn. The proceeds are being held in escrow until the merger is completed. The subscription receipts trade on the Toronto Stock Exchange under the symbol FTS.R and will entitle the holder, upon satisfaction of the release conditions, the receipt of one share of Fortis common stock and common dividends eligible to be received between issuance of the subscription receipts and the closing of the transaction.

### Regulatory Update

- In October, FortisBC Energy (Gas) received approval in British Columbia under the Greenhouse Gas Reductions (Clean Energy) Regulation for rate treatment related to the provision of compressed and liquefied natural gas (CNG and LNG) for transportation vehicles. We see this as a potential growth area for the company in the future. Also in British Columbia, the generic cost of capital proceed in set to have oral hearings on December 12, and we continue to expect a decision in late 2012 or early 2013. We see some risk to allowed returns given the low interest rate environment.
- In August, the British Columbia Utilities Commission (BCUC) issued its decision in the 2012-13 rate application for FortisBC Electric. The decision left capital structure and allowed returns unchanged from 2011, pending the decision in the ongoing generic cost of capital proceeding. The decision incorporates a forecast mid-year rate base of CAD1,112mn for 2012 and CAD1,173 for 2013. The decision also approved capital

expenditures of CAD100mn for 2012 and CAD120mn for 2013. The decision incorporated a pass through related to purchase power variances vs forecasts, but denied a pass through related to finance costs variances vs forecasts. The company could benefit from not having a pass through related to finance costs if the low interest rate environment continues.

- FortisBC Electric filed its advanced metering infrastructure (AMI) application in July of this year and it is currently under review by the BCUC. The AMI project will replace all of the company's manual read meters with advanced meters, is projected to cost CAD48mn and be completed in 2015.
- In Alberta, the Alberta Utilities Commission (AUC) outlined a general framework for performance based ratemaking (PBR) in the province set to begin in 2013 for a five-year term. Under PBR a formula will be used to determine customer rates on an annual basis. The current structure proposed by the AUC has raised concerns around the treatment of certain capital expenditures, which the company will seek to clarify in its compliance application to be submitted in November 2012. The company has sought leave to appeal this decision to the Alberta Court of Appeal. We continue to view Alberta as a constructive regulatory environment but see decisions such as this one, even though only preliminary as showing some weakening in the regulatory construct on the margin.
- In Newfoundland & Labrador, Newfoundland Power filed a general rate application with the Public Utilities Board (PUB) for increased customer rates in 2013 and for a determination of cost of capital. Hearings are expected in the first quarter of 2013. Cost of capital could have downside risks if the PUB uses a formula mechanism in determining the appropriate cost of equity. In October the PUB approved Newfoundland Power's 2013 capital expenditure plan of CAD82mn.
- In the Caribbean, Caribbean Utilities on Grand Cayman submitted its 2013-2017 capital investment plan to the Electricity Regulation Authority (ERA) totalling US\$125mn.

## Valuation Methodology

Our \$33 price target is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2014 US regulated utility multiple of 14.4x our Canadian utility operations '14E EPS of \$1.85. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '14 multiple of 12.2x based upon consensus estimates. We apply this to our Caribbean '14E EPS of \$0.19. For unregulated generation we use a '14 power multiple of 14.4x our '14E EPS of \$0.07. For corporate and other we use the straight '14 US regulated utility multiple of 14.4x our (\$0.41) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '14E EPS of \$0.14.

Our prior \$35 price target was premised upon a SOTP methodology. We applied a 20% premium to the then 2014 US regulated utility multiple of 14.6x our prior Canadian utility operations '14E EPS of \$1.95. For Caribbean operations we used the then publically traded Caribbean Utilities Corporation '14 multiple of 12.2x based upon consensus estimates. We applied this to our prior Caribbean '14E EPS of \$0.20. For unregulated generation we used the then '14 power multiple of 14.6x our prior '14E EPS of \$0.07. For corporate and other we used the then straight '14 US regulated utility multiple of 14.6x our (\$0.41) EPS for the segment. To this we added a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our prior '14E EPS of \$0.15.

## Quarterly Results Hit by FX and Acquisition Costs

For the quarter the company reported earnings per share of CAD0.24 vs CAD0.31 last year, consensus expectations of CAD0.26 and our estimate of CAD0.27. Results were hit by adverse FX movements, and higher acquisition expenses related to the pending CHG transaction. Operationally, better results at the electric utilities in western Canada were partially offset by lower non-regulated hydroelectric generation and slightly higher losses at the regulated gas utilities.

### FortisBC Energy (Gas)

*CAD(6)mn vs CAD(4)mn*

Volumes increased at FortisBC energy due to industrial customers continuing to switch to natural gas from alternative fuel sources due to lower natural gas prices. Despite this higher volume related to more industrial customers, overall customer additions were lower than expected in the quarter. Rates were overall higher as a result of the 2012-13 revenue requirement decision received in April 2012. Timing of revenue and expenses in 2012 also impacted results, revenue is recognized on seasonal gas consumption while certain expenses are recognized evenly throughout the year. Approved increases in expenses have lowered earnings year over year in the third quarter. AFUDC was also lower due to lower assets under construction. Despite timing differences in expenses O&M expenses were lower in the quarter in 2012 vs 2011.

### FortisAlberta (Electric)

*CAD26mn vs CAD19mn*

Revenues were higher due to higher distribution rates that were effective January 1, 2012. Franchise fee revenues were CAD1mn higher y/y, and customer growth also contributed. Net transmission revenues were CAD3.5mn higher y/y/, due to the revenue requirement decision effective in April 2012. These positive factors were offset by a lower allowed return on equity to 8.75% for 2011 and 2012 vs 9.00% for 2010, which was recognized in the fourth quarter of 2011 when the decision was received.

### FortisBC Electric

*CAD13mn vs CAD10mn*

Results were higher, due to increased customer rates as a result of the 2012-13 revenue requirement decision received in August 2012 and higher pole attachment revenues. Electricity sales were up 2.1% in the quarter. Rate base growth continued due to continued investment in infrastructure. The company also benefited from lower financing costs than forecast in the 2012-2013 revenue requirement decision.

### Newfoundland Power

*CAD9mn vs CAD8mn*

Results were slightly higher as electricity sales grew by 1.8%, which was partially offset by the loss of joint-pole revenues, as joint-poles were sold in October 2011. Earnings were higher related to lower taxes, and a higher allowed return on equity. Return on Rate Base was reset from 8.38% to 8.80% in 2012. These positive impacts were partially offset by CAD1mn in costs related to Tropical Storm Leslie in September 2012 and higher D&A expense related to continued capital investments.

## Other Canadian Utilities

*CAD6mn vs CAD6mn*

Results were flat as higher consumption in Ontario and on Prince Edward Island, mainly driven by the agricultural sector led to 2.2% higher electricity sales. Customer rates also increased in Ontario as a result of regulatory decisions impacting 2012. These positive factors were offset by higher D&A expenses and finance charges at Maritime Electric due to increased levels of investment, and higher employee related operating costs at FortisOntario.

## Caribbean Utilities

*CAD7mn vs CAD6mn*

Customer growth and warmer temperatures in the Turks & Caicos increased air conditioning load and led to increased electric sales. Tourism activity also picked up in the Turks & Caicos vs 2011. Sales in the third quarter of 2011 were also abnormally depressed due to certain hotel and other commercial customer closures as a result of a hurricane. Air conditioning load was lower on Grand Cayman due to increased rainfall. Revenues were higher related to the higher rates for large hotel customers consistent with the regulatory decision received in February 2012. FX was also \$1mn better y/y. Base electricity rates also increased at Caribbean Utilities related to the RCAM mechanism effective at mid-year. This was offset by the discontinuance of government subsidies on Turks & Caicos for the South Caicos operations related to the February 2012 rate decision. Finance charges and D&A expense were higher at Fortis Turks & Caicos related to continuing capital investments, while finance charges were lower at Caribbean Utilities.

## Non-Regulated Generation

*CAD5mn vs CAD8mn*

Results were lower at unregulated generation due to lower rainfall impacting hydroelectric assets in upstate New York and Belize. The Moose River facility also remains offline since sustaining electrical damage in May 2011.

## Properties

*CAD8mn vs CAD9mn*

Results were lower due to lower occupancy rates in the hotel division of 2.0%, slightly offset by a 0.3% increase in average room rate. Revenues were however higher y/y, due to the acquisition of the Hilton Suites Hotel in October of last year. Overall occupancy was lower in Atlantic and Central Canada, while occupancy in Western Canada increased.

## Corporate & Other

*CAD(23)mn vs CAD(6)mn*

Corporate results were a greater loss, due to the absence of the US\$11mn after-tax fee paid to the company after the termination of the merger agreement with Central Vermont Public Service, CAD0.5mn in costs related to the pending acquisition of CHG, and FX losses of CAD3mn related to the translation of the US dollar denominated long-term other asset representing the book value of the expropriated investment in Belize Electricity.

## ANALYST(S) CERTIFICATION(S)

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barcap.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 02-Nov-2012, CAD 33.96), Equal Weight/Positive

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	American Electric Power (AEP)	American Water Works (AWK)
Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)	Consolidated Edison (ED)	Dominion Resources (D)
DTE Energy (DTE)	Duke Energy (DUK)	Edison International (EIX)
Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	National Grid Plc (NGG)
NiSource, Inc. (NI)	Northeast Utilities (NU)	NV Energy, Inc. (NVE)

**IMPORTANT DISCLOSURES CONTINUED**

OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

**Distribution of Ratings:**

Barclays Equity Research has 2535 companies under coverage.

42% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

43% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 43% of companies with this rating are investment banking clients of the Firm.

**Guide to the Barclays Research Price Target:**

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

**Barclays offices involved in the production of equity research:**

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 33.96 (02-Nov-2012)

Stock Rating

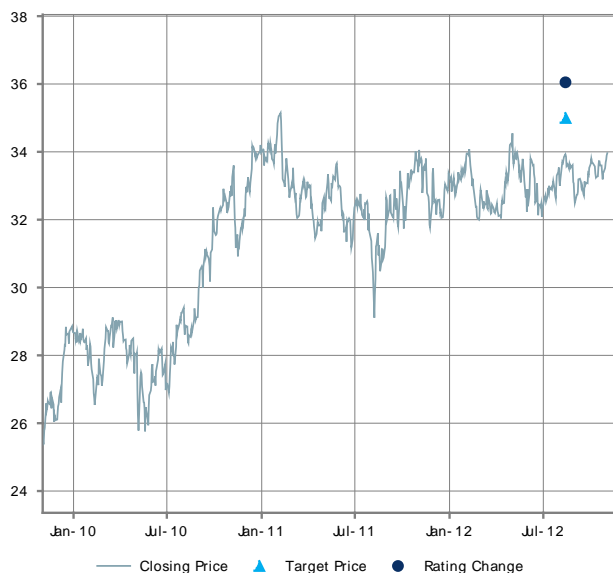
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - CAD (as of 02-Nov-2012)

Currency=CAD



Date	Closing Price	Rating	Price Target
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our \$33 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2014 US regulated utility multiple of 14.4x our Canadian utility operations '14E EPS of \$1.85. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '14 multiple of 12.2x based upon consensus estimates. We apply this to our Caribbean '14E EPS of \$0.19. For unregulated generation we use a '14 power multiple of 14.4x our '14E EPS of \$0.07. For corporate and other we use the straight '14 US regulated utility multiple of 14.4x our (\$0.41) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '14E EPS of \$0.14.5.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.



## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised and regulated by the Financial Services Authority ("FSA") and a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi

(Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2012). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## Earnings in Line; Raising PT to CAD 35

**Earnings in Line; Upping PT:** We are reiterating our EW rating and updating our EPS forecast from CAD 1.78/1.89 to CAD 1.77/1.89 for '13/14, respectively, and introducing a '15 EPS estimate of CAD 1.96. We are raising our price target from CAD 33 to CAD 35 as a result of multiple expansion. Fully detailed valuation methodologies are provided below.

**2012 Earnings in Line:** For the year, Fortis reported ongoing EPS of \$1.70 vs. \$1.65 in 2011, net of merger & acquisition-related cost and benefits in each period. Results were in line with consensus estimates of CAD 1.71 and were driven by better results at the Canadian regulated utilities, partially offset by higher corporate level expenses, and higher average shares outstanding related to the equity issuance in mid-2011.

**CHG Energy Group Acquisition Settlement:** A settlement was filed in February with intervening parties, including the New York Public Service Commission staff, in the pending acquisition of CH Energy Group. Approval of the settlement agreement by the commission is the last significant regulatory item required to close the acquisition. The acquisition is expected to close in the second quarter of this year.

**Balanced Risks and Opportunities:** We see balanced opportunities and risks in the stock. We see potential upside related to high voltage transmission development in Ontario and a pick-up in top-line growth in Alberta and British Columbia related to oil and gas infrastructure development. We see risks related to the potential to acquire more US assets: management has stated it would like to grow the US rate base to about \$4 billion. There is also a significantly busy regulatory calendar over the course of the coming year with decisions that could impact earnings power.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	2013	2014
Q1	0.66A	N/A	N/A	0.69E	N/A	N/A	N/A	N/A
Q2	0.33A	N/A	N/A	0.35E	N/A	N/A	N/A	N/A
Q3	0.24A	N/A	N/A	0.28E	N/A	N/A	N/A	N/A
Q4	0.47A	N/A	N/A	0.51E	N/A	N/A	N/A	N/A
Year	1.70A	1.78E	1.77E	1.80E	N/A	1.89E	4%	7%
P/E	20.4		19.6			18.3		

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Stock Rating	<b>EQUAL WEIGHT</b> Unchanged
Industry View	<b>POSITIVE</b> Unchanged
Price Target	<b>CAD 35.00</b> raised 6% from CAD 33.00

Price (06-Feb-2013)	CAD 34.60
Potential Upside/Downside	+1%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	6628
Shares Outstanding (mn)	191.57
Free Float (%)	99.64
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	3.5
Return on Equity TTM (%)	7.40
Current BVPS (CAD)	20.63

Source: FactSet Fundamentals

Price Performance	Exchange-TOR
52 Week range	CAD 34.98-31.70



[Link to Barclays Live for interactive charting](#)

### North America Utilities

**Ross A. Fowler, CFA**  
1.212.526.3432  
ross.a.fowler@barclays.com  
BCI, New York

**Daniel Ford, CFA**  
1.212.526.0836  
daniel.x.ford@barclays.com  
BCI, New York

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 11.

## North America Utilities

Industry View: POSITIVE

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,365	1,466	1,577	7.6%
EBIT (adj)	794	853	914	958	6.5%
Pre-tax income (adj)	404	437	465	491	6.7%
Net income (adj)	323	348	381	406	7.9%
EPS (adj) (CAD)	1.70	1.77	1.89	1.96	4.9%
Diluted shares (mn)	190	197	202	207	2.9%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	36.1	37.6	39.1	36.8
EBIT (adj) margin (%)	21.7	22.6	23.4	23.7	22.9
Pre-tax (adj) margin (%)	12.0	12.4	13.0	13.3	12.7
Net (adj) margin (%)	8.8	9.2	9.8	10.1	9.5
ROIC (%)	6.9	7.1	7.0	7.0	7.0
ROA (%)	2.2	2.3	2.4	2.4	2.3
ROE (%)	7.1	7.5	7.5	7.7	7.5

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,337	10,300	11,038	11,744	7.9%
Total net assets	14,349	15,096	16,095	16,600	5.0%
Capital employed	11,555	12,087	13,055	13,677	5.8%
Shareholders' equity	4,530	4,634	5,106	5,239	5.0%
Net debt/(funds)	5,869	6,538	6,800	7,518	8.6%
Cash flow from operations	845	921	994	1,085	8.7%
Capital expenditure	-1,200	-1,576	-1,385	-1,420	N/A
Free cash flow	-636	-960	-710	-669	N/A
Pre-dividend FCF	-408	-716	-452	-396	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	20.4	19.6	18.3	17.7	19.0
EV/EBITDA (adj) (x)	9.9	9.6	9.2	9.0	9.4
EV/EBIT (adj) (x)	15.7	15.4	14.7	14.8	15.2
P/BV (x)	1.5	1.5	1.4	1.4	1.4
Dividend yield (%)	3.5	3.6	3.7	3.8	3.6
Total debt/capital (%)	52.9	54.1	53.9	55.0	54.0
Net debt/EBITDA (adj) (x)	4.6	4.8	4.6	4.8	4.7

Selected operating metrics				
Payout ratio (%)	70.7	70.1	67.9	67.3
Interest cover (x)	3.5	3.5	3.5	3.6
Regulated (%)	87.5	89.0	89.8	91.5

Price (06-Feb-2013) CAD 34.60  
Price Target CAD 35.00

**Why Equal Weight?** We are Equal Weight as we see shares as fairly valued. Incremental upside could come from higher sales growth and execution of potential JV transmission project opportunities in Ontario. This upside potential is offset by potential for downside in growth and execution risk related to on time and on budget completion of large construction projects. We don't see a lot of downside risk from current levels given the quality of regulation in British Columbia.

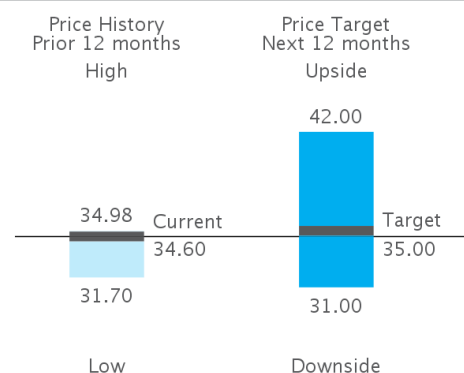
**Upside case** CAD 42.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 42.

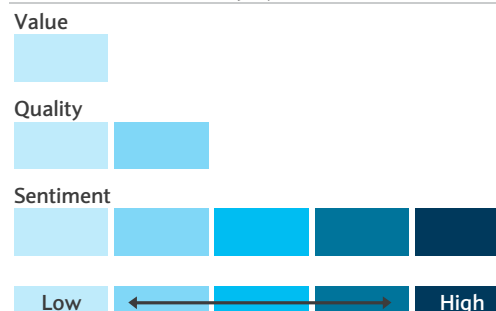
**Downside case** CAD 31.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 31.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

## Business Update; Forward Capital Plan

---

### Pending Acquisition of CH Energy Group

Regulatory approval by the New York State Public Service Commission (NY PSC) remains the only significant regulatory item remaining to close the CH Energy Group transaction. As a refresher, Fortis announced in early 2012 entering into an agreement to acquire CH Energy Group for US\$1.5 billion, or US\$65/share inclusive of the assumption of approximately US\$500 million in debt. The main subsidiary of CH Energy Group is Central Hudson Gas & Electric, a regulated T&D utility with about 300,000 electric and 75,000 natural gas customers in the Central Hudson Valley of New York State. Shareholder approval and approvals by the Federal Energy Regulatory Commission and the US Committee on Foreign Investment were all received by July of last year. The waiting period under the Hart-Scott-Rodino Antitrust Act of 1976 expired this past October.

The approval of the NY PSC had remained in question late last year as the company and intervening parties in the proceedings had debated the merits of the acquisition and the level of customer and community benefits and/or rate mitigation that the company could provide as part of the acquisition transaction. In January of this year the company and several intervening parties including the NY PSC staff filed a settlement agreement with the NY PSC. The settlement calls for:

- US\$35 million to cover expenses normally recovered in customer rates, such as storm restoration expenses
- Guaranteed savings of more than US\$9 million over five years as a result of cost eliminations from CH Energy Group no longer being a public company
- Establishment of a US\$5 million economic development and low-income assistance program fund
- An electric and gas delivery rate freeze through July 1<sup>st</sup>, 2014.

The parties to the settlement have agreed it is in the public interest and have recommended approval to the NY PSC. In our view, approval of the settlement is very likely and should be completed by the end of the second quarter of this year.

Based upon the new terms of the settlement agreement and an updated analysis of the acquisition we think there will be \$0.01 of accretion to earnings in 2013, which will grow to \$0.04 of EPS accretion by 2015. Our pro forma analysis is shown in Figure 1 below.

FIGURE 1

**CH Energy Group Acquisition Pro Forma**

CAD millions except per share date	2012 E	2013 E	2014E	2015E
CHG Consensus EPS	\$ 3.11	\$ 3.23	\$ 3.45	\$ 3.63
CHG Shares Outstanding	15.4	15.4	15.4	15.4
Projected Net Income	\$ 48	\$ 50	\$ 53	\$ 56
FTS Estimated EPS	\$ 1.70	\$ 1.77	\$ 1.89	\$ 1.96
FTS Estimated Shares Outstanding	190.0	196.9	201.9	207.0
FTS Estimated Net Income	\$ 323	\$ 348	\$ 381	\$ 406
Increased Interest Expense pretax	\$ 19	\$ 19	\$ 19	\$ 19
Tax Shield Savings	\$ 3	\$ 3	\$ 3	\$ 3
Synergies	\$ -	\$ (2)	\$ (4)	\$ (6)
Consolidated Net Income	\$ 354	\$ 383	\$ 421	\$ 451
Consolidated Shares Outstanding	209.0	215.8	220.9	225.9
Consolidated EPS	\$ 1.69	\$ 1.78	\$ 1.91	\$ 2.00
Accretion/Dilution	\$ (0.00)	\$ 0.01	\$ 0.02	\$ 0.04

Source: Barclays Research Estimates

**Pending Acquisition of City of Kelowna's Electric Utility Assets**

In British Columbia the company is also engaged in a smaller pending acquisition of the electric utility assets of the City of Kelowna for approximately CAD 55 million. These assets serve approximately 15,000 customers. FortisBC Electric currently provides the City of Kelowna with electricity under a wholesale contract and has maintained the assets under a contract for the last twelve years. The transaction is expected to close by the end of March of this year.

**Waneta Hydroelectric Project**

The Waneta project, a CAD 900 million 335MW hydroelectric expansion project on the Pen d'Oreille river in British Columbia, remains on budget and on schedule for an in-service date in spring of 2015. Nearly CAD 440 million has been spent on the project since the commencement of construction in late 2010, with CAD 192 million spent last year. The excavations of the intake, powerhouse, and the power tunnels were all completed in 2012. In 2013 the company expects to spend nearly CAD 230 million on the project. Key project milestones for 2013 include completion of the powerhouse structural steel and building envelope, excavation of the intake approach channel, construction of the intake and tailrace structures, and removal of the rock plug. The coming year will also see continued progress on the installation of the stationary imbedded turbine and generator components.

**Fortis Properties Update**

In October of last year Fortis Properties acquired the 126 room StationPark All Suite Hotel in London, Ontario for approximately CAD 13 million, inclusive of assumed debt of CAD 6 million. The subsidiary is also in the process of constructing a 12 storey office building in downtown St. John's, Newfoundland for approximately CAD 47 million. About CAD 20

million was spent on this project in 2012 and construction is expected to be completed by the end of this year.

### Capital Expenditures

Capital Expenditures for 2012 came in at CAD 1.13 billion, which was CAD 161 million lower than projected at the beginning of the year. The main drivers behind this lower-than-projected total were:

- A shift in capital expenditures for 2012 to 2013 related to timing of payments for the Waneta Hydroelectric project
- A delay in capital expenditures at the British Columbia subsidiaries due to timing related to the receipt of regulatory approval of the 2012/2013 revenue requirements
- A shift out in the timing of spending related to the construction of the St. John, Newfoundland office building at Fortis Properties.
- These decreases in capex were offset by increases at FortisAlberta related to increasing customers in the oil and gas sector as well as the completion of a distribution control center, offset by lower transmission related capex in the province.

For the 2013 to 2017 period capital expenditures are expected to total approximately CAD 6 billion, which will drive rate base growth and hydroelectric generation development and in turn grow earnings per share at a compounded rate of approximately 6% per annum. Specifically for 2013, capital expenditures are forecast to be CAD 1.35 billion.

Capital forecast for 2013 and over the next five years are shown by segment in Figure 2.

FIGURE 2

#### 2013 Capital Expenditure Forecast by Subsidiary

<i>CAD (millions)</i>	<b>2013</b>
FortisBC Energy Companies	229
FortisAlberta	437
FortisBC Electric	133
Newfoundland Power	86
Other Regulated Electric	54
<b>Total Regulated Canadian</b>	<b>939</b>
CHG Energy Group	-
Caribbean	69
<b>Total Regulated</b>	<b>1,008</b>
Fortis Generation	229
Fortis Properties	113
<b>Total Non-Regulated</b>	<b>342</b>
<b>TOTAL</b>	<b>1,350</b>

Source: Fortis 2012 Earnings Press Release, Barclays Research Estimates



FIGURE 3

**Five Year Capital Plan by Business Segment**

<i>CAD (millions)</i>	2013-2017
Canadian Regulated Utilities - Electric	3,540
Canadian Regulated Utilities - Gas	1,140
Central Hudson	660
Non-Regulated Operations	660
<b>TOTAL</b>	<b>6,000</b>

Source: Fortis 2012 Earnings Press Release, Barclays Research Estimates

**Regulatory Update: A Busy Regulatory Calendar in 2013**

The company faces a significantly busy regulatory calendar over the coming year. Details of several ongoing matters are provided below. Most importantly, we highlight the process to set the cost of capital in British Columbia and the processes in Alberta to finalize the metrics related to performance-based ratemaking and the treatment of certain capital expenditures under that new regulation.

**British Columbia***Cost of Capital Proceeding*

A public hearing in the first phase of the ongoing generic cost of capital proceeding was held before the British Columbia Utilities Commission (BCUC) in December of last year. The BCUC has determined that a second phase be added to the proceedings during which utilities will have their individual capital structures and returns determined vs. the reference utility, whose metrics will be determined in the first phase of the process. A decision on the benchmark utility is expected by mid-year, with the utilities in phase two to be determined thereafter. The main Fortis utility in the province FEI has been designated the reference utility. The company's smaller gas utilities at Whistler and on Vancouver Island as well as the company's electric utility, FortisBC Electric will have their cost of capital metrics determined in the second phase of the process.

*Alternative Energy Services*

The company had filed in May of 2011 for potential regulatory treatment of alternative energy services – namely compressed natural gas or liquefied natural gas refuelling services in the province of British Columbia. The BCUC ruled in December that such services are regulated when they are provided by a regulated utility in the province; however, it also determined that the company undertake such services in the future via an unregulated entity.

**FortisAlberta***Performance-based Ratemaking*

In September of last year the Alberta Utility Commission (AUC) issued a generic decision on performance-based ratemaking (PBR), which commenced for a five-year term beginning in January of this year. Put simply, the PBR mechanism applies a rate of inflation annually and assumes productivity improvements to determine customer rates on an annual basis. Ultimate performance of the utility will depend upon management's ability to perform better than the inflation-less-productivity factor escalator.

More importantly, the decision called into question the treatment of some capital expenditures as it did not provide a capital tracker for them. The company has filed a review

and variance application before the AUC and has sought leave to appeal the issue to the Alberta Court of Appeal to clarify capital expenditure treatment. In December of last year the company filed its 2013 capital tracker application for specific categories of capital expenditures and a decision is expected in the first quarter of this year. Decisions on the review and variance application and the appeal process are expected in the third quarter of this year.

### *Compliance Application for 2013*

In the compliance application for 2013, the utility requested a 1.71% rate increase in distribution rates using the PBR formula. Rate adjustments were also requested for pass-through costs and transitional adjustments between cost of service ratemaking and PBR. The AUC issued a decision setting interim rates for 2013 equivalent to rates in 2012 pending the outcome of the capital tracker and compliance filings.

### *Stranded Assets*

Also in Alberta, the AUC reinitiated a “Utility Asset Disposition” (UAD) process in November of last year which will address several issues including cost responsibility for stranded assets. A decision in the process is expected by mid-year.

## **Newfoundland Power**

### *2013/14 General Rate Application*

In September Newfoundland Power filed a general rate application (GRA) for 2013/2014 requesting a 6% average increase in customer rates effective on March 1<sup>st</sup>, 2013. The filing also requests the discontinuation of the automatic adjustment formula. Public hearings on the matter should conclude this month.

## **Maritime Electric**

### *Final Recommendations Report from PEI Energy Commission*

This month the final report of the PEI Energy Commission, *Charting Our Energy Future*, was released to the PEI Government. The recommendations to the Government of PEI included:

- Maritime Electric should continue as the island’s primary electric utility; however, the utility’s generation assets should be acquired by the PEI Energy Corporation (a government entity) over a reasonable period of time. This would significantly reduce the utility’s rate base and equity.
- The equity component of Maritime Electric’s capital structure should be 35%–40%.
- Cost of service regulation should be maintained but should be administered by a new panel of three commissioners dealing only with electric utility regulation and will operate independently of the current Island Regulatory Appeals Commission (IRAC).
- A consumer advocate for electricity should be appointed.
- The government of PEI should assume responsibility for financing the existing CAD 47.5 million of deferred incremental energy replacement costs related to the refurbishment of the Point Lepreau nuclear generating station in New Brunswick.
- A new cable interconnection with New Brunswick should be pursued immediately with the owner the Government of PEI.
- Responsibility for demand side management programs, currently with the Government of PEI should be transitioned to Maritime Electric.

Obviously we view the proposal as a bit of blow to the quality of regulation on Prince Edward Island. If the measures are adopted as proposed, they would limit rate base growth opportunities for the utility and turn ongoing cost of service regulation over to an untested body of unknown members.

#### *Continuation of PEI Energy Accord*

In December of last year the PEI Energy Accord was continued for three additional years, through February 29<sup>th</sup>, 2016. Over the three-year period increases in electricity costs for a typical residential customer have been capped at 2.2% per annum and the allowed return on equity for Maritime Electric has been capped at 9.75% each year.

### **FortisOntario**

#### *Fort Erie, Port Colborne, and Gananoque COS Application*

In November of last year the Ontario Energy Board (OEB) approved as filed the settlement agreement for FortisOntario, which called for a 8.93% return on equity (down from 9.12%) which led to a 6.8% increase in rates at Fort Erie, a 5.9% increase in rates at Gananoque, and a 7.4% increase in rates at Port Colborne.

#### *Algoma Power Incentive Rate Mechanism*

Algoma Power filed for its third generation incentive rate mechanism (IRM) before the OEB in October for rates effective January 1<sup>st</sup> of this year. Since Algoma falls under the rural and remote rate protection program and the disposition of smart meter costs is required, the filing has become complicated. The OEB has scheduled a written hearing on the application and has made 2012 rates the interim rates for 2013 until a final decision is reached.

### **Fortis Turks & Caicos**

#### *Interim Government Negotiations*

Negotiations with the interim government of Turks & Caicos occurred during the third quarter of last year. During these negotiations the utility presented a new regulatory framework to the interim government. The government has engaged a third party expert to review the utility's proposal. No agreement was reached with the interim government but negotiations are expected to continue with the newly elected government of the Islands.

## **2012 Earnings Results**

---

For the year the company reported ongoing earnings per share of \$1.70 vs. ongoing earnings per share of \$1.65 last year. Overall results were driven by better performance year-on-year at the Canadian utility operations, partially offset by higher expenses at the corporate level and higher overall share count related to the issuance of common equity in mid-year 2011.

Year-over-year earnings variances along with the variance per share are provided in Figure 4 below.

FIGURE 4

## Year-over-Year Annual Earnings Variances by Segment

CAD millions except per share data	2012	2011	Variance	EPS
FortisBC Energy Companies	138	137	1	\$ 0.01
FortisAlberta	96	74	22	\$ 0.12
FortisBC Electric	50	48	2	\$ 0.01
Newfoundland Power	37	32	5	\$ 0.03
Other Canadian Electric Utilities	24	20	4	\$ 0.02
Caribbean Regulated Electric Utilities	19	20	-1	\$ (0.01)
Fortis Generation	17	18	-1	\$ (0.01)
Fortis Properties	22	23	-1	\$ (0.01)
Corporate & Other	-88	-61	-27	\$ (0.15)
Merger & Acquisition Cost/Benefits	7.5	-11	18.5	\$ 0.10
Ongoing Earnings	323	300	22.5	\$ 0.12
Shares Outstanding	190.0	181.6		\$ (0.08)
<b>Ongoing Earnings Per Share</b>	<b>\$ 1.70</b>	<b>\$ 1.65</b>		<b>\$ 0.05</b>

Source: Company's 2012 Earnings Release, Barclays Research Estimates

The majority of the variance on a year-over-year basis was driven by better results at FortisAlberta and a swing in merger and acquisition benefits and costs, which are not considered part of ongoing earnings. These positive drivers were partially offset mostly by higher share count.

FortisBC Energy companies saw slightly higher results due to higher industrial volumes as a result of fuel switching, rate base growth, and lower effective income taxes, partially offset by higher O&M expenses due to timing, lower AFUDC related to lower assets under construction year over year, and lower-than-expected customer additions in 2012.

FortisAlberta saw significantly higher results as a result of increasing rate base growth due to customer growth year over year, net transmission revenue of CAD 8.5 million as a result of the distribution revenue requirements decision in April 2012, lower-than-expected D&A in the year due to project completion timing, lower transmission related capital expenditures, and lower-than-expected finance charges in the year due to debt issuance timing and lower than expected interest rates.

FortisBC Electric saw slightly higher results year over year driven by rate base growth, higher pole attachment revenues, and lower-than-expected finance charges offset by the expiration of the PBR mechanism at the end of 2011 which impacted purchased power cost sharing favourably in 2011 but had no similar impact in 2012.

Newfoundland Power saw better results driven by lower effective income taxes, a higher allowed return on equity (8.80% in 2012 vs. 8.38% in 2011), and positive sales growth, which were offset by the impact of the pole sharing agreement with Bell Atlantic, higher purchased power costs, and higher depreciation.

Other Canadian Utilities saw marginally better results driven by lower effective income taxes at Maritime Electric, the accrual of the cumulative return on smart meter infrastructure at FortisOntario, higher earnings by FortisOntario in Cornwall due to increased base rates, and net cost savings resulting from the purchase of the formerly leased electric assets in Port Colborne.

Caribbean operations saw slightly lower earnings resulting from foreign exchange impacts, higher D&A expenses, and higher finance charges related to the acquisition of TCU which were offset by higher sales of electricity and lower energy supply costs due to more fuel efficient production from new generating facilities.

Fortis Generation saw slightly lower results driven by decreased production in upstate New York and Ontario as well as Belize, which were partially offset by lower finance charges in Belize and the gain on involuntary disposition of the generation assets at Moose River's hydroelectric facility in upstate New York.

Fortis Properties saw slightly lower results related to worse performance at the hospitality division, excluding the Hilton Suites Hotel, due to the impact of decreased occupancy rates in Central and Atlantic Canada offset by increased average room rates and occupancy in Western Canada. There was also a positive contribution due to the Hilton Suites Hotel contributing a full year of results in 2012 vs. 2011.

Corporate and Other saw higher expenses in 2012 vs. 2011 related to foreign exchange loss of CAD 2 million in 2012 vs. a gain of CAD 1 million in 2011, increased operating expenses mainly related to a CAD 3 million non-recurring provision associated with the corporation's investment in CWLP, lower income tax recoveries, and higher preference share dividends. These negative drivers were slightly offset by lower finance charges due to higher capitalized interest associated with the financing of the Waneta project.

### Valuation Methodologies

Our current price target of CAD 35 is premised on a sum-of-the-parts (SOTP) methodology. We apply a 25% premium to the 2014 US regulated utility multiple of 14.5x our Canadian utility operations '14E EPS of CAD 1.91. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '14 multiple of 12.2x, based on consensus estimates. We apply this to our Caribbean '14E EPS of CAD 0.18. For unregulated generation we use a '14 power multiple of 14.5x our '14E EPS of CAD 0.06. For corporate and other we use the straight '14 US regulated utility multiple of 14.5x our CAD (0.39) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '14E EPS of CAD 0.13.

Our prior price target of CAD 33 was premised on a sum-of-the-parts (SOTP) methodology. We applied a 20% premium to the then 2014 US regulated utility multiple of 14.4x our prior Canadian utility operations '14E EPS of CAD 1.85. For Caribbean operations we used the then publically traded Caribbean Utilities Corporation '14 multiple of 12.2x, based on consensus estimates. We applied this to our prior Caribbean '14E EPS of CAD 0.19. For unregulated generation we used the then '14 power multiple of 14.4x our prior '14E EPS of CAD 0.07. For corporate and other we used the straight '14 US regulated utility multiple of 14.4x our prior (\$0.41) EPS for the segment. To this we added a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our prior '14E EPS of \$0.14.

## ANALYST(S) CERTIFICATION(S)

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barcap.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 06-Feb-2013, CAD 34.60), Equal Weight/Positive

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	American Electric Power (AEP)	American Water Works (AWK)
Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)	Consolidated Edison (ED)	Dominion Resources (D)
DTE Energy (DTE)	Duke Energy (DUK)	Edison International (EIX)

## IMPORTANT DISCLOSURES CONTINUED

Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	National Grid Plc (NGG)
NiSource, Inc. (NI)	Northeast Utilities (NU)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

---

### Distribution of Ratings:

Barclays Equity Research has 2540 companies under coverage.

43% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 47% of companies with this rating are investment banking clients of the Firm.

14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 44% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

**IMPORTANT DISCLOSURES CONTINUED**

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)



## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 34.60 (06-Feb-2013)

Stock Rating

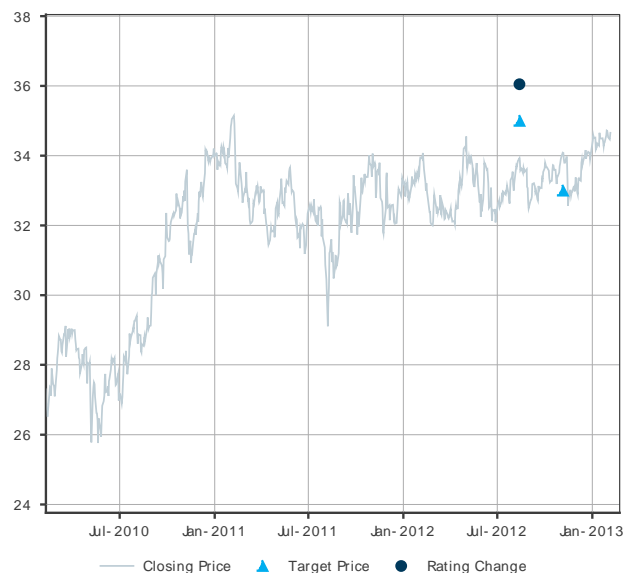
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - CAD (as of 06-Feb-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our \$35 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 25% premium to the 2014 US regulated utility multiple of 14.5x our Canadian utility operations '14E EPS of \$1.91. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '14 multiple of 12.2x based upon consensus estimates. We apply this to our Caribbean '14E EPS of \$0.18. For unregulated generation we use a '14 power multiple of 14.5x our '14E EPS of \$0.06. For corporate and other we use the straight '14 US regulated utility multiple of 14.5x our (\$0.39) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '14E EPS of \$0.13.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised and regulated by the Financial Services Authority ("FSA") and a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or

services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## Q1 \$0.67 Ex-Items; 2013 Remains a Busy Regulatory Year

**Reiterating Our View:** We are reiterating our Equal Weight rating, our CAD 37 price target and our EPS estimates of CAD 1.77/1.89/1.96 for '13/14/15, respectively. We continue to see the shares as fairly valued with potential upside related to continued deployment of the capital program and growth in Western Canada, while there are risks related to a busy regulatory decision year in 2013.

**Q1 EPS \$0.67:** The company reported ongoing EPS of CAD 0.67 vs. CAD 0.66 last year, consensus estimates of CAD 0.67, and our estimate of CAD 0.65. Results were mainly driven by increased earnings at FortisAlberta, up CAD 6 million from Q1 '12, on lower D&A expenses and higher transmission revenues. Growth in energy infrastructure led to better year-on-year results in British Columbia, although there were slower-than-expected customer additions for the gas utility in the province in the quarter.

**Regulatory Updates:** In the quarter, FortisBC Electric acquired the City of Kelowna's electric utility assets for CAD 55 million, which adds 15,000 customers to the utility and ongoing rate base vs. the previous wholesale tariff contract. FortisAlberta received a decision authorizing 60% or the revenue requirement for capex in 2013 that falls outside the performance-based ratemaking mechanism. A final decision on performance-based ratemaking and capital expenditure levels is expected in the second half. Also in April, Newfoundland Power received a decision that keeps the allowed ROE at 8.8% and the common equity ratio at 45% through 2015. Final capital structure and allowed ROEs remain still to be determined at FortisBC and FortisAlberta, and this should increase risk premium in the shares. The acquisition of CH Energy Group remains under review in New York with the Administrative Law Judges recommending the transaction be denied without further modifications of the settlement agreement.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.66A	0.65E	0.67A	0.67E	N/A	N/A	0.66E	2%	N/A
Q2	0.33A	N/A	N/A	0.34E	N/A	N/A	0.30E	N/A	N/A
Q3	0.24A	N/A	N/A	0.26E	N/A	N/A	0.24E	N/A	N/A
Q4	0.47A	N/A	N/A	0.52E	N/A	N/A	0.59E	N/A	N/A
Year	1.70A	1.77E	1.77E	1.76E	1.89E	1.89E	1.85E	4%	7%
P/E	20.6		19.8			18.6			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating	<b>EQUAL WEIGHT</b> Unchanged
Industry View	<b>POSITIVE</b> Unchanged
Price Target	<b>CAD 37.00</b> Unchanged

Price (06-May-2013)	CAD 35.01
Potential Upside/Downside	+6%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	6739
Shares Outstanding (mn)	192.48
Free Float (%)	99.69
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	3.5
Return on Equity TTM (%)	7.57
Current BVPS (CAD)	20.84

Source: FactSet Fundamentals

Price Performance	Exchange-TOR
52 Week range	CAD 35.14-32.03



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: POSITIVE

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,365	1,466	1,577	7.6%
EBIT (adj)	794	853	914	958	6.5%
Pre-tax income (adj)	432	437	465	491	4.4%
Net income (adj)	371	348	381	406	3.0%
EPS (adj) (CAD)	1.70	1.77	1.89	1.96	4.9%
Diluted shares (mn)	191	197	202	207	2.8%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	36.1	37.6	39.1	36.8
EBIT (adj) margin (%)	21.7	22.6	23.4	23.7	22.9
Pre-tax (adj) margin (%)	12.0	12.4	13.0	13.3	12.7
Net (adj) margin (%)	8.8	9.2	9.8	10.1	9.5
ROIC (%)	7.0	7.1	7.0	7.0	7.0
ROA (%)	2.5	2.3	2.4	2.4	2.4
ROE (%)	6.9	7.5	7.5	7.7	7.4

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,623	10,300	11,038	11,744	6.9%
Total net assets	14,950	15,096	16,095	16,600	3.6%
Capital employed	11,292	12,087	13,055	13,677	6.6%
Shareholders' equity	5,410	4,634	5,106	5,239	-1.1%
Net debt/(funds)	5,882	6,538	6,800	7,518	8.5%
Cash flow from operations	976	921	994	1,085	3.6%
Capital expenditure	-1,062	-1,576	-1,385	-1,420	N/A
Free cash flow	-221	-960	-710	-669	N/A
Pre-dividend FCF	-391	-716	-452	-396	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	20.6	19.8	18.6	17.9	19.2
EV/EBITDA (adj) (x)	10.0	9.7	9.2	9.0	9.5
EV/EBIT (adj) (x)	15.9	15.6	14.8	14.9	15.3
P/BV (x)	1.2	1.5	1.4	1.4	1.4
Dividend yield (%)	3.4	3.5	3.7	3.8	3.6
Total debt/capital (%)	53.5	54.1	53.9	55.0	54.1
Net debt/EBITDA (adj) (x)	4.7	4.8	4.6	4.8	4.7

Selected operating metrics	2012A	2013E	2014E	2015E
Payout ratio (%)	70.7	70.1	67.9	67.3
Interest cover (x)	3.5	3.5	3.5	3.6
Regulated (%)	87.5	89.0	89.8	91.5

Price (06-May-2013) CAD 35.01  
Price Target CAD 37.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

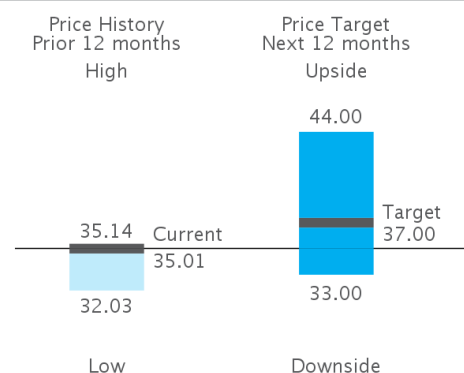
**Upside case** CAD 44.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 44.

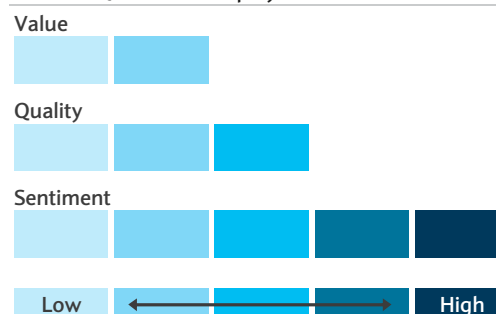
**Downside case** CAD 33.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 33.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

## A Busy 2013 with the Regulators

---

We continue to be of the view that 2013 will be a busy regulatory year for the company and that there should be a higher risk premium priced into the shares as a result of return and capital structure uncertainty in the company's two largest utility jurisdictions. The first phase of the generic cost of capital proceeding in British Columbia will impact FortisBC Energy and a decision is expected by mid-2013. The second phase will impact the company's remaining utilities in British Columbia and commenced in the first quarter. The generic cost of capital proceeding for Alberta is scheduled to begin in the second quarter of this year.

We believe shares at current levels are pricing in a status quo outcome to regulation, especially with regard to the cost of capital proceedings. While we certainly believe that status quo or near to it is the most likely outcome, there is a tail risk related to lower allowed returns on equity may not be adequately accounted for in investor's perceptions.

### CH Energy Group Acquisition

There has been some recent contention in New York state over the proposed merger between Fortis and CH Energy Group. Earlier, the acquisition of CH Energy Group by Fortis seemed headed for New York Public Service Commission (NY PSC) approval with a settlement agreement filed. Since the parties to the settlement included CH Energy Group, the NY PSC Staff, and registered intervening parties it seemed like a constructive, balanced, and reasonable agreement had been struck to allow the merger to move forward. However, on May 3<sup>rd</sup> the administrative law judges (ALJs) in the case issued a recommended decision that would deny the acquisition without further modification to the terms of the settlement.

The recommended decision is not binding upon the NY PSC; the commission is expected to render a decision in June 2013. The ALJs recommendation, however, does open the door for the possibility that more ratepayer benefits need to be included in a modified settlement agreement for the acquisition to be approved. Our model shows \$0.04/share of accretion from the CH Energy Group acquisition by 2015; however, there could be downside risk to these earnings if customer benefits are modified.

### British Columbia

In addition to the generic cost of capital filing, the Fortis gas utilities in March filed leave to appeal the decision by the British Columbia Utilities Commission (BCUC) to deny amalgamation of rates of the three separate utilities. Further, an application for reconsideration of the amalgamation decision was filed with the BCUC in April. Hearings concluded on the CAD 52 million advanced metering infrastructure project in March and a decision on the application is anticipated in the second half of the year. The BCUC also ruled in favour of the acquisition of the electricity assets of the city of Kelowna, and allowed for CAD 38 million of the CAD 55 million purchase price be placed into rate base. The BCUC also ruled on the prudence hearing related to the Kettle Valley project and allowed for the full recovery of CAD 29 million related to it to be recovered.

### Alberta

In addition to the generic cost of capital filing, FortisAlberta reached a decision in March approving an interim revenue increase that will cover 60% of the capital expenditures forecast in 2013 that fall outside the performance based ratemaking K-Factor. A final decision to determine how much capital is included within the performance based rates structure, how much is included in the K-Factor for recovery and how much is potential

outside of those mechanisms is expected from the Alberta Utilities Commission in the second half of the year. A hearing is scheduled for June on this matter.

### **Newfoundland & Labrador**

In April the Public Utilities Board (PUB) in Newfoundland ruled that the allowed return on equity and equity ratio for Newfoundland Power will remain at 8.8% and 45% respectively through 2015. The PUB also ruled that pension expenses can be recovered from customers over 15 years, depreciation rates be lowered to 3.42% vs. 3.47%, and energy conservation costs would be deferred and subsequently recovered over the next seven years. The rate application decision will raise rates by about 5% beginning in July. This increase in concert with a power supply rate decrease will actually lower rates by 3% on a net basis in July. Newfoundland Power is required to file their next general rate application for the 2016 year on or before June 1<sup>st</sup>, 2015.

### **Caribbean**

In February the Electricity Regulatory Authority on Grand Cayman awarded the bid to develop, install and operate two new 18MW generation units to a third party. This denied Caribbean Utilities self-bid for the projects. However, in April of this year the ERA announced it was hiring an independent party to investigate reported irregularities in the bidding process, but the details of the investigation have not yet been disclosed. This could reopen the bidding process for potential award to Caribbean Utilities bid.

On Turks & Caicos in March the utilities submitted their 2012 annual regulatory filings to the Government. These filings indicated a rate base of US\$195 million for 2012 and a cumulative shortfall of US\$105 million as of December 31<sup>st</sup>, 2012.

### **Waneta Hydroelectric Expansion**

The Waneta Expansion project continues to be projected to be on time and on budget. The project is still projected to cost CAD 900 million and an additional CAD 47 million was spent in the quarter. In total CAD 483 million has been spent on the project, and in the first quarter concrete continued to be placed in the powerhouse and intake, work continued on the powerhouse roof and turbine units, and excavation work continued on the intake channel.

## **Q1 2013 Results**

For the quarter, the company reported ongoing earnings per share of CAD 0.67 vs. CAD 0.66 last year, consensus estimates of CAD 0.67, and our estimate of CAD 0.65. Results were driven by better performance at Fortis Alberta, as a result of lower depreciation expenses, and increased transmission revenue related to the finalization of 2012 transmission variances.

The results by segment are provided in the table below.



FIGURE 1

**Q1 2013 Year-over-Year Results by Segment, CAD Millions except per-share data**

Segment	Q1 2013	Q1 2012	Variance
FortisBC Energy	85	82	3
FortisAlberta	26	21	5
FortisBC Electric	18	16	2
Newfoundland Power	7	7	0
Other Cdn Electric Utilities	6	7	(1)
<i>Total Canadian Regulated</i>	57	51	6
Caribbean Utilities	3	3	0
Fortis Generation	24	5	19
Fortis Properties	0	1	(1)
Corporate and Other	(40)	(21)	(19)
<b>Total</b>	<b>129</b>	<b>121</b>	<b>8</b>

Note: Corporate and Other includes removal of \$22 net of tax extraordinary gain related to the settlement of water rights and hydroelectric generating assets from the 2008 expropriation of non-regulated assets in Newfoundland

Source: Fortis Q1 2013 MD&A, Barclays Research Estimates

FortisBC Energy results were better by CAD 3 million as a result of rate base growth and higher average gas transportation volumes to industrial customers. These positive factors were partially offset by lower than expected customer additions and higher effective income taxes.

FortisAlberta was the biggest driver of improvement quarter over quarter with results up CAD 5 million. Results were driven by lower depreciation rates in relation to the 2012 distribution revenue requirement decision received in April 2012. Results were also higher related to higher net transmission revenue associated with the finalization of 2012 net transmission variances.

FortisBC Electric results were slightly better as a result of rate base growth, lower expenses related to timing year over year. Depreciation expenses and financing costs were both lower year over year. Capitalized AFUDC was higher as approved by the regulators in British Columbia. These positive drivers were offset by higher effective income tax rates.

Newfoundland Power saw higher electricity rates and positive sales growth fully offset by increased regulatory amortization and higher expenses. Expenses increased as a result of costs associated with restoration efforts following the loss of energy supply from Newfoundland Hydro, and higher depreciation expenses.

Other Canadian Utilities in Ontario and on Prince Edward Island saw lower results year over year as a result of higher energy supply costs at Maritime Electric as energy supply costs from the Point Lepreau nuclear plant were expensed in the quarter as that facility came back online in the fourth quarter of 2012. These negative factors were partially offset by better sales growth on Prince Edward Island.

Caribbean Utilities results were flat as decreased employee related and maintenance costs were offset by higher depreciation expenses as a result of continued investment in energy infrastructure.

Unregulated Fortis Generation results were lower as a result of decreased energy production for the hydroelectric assets in Brazil as a result of lower rainfall year on year. The segment did record a \$22 million after tax gain which we reclassified to Corporate and Other in the

table above. The gain is related to the settlement of expropriation matters related to the Exploits partnership and hydroelectric assets in central Newfoundland that were expropriated by the provincial government.

Unregulated Fortis Properties showed a decrease in earnings year over year as a result of decreased occupancy at hotel operations in central Canada. There was a 2.6% decrease in occupancy in all regions and a 1.8% increase in average daily room rate mainly in the Atlantic and Western Canada geographies. The decrease in earnings was despite the increase in revenue related to the StationPark All Suite Hotel which was acquired in October of last year.

Corporate and Other, net of the reclassified \$22 net gain, was CAD 3 million better year over year as a result of foreign exchange gains in Q1 2013 vs. foreign exchange losses in Q1 2012, and lower costs related to the pending CH Energy Group transaction and lower finance charges related to higher capitalized interest associated with the construction of the Waneta Hydroelectric plant expansion. Offsetting these positive factors were higher preference share dividends due to a preferred share issuance completed in November 2012 and lower income tax recoveries.

## ANALYST(S) CERTIFICATION(S)

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 06-May-2013, CAD 35.01), Equal Weight/Positive, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

## IMPORTANT DISCLOSURES CONTINUED

**Q:** The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

**R:** Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

**S:** Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

### Distribution of Ratings:

Barclays Equity Research has 2370 companies under coverage.

43% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 52% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 49% of companies with this rating are investment banking clients of the Firm.

14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 42% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

## IMPORTANT DISCLOSURES CONTINUED

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 35.01 (06-May-2013)

Stock Rating

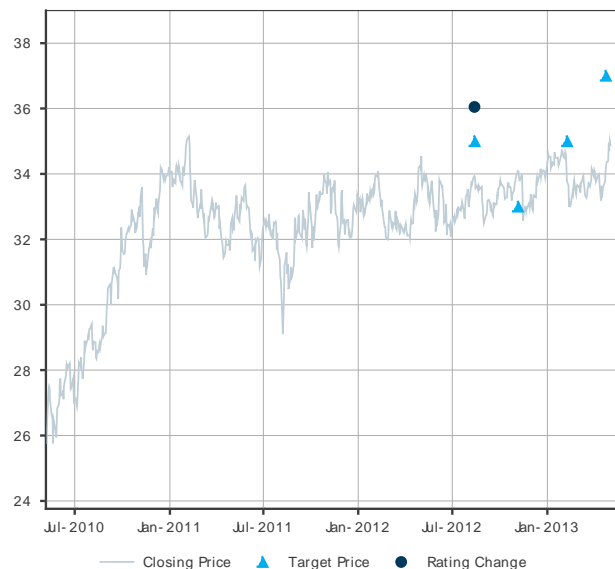
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - CAD (as of 06-May-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 37 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15.3x our Canadian utility operations '15E EPS of CAD 1.94. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 15.3x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.36) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14, and an implied value for CHG Energy of CAD 0.54/share premised upon CAD 0.04/share of accretion in 2015.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised and regulated by the Financial Services Authority ("FSA") and a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.





Fortis Inc.

## Lowering EPS and PT on BC ROE Ruling

**Lowering Estimates and PT on Lower BC ROE:** We are reiterating our Equal Weight rating and are lowering our earnings per share estimates from CAD 1.77/1.89/1.96 to CAD 1.71/1.84/1.93 to reflect the recently awarded lower allowed return on equity awarded by the British Columbia Utilities Commission (BCUC) for Fortis Energy. We are lowering our price target from CAD 37 to CAD 36 reflective of our new earnings estimates. Fully detailed valuation methodologies are provided below.

**BCUC Decides on Cost of Capital:** The BCUC rendered a decision in Phase 1 of the ongoing generic cost of capital decision. The Phase 1 reference utility, BC Fortis Energy Inc. was awarded an allowed ROE of 8.75% and an allowed capital structure of 38.5%. These will remain in effect through the end of 2015. This is phase 1 of the process and other utilities, including FortisBC Electric will have their metrics decided upon in phase 2. Typically the ROE is consistent across utilities and the equity ratio is adjusted to reflect a risk inherent in different utility businesses. The BCUC also introduced an automatic adjustment mechanism (AAM) to set ROEs on an annual basis. The AAM will take effect when long-term Canadian bond yields exceed 3.8%.

**Lowering EPS, FortisBC Electric's Earnings Power Could be Lower:** We are lowering our eps estimates as indicated above to reflect the lower ROE in the BCUC decision. Our model still implies a FortisBC Electric ROE of 9.9% going forward and a 44-45% equity ratio. We believe there is at least 100bps of risk to this assumption in light of the recent BCUC decision, and that there could be approximately CAD 0.03/share of earnings power risk at that subsidiary going forward.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.66A	0.67A	0.67A	0.67A	N/A	N/A	0.67E	2%	N/A
Q2	0.33A	N/A	N/A	0.34E	N/A	N/A	0.33E	N/A	N/A
Q3	0.24A	N/A	N/A	0.26E	N/A	N/A	0.26E	N/A	N/A
Q4	0.47A	N/A	N/A	0.50E	N/A	N/A	0.54E	N/A	N/A
Year	1.70A	1.77E	1.71E	1.76E	1.89E	1.84E	1.86E	0.59%	8%
P/E	20.2		19.9			18.5			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating **EQUAL WEIGHT**  
Unchanged

Industry View **POSITIVE**  
Unchanged

Price Target **CAD 36.00**  
lowered -3% from CAD 37.00

Price (13-May-2013) CAD 34.21  
Potential Upside/Downside +5%  
Tickers FTS CN / FTS.TO

Market Cap (CAD mn) 6589  
Shares Outstanding (mn) 192.61  
Free Float (%) 99.68  
52 Wk Avg Daily Volume (mn) 0.4  
Dividend Yield (%) 3.5  
Return on Equity TTM (%) 7.43  
Current BVPS (CAD) 21.37

Source: FactSet Fundamentals

Price Performance Exchange-TOR  
52 Week range CAD 35.14-32.03



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: POSITIVE

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,352	1,456	1,570	7.5%
EBIT (adj)	794	840	904	951	6.2%
Pre-tax income (adj)	432	424	454	484	3.9%
Net income (adj)	371	338	372	400	2.5%
EPS (adj) (CAD)	1.70	1.71	1.84	1.93	4.4%
Diluted shares (mn)	191	197	202	207	2.8%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	35.9	37.5	39.0	36.8
EBIT (adj) margin (%)	21.7	22.3	23.3	23.7	22.7
Pre-tax (adj) margin (%)	12.0	12.1	12.8	13.2	12.5
Net (adj) margin (%)	8.8	9.0	9.6	9.9	9.3
ROIC (%)	7.0	7.0	6.9	7.0	7.0
ROA (%)	2.5	2.2	2.3	2.4	2.4
ROE (%)	6.9	7.3	7.3	7.7	7.3

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,623	10,300	11,038	11,744	6.9%
Total net assets	14,950	15,082	16,073	16,571	3.5%
Capital employed	11,292	12,076	13,036	13,652	6.5%
Shareholders' equity	5,410	4,623	5,087	5,213	-1.2%
Net debt/(funds)	5,882	6,549	6,820	7,544	8.6%
Cash flow from operations	976	909	985	1,079	3.4%
Capital expenditure	-1,062	-1,576	-1,385	-1,420	N/A
Free cash flow	-221	-971	-719	-675	N/A
Pre-dividend FCF	-391	-727	-460	-402	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	20.2	19.9	18.5	17.7	19.1
EV/EBITDA (adj) (x)	9.9	9.7	9.2	9.0	9.4
EV/EBIT (adj) (x)	15.7	15.6	14.8	14.9	15.3
P/BV (x)	1.2	1.5	1.4	1.4	1.3
Dividend yield (%)	3.5	3.6	3.7	3.9	3.7
Total debt/capital (%)	53.5	54.2	54.0	55.1	54.2
Net debt/EBITDA (adj) (x)	4.7	4.8	4.7	4.8	4.7

Selected operating metrics	2012A	2013E	2014E	2015E
Payout ratio (%)	70.7	72.3	69.4	68.4
Interest cover (x)	3.5	3.4	3.5	3.6
Regulated (%)	87.5	88.6	89.6	91.3

Price (13-May-2013) CAD 34.21  
Price Target CAD 36.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

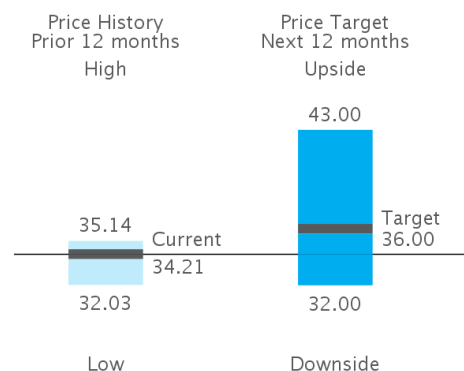
**Upside case** CAD 43.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 43

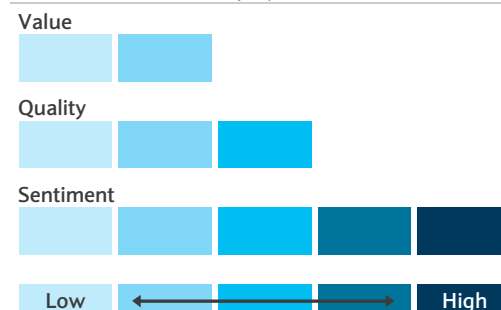
**Downside case** CAD 32.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 32

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

## Valuation Methodologies

Our CAD 36 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15.3x our Canadian utility operations '15E EPS of CAD 1.91. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 15.3x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.36) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14, and an implied value for CHG Energy of CAD 0.60/share premised upon CAD 0.04/share of accretion in 2015.

Our prior CAD 37 price target for Fortis was premised upon a sum-of-the-parts (SOTP) methodology. We applied a 20% premium to the 2015 US regulated utility multiple of 15.3x our prior Canadian utility operations '15E EPS of CAD 1.94. For Caribbean operations we used the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We applied this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we used a '15 power multiple of 15.3x our '15E EPS of CAD 0.03. For corporate and other we used the straight '15 US regulated utility multiple of 15.3x our CAD (0.36) EPS for the segment. To this we added a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14, and an implied value for CHG Energy of CAD 0.54/share premised upon CAD 0.04/share of accretion in 2015.

## ANALYST(S) CERTIFICATION(S)

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 13-May-2013, CAD 34.21), Equal Weight/Positive, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

## IMPORTANT DISCLOSURES CONTINUED

**Q:** The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

**R:** Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

**S:** Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

### Distribution of Ratings:

Barclays Equity Research has 2371 companies under coverage.

43% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 52% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 42% of companies with this rating are investment banking clients of the Firm.

## IMPORTANT DISCLOSURES CONTINUED

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 34.21 (13-May-2013)

Stock Rating

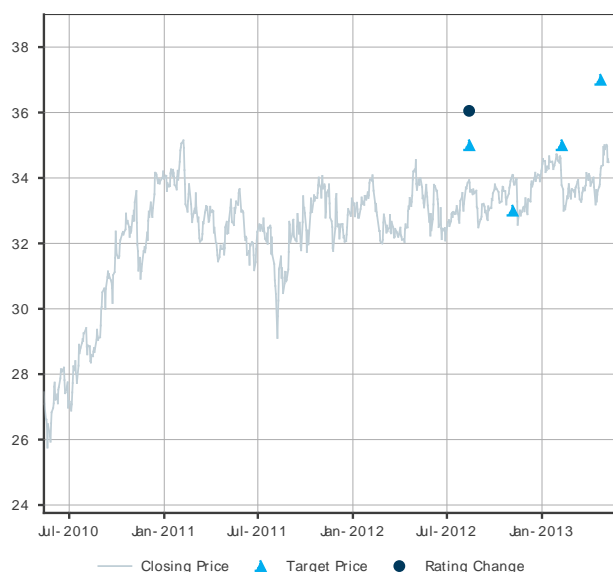
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - CAD (as of 13-May-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 36 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15.3x our Canadian utility operations '15E EPS of CAD 1.91. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 15.3x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.36) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14, and an implied value for CHG Energy of CAD 0.60/share premised upon CAD 0.04/share of accretion in 2015.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.



## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised and regulated by the Financial Services Authority ("FSA") and a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## NY PSC Approves CHG Transaction, Increasing EPS, Lowering PT

**NY PSC Approves CHG Transaction:** Today the New York Public Service Commission approved the pending acquisition of CH Energy Group by Fortis Inc. on a 4-0 vote. The approval clears the way for the transaction to close and also validates Fortis's US acquisition strategy. The company has publically stated a desire to grow US rate base to approximately \$4 Billion through acquisitions. The CHG assets will constitute approximately \$1 Billion in US rate base. We expect Fortis to focus on closing the transaction and incorporating the CHG assets in the short term but to then turn attention to other potential US targets. We believe, based upon the CHG transaction as a template that Fortis would prefer all else equal, small to mid cap single state utilities.

**Increasing EPS estimates; Lowering PT on multiple compression:** We are increasing our eps estimates from CAD 1.71/1.84/1.93 to CAD 1.72/1.87/1.97 to account for accretion from the CHG transaction. We however are also lowering our price target from CAD 36 to CAD 34 due to multiple compression as a result of the recent underperformance of the regulated utility group due to rising interest rates. Price target methodologies are provided below.

**Risks to Acquisition Based Growth:** We continue to believe that acquisitions in the utility space are procedurally difficult and that Fortis would need to issue equity to pursue any further transactions. In the last few years it has attempted two acquisitions in the US – Central Vermont and CH Energy Group – closing one of those successfully. While this demonstrates an ability for management to execute on the strategy, the regulatory process involved in potential acquisitions is likely to increase the risk premium in the shares until it is completed.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.66A	0.67A	0.67A	0.67A	N/A	N/A	0.69E	2%	N/A
Q2	0.33A	N/A	N/A	0.31E	N/A	N/A	0.34E	N/A	N/A
Q3	0.24A	N/A	N/A	0.25E	N/A	N/A	0.28E	N/A	N/A
Q4	0.47A	N/A	N/A	0.50E	N/A	N/A	0.49E	N/A	N/A
Year	1.70A	1.71E	1.72E	1.72E	1.84E	1.87E	1.83E	1%	9%
P/E	18.7		18.5			17.0			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating **EQUAL WEIGHT**  
Unchanged

Industry View **POSITIVE**  
Unchanged

Price Target **CAD 34.00**  
lowered -6% from CAD 36.00

Price (12-Jun-2013) CAD 31.77  
Potential Upside/Downside +7%  
Tickers FTS CN / FTS.TO

Market Cap (CAD mn) 6121  
Shares Outstanding (mn) 192.66  
Free Float (%) 99.68  
52 Wk Avg Daily Volume (mn) 0.4  
Dividend Yield (%) 3.8  
Return on Equity TTM (%) 7.43  
Current BVPS (CAD) 21.37

Source: FactSet Fundamentals

Price Performance Exchange-TOR  
52 Week range CAD 35.14-31.74



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: POSITIVE

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,352	1,456	1,570	7.5%
EBIT (adj)	794	840	904	951	6.2%
Pre-tax income (adj)	432	424	454	484	3.9%
Net income (adj)	371	338	372	400	2.5%
EPS (adj) (CAD)	1.70	1.72	1.87	1.97	5.1%
Diluted shares (mn)	191	197	202	207	2.8%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	35.9	37.5	39.0	36.8
EBIT (adj) margin (%)	21.7	22.3	23.3	23.7	22.7
Pre-tax (adj) margin (%)	12.0	12.1	12.8	13.2	12.5
Net (adj) margin (%)	8.8	9.0	9.6	9.9	9.3
ROIC (%)	7.0	7.0	6.9	7.0	7.0
ROA (%)	2.5	2.2	2.3	2.4	2.4
ROE (%)	6.9	7.3	7.3	7.7	7.3

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,623	10,300	11,038	11,744	6.9%
Total net assets	14,950	15,082	16,073	16,571	3.5%
Capital employed	11,292	12,076	13,036	13,652	6.5%
Shareholders' equity	5,410	4,623	5,087	5,213	-1.2%
Net debt/(funds)	5,882	6,549	6,820	7,544	8.6%
Cash flow from operations	976	909	985	1,079	3.4%
Capital expenditure	-1,062	-1,576	-1,385	-1,420	N/A
Free cash flow	-221	-971	-719	-675	N/A
Pre-dividend FCF	-391	-727	-460	-402	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	18.7	18.5	17.0	16.1	17.6
EV/EBITDA (adj) (x)	9.5	9.4	8.9	8.7	9.1
EV/EBIT (adj) (x)	15.1	15.1	14.3	14.4	14.7
P/BV (x)	1.1	1.4	1.3	1.3	1.2
Dividend yield (%)	3.8	3.9	4.0	4.2	4.0
Total debt/capital (%)	53.5	54.2	54.0	55.1	54.2
Net debt/EBITDA (adj) (x)	4.7	4.8	4.7	4.8	4.7

Selected operating metrics	2012A	2013E	2014E	2015E
Payout ratio (%)	70.7	72.3	69.4	68.4
Interest cover (x)	3.5	3.4	3.5	3.6
Regulated (%)	87.5	88.6	89.6	91.5

Price (12-Jun-2013) CAD 31.77  
Price Target CAD 34.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

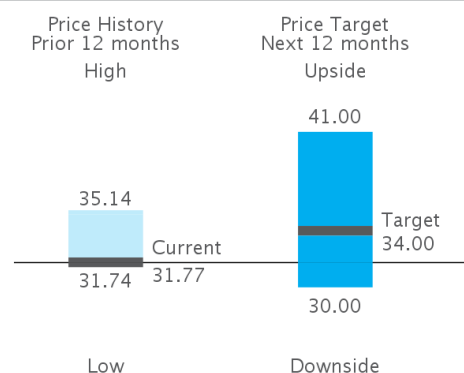
**Upside case** CAD 41.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 41

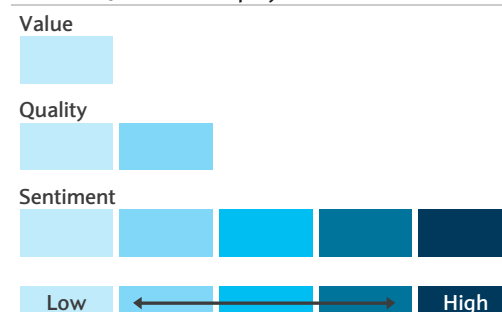
**Downside case** CAD 30.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 30

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

### Price Target Methodologies

Our CAD 34 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 14.2x our Canadian utility operations '15E EPS of CAD 1.91. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean operations '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 14.2x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.32) EPS for the segment plus a CAD 0.04 contribution from CH Energy Group. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14.

Our prior CAD 36 price target for Fortis was premised upon a sum-of-the-parts (SOTP) methodology. We applied a 20% premium to the then 2015 US regulated utility multiple of 15.3x our Canadian utility operations '15E EPS of CAD 1.91. For Caribbean operations we used the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We applied this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we used the then '15 power multiple of 15.3x our '15E EPS of CAD 0.03. For corporate and other we used the then straight '15 US regulated utility multiple of 15.3x our CAD (0.36) EPS for the segment. To this we added a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14, and an implied value for CHG Energy of CAD 0.60/share premised upon CAD 0.04/share of accretion in 2015.

## ANALYST(S) CERTIFICATION(S)

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 12-Jun-2013, CAD 31.77), Equal Weight/Positive, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

## IMPORTANT DISCLOSURES CONTINUED

**Q:** The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

**R:** Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

**S:** Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

### Distribution of Ratings:

Barclays Equity Research has 2382 companies under coverage.

43% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 52% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 42% of companies with this rating are investment banking clients of the Firm.



## IMPORTANT DISCLOSURES CONTINUED

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 31.77 (12-Jun-2013)

Stock Rating

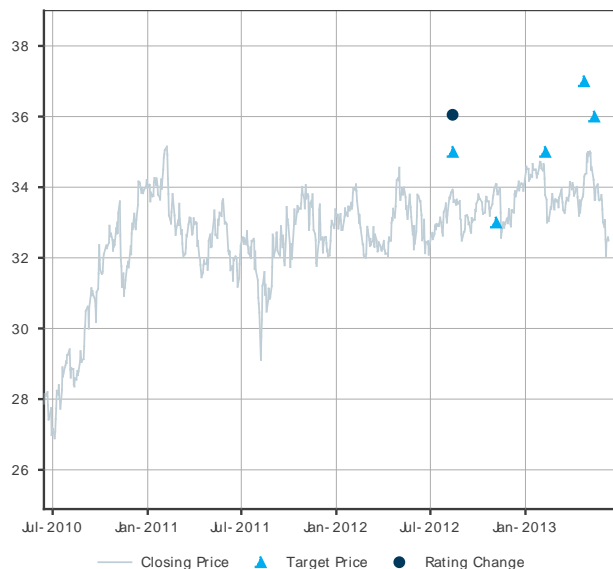
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - CAD (as of 12-Jun-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 34 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 14.2x our Canadian utility operations '15E EPS of CAD 1.91. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 14.2x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.32) EPS for the segment plus a CAD 0.04 contribution from CH Energy Group. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## 2Q In-Line; Price Target to CAD 35

**Reiterating Equal Weight:** We reiterate our Equal Weight rating and increase our price target from CAD 34 to CAD 35 premised upon multiple expansion despite the reduction in our earnings per share forecast from CAD 1.72/1.87/1.96 to CAD 1.71/1.84/1.93. The reduction in our EPS forecast is driven by lower accretion assumptions related to the acquisition of CH Energy Group, which closed in late June.

**2Q In Line:** For the quarter the company reported ongoing earnings per share of \$0.32 vs. \$0.36 last year, consensus estimates of \$0.32, and our estimate of \$0.35. There were several non-recurring items in the quarter. Reported earnings were \$54 million (\$0.28/share), however, these included income tax recoveries of \$25 million (\$0.13/share) and CH Energy Group acquisition expenses of \$32 million (\$0.17/share).

**CH Energy Group Transaction Closed:** The acquisition of CH Energy Group closed on June 27 (see our note *NY PSC Approves CHG Transaction*, published on June 13). Management indicated in the press release for the quarter that the merger is not expected to be accretive until 2015. This is below the original expectations of accretion in 2013 or 2014 due to less favorable acquisition terms to ensure regulatory approval. As noted above, we have updated our EPS forecast pushing out accretion to '15.

**Lower ROEs in BC; More Regulatory Decisions to Come:** In May the British Columbia Utilities Commission ruled on Phase 1 of the general cost of capital proceeding lowering FortisBC Energy's ROE to 8.75% from 9.50% and the equity ratio from 40% to 38.5% (*Lowering EPS and PT on BC ROE*, published May 14). The BCUC will rule on final ROEs for FortisBC electric and the smaller gas utilities in the province in Phase 2 of the proceeding, which is underway. In April Newfoundland Power received a decision from the regulator maintaining ROEs and capital structure at 8.8% and 45%, respectively, through 2015. The Alberta Utilities Commission is currently in the process of deciding the allowed ROE and capital structure for 2013 for FortisAlberta.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.66A	0.67A	0.67A	0.67A	N/A	N/A	0.69E	2%	N/A
Q2	0.36A	0.35E	0.32A	0.32E	N/A	N/A	0.34E	-11%	N/A
Q3	0.24A	N/A	N/A	0.25E	N/A	N/A	0.28E	N/A	N/A
Q4	0.47A	N/A	N/A	0.50E	N/A	N/A	0.49E	N/A	N/A
Year	1.70A	1.72E	1.71E	1.72E	1.87E	1.84E	1.83E	0.59%	8%
P/E	19.0		18.9			17.6			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

Stock Rating	<b>EQUAL WEIGHT</b> Unchanged
Industry View	<b>POSITIVE</b> Unchanged
Price Target	<b>CAD 35.00</b> raised 3% from CAD 34.00

Price (31-Jul-2013)	CAD 32.29
Potential Upside/Downside	+8%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	6836
Shares Outstanding (mn)	211.72
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	3.8
Return on Equity TTM (%)	7.43
Current BVPS (CAD)	21.37

Source: FactSet Fundamentals

Price Performance	Exchange-TOR
52 Week range	CAD 35.14-30.70



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: POSITIVE

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,352	1,456	1,570	7.5%
EBIT (adj)	794	840	904	951	6.2%
Pre-tax income (adj)	432	424	454	484	3.9%
Net income (adj)	371	338	372	400	2.5%
EPS (adj) (CAD)	1.70	1.71	1.84	1.93	4.5%
Diluted shares (mn)	191	198	203	209	3.0%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	35.9	37.5	39.0	36.8
EBIT (adj) margin (%)	21.7	22.3	23.3	23.7	22.7
Pre-tax (adj) margin (%)	12.0	12.1	12.8	13.2	12.5
Net (adj) margin (%)	8.8	9.0	9.6	9.9	9.3
ROIC (%)	7.0	7.0	6.9	7.0	7.0
ROA (%)	2.5	2.2	2.3	2.4	2.4
ROE (%)	6.9	7.3	7.3	7.7	7.3

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,623	10,300	11,038	11,744	6.9%
Total net assets	14,950	15,081	16,070	16,567	3.5%
Capital employed	11,292	12,075	13,033	13,647	6.5%
Shareholders' equity	5,410	4,622	5,084	5,209	-1.3%
Net debt/(funds)	5,882	6,550	6,822	7,549	8.7%
Cash flow from operations	976	909	985	1,079	3.4%
Capital expenditure	-1,062	-1,576	-1,385	-1,420	N/A
Free cash flow	-221	-972	-720	-677	N/A
Pre-dividend FCF	-391	-727	-460	-402	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	19.0	18.9	17.6	16.7	18.1
EV/EBITDA (adj) (x)	10.1	9.9	9.4	9.2	9.6
EV/EBIT (adj) (x)	16.0	15.9	15.1	15.1	15.5
P/BV (x)	1.1	1.4	1.3	1.3	1.3
Dividend yield (%)	3.7	3.8	4.0	4.1	3.9
Total debt/capital (%)	53.5	54.2	54.0	55.1	54.2
Net debt/EBITDA (adj) (x)	4.7	4.8	4.7	4.8	4.7

Selected operating metrics	2012A	2013E	2014E	2015E
Payout ratio (%)	70.7	72.6	69.8	68.9
Interest cover (x)	3.5	3.4	3.5	3.6
Regulated (%)	87.5	88.6	89.6	91.4

Price (31-Jul-2013) CAD 32.29  
Price Target CAD 35.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

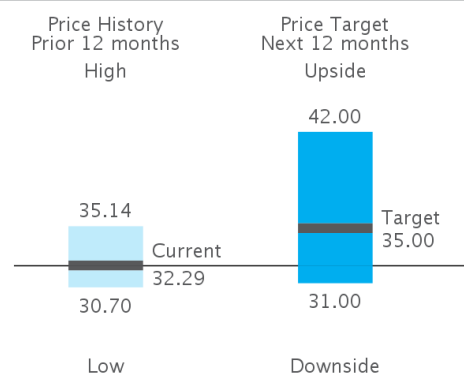
**Upside case** CAD 42.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 42

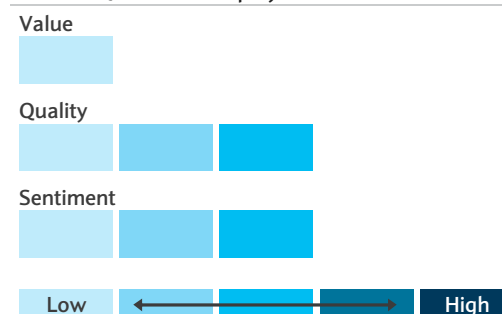
**Downside case** CAD 31.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 31

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

## Capital Forecast Maintained

In the press release for the quarter management maintained capital expenditure guidance for 2013 of CAD 1.3 Billion. Year to date as of the end of the second quarter CAD 548 million has been deployed. A breakdown of the spending so far this year is provided in the table below.

FIGURE 1  
Year to Date Capital Spending by Segment, CAD Millions

Segment	Amount
FortisBC Energy Companies	92
FortisAlberta	230
FortisBC Electric	33
Newfoundland Power	38
Other Canadian Utilities	28
<b>Total Regulated Canadian Utilities</b>	<b>421</b>
Caribbean Utilities	24
Fortis Generation	79
Fortis Properties & Other	24
<b>Total Capital Expenditures</b>	<b>548</b>

Source: 2Q 2013 Fortis Earnings Press Release, Barclays Research Estimates

Management continues to expect that capital expenditures through 2017 will total CAD 6 billion. Construction of the 335 MW Waneta Hydroelectric plant expansion continues to be forecast to be on time and on budget. The facility should enter service in the spring of 2015. The plant is projected to cost CAD 900 million and approximately CAD 513 million has been spent since the beginning of construction in 2010.

Capital expenditures related to the Waneta Expansion are expected to be lower in 2013 than the forecast of CAD 227 million, primarily due to timing. Capital expenditures are also expected to be lower at FortisBC Alternative Energy Services (FAES) than the original forecast of CAD 43 million due to the uncertainty of timing around alternative energy projects. The total capital expenditures for the year remain forecast at CAD 1.3 billion as a result of the inclusion of CAD 50 million of capital expenditures at recently acquired Central Hudson in the second half.

## Regulatory Decision Still to Come

Allowed returns on equity were adjusted 75bps lower for the smaller gas utilities and FortisBC Electric in conjunction with the May decision from the BCUC on the reference utility in the province. The final allowed returns and equity ratios for these utilities will be determined in Phase 2 of the process, which is currently underway. In Alberta, the Alberta Utilities Commission is currently reviewing the cost of capital for utilities in the province. Hearings are scheduled for early 2014 and the timing of a final outcome on this matter is currently unknown.

In June of this year the Electricity Regulatory Authority (ERA) approved Caribbean Utilities 2013 – 2017 capital plan of US\$123 million related to non-generation installation capital expenditures. As a reminder generation expenditures are approved separately by the ERA through a competitive bid process. In March, Fortis Turks & Caicos submitted their 2012 reports to the Government. These outlined a rate base of US\$195 million for 2012 and a cumulative shortfall in achieving allowable profits of US\$105 million as of the end of last year.



## Second Quarter Results

For the quarter the company reported ongoing earnings per share of \$0.32 vs. \$0.36 last year, consensus estimates of \$0.32 and our estimate of \$0.35. Results were driven by lower earnings from the gas utilities in British Columbia, reflective of the lower allowed return on equity as ruled by the British Columbia Utilities Commission in May.

There were two major one-time items in the quarter that needed to be adjusted out of reported results of \$0.28/share. First, acquisition costs for the CH Energy Group acquisition reduced reported earnings per share by \$0.17 and tax recoveries related to Part VI.1 tax impacts increased reported earnings per share by \$0.13. Adjusting reported earnings of \$0.28/share by these two items results in the reported ongoing earnings per share results for the quarter of \$0.32.

Results by segment are provided in the table below.

FIGURE 2  
2Q 2013 Year over Year Earnings by Segment

<i>CAD millions except per share data</i>	Q2 2013	Q2 2012	Variance	EPS
FortisBC Energy Companies	6	13	-7	\$ (0.04)
FortisAlberta	25	26	-1	\$ (0.01)
FortisBC Electric	8	9	-1	\$ (0.01)
Newfoundland Power	24	11	13	\$ 0.07
Other Canadian Electric Utilities	9	5	4	\$ 0.02
Caribbean Regulated Electric Utilities	6	6	0	\$ -
Fortis Generation	3	6	-3	\$ (0.02)
Fortis Properties	9	8	1	\$ 0.01
Corporate & Other	-36	-22	-14	\$ (0.07)
Acquisition Expense Adjustment	32	3	29	\$ 0.15
Tax Recovery Adjustment	-25	3	-28	\$ (0.15)
<b>Ongoing Earnings</b>	<b>61</b>	<b>68</b>	<b>-7</b>	<b>\$ (0.04)</b>
Shares Outstanding	193.4	189.6		\$ (0.01)
<b>Ongoing Earnings Per Share</b>	<b>\$ 0.32</b>	<b>\$ 0.36</b>		<b>\$ (0.04)</b>

Source: 2Q 2013 Fortis Earnings Press Release, Barclays Research Estimates

Results at the FortisBC Energy companies reflected the BCUC decision lowering allowed ROEs and equity ratios in British Columbia. Newfoundland Power results were flat net of a tax recovery adjustment of CAD 13 million. Other Canadian Utilities also benefited slightly from tax adjustments. Fortis Generation results were lower as a result of lower hydroelectric output due to lower rainfall in Belize. Corporate & Other results were reported inclusive of CH Energy Group acquisition costs and some tax adjustment benefits.

## Valuation Methodologies

Our CAD 35 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15.2x our Canadian utility operations '15E EPS of CAD 1.90. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 15.2x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.34) EPS

for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.13.

Our prior CAD 34 price target for Fortis was premised upon a sum-of-the-parts (SOTP) methodology. We applied a 20% premium to the then 2015 US regulated utility multiple of 14.2x our Canadian utility operations '15E EPS of CAD 1.91. For Caribbean operations we used the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We applied this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we used a '15 power multiple of 14.2x our '15E EPS of CAD 0.03. For corporate and other we used the straight '15 US regulated utility multiple of 14.2x our CAD (0.32) EPS for the segment plus a CAD 0.04 contribution from CH Energy Group. To this we added a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.14.

## ANALYST(S) CERTIFICATION(S)

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 17th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 31-Jul-2013, CAD 32.29), Equal Weight/Positive, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

## IMPORTANT DISCLOSURES CONTINUED

**Q:** The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

**R:** Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

**S:** Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

### Distribution of Ratings:

Barclays Equity Research has 2390 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 51% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 47% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 42% of companies with this rating are investment banking clients of the Firm.

## IMPORTANT DISCLOSURES CONTINUED

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 32.29 (31-Jul-2013)

Stock Rating

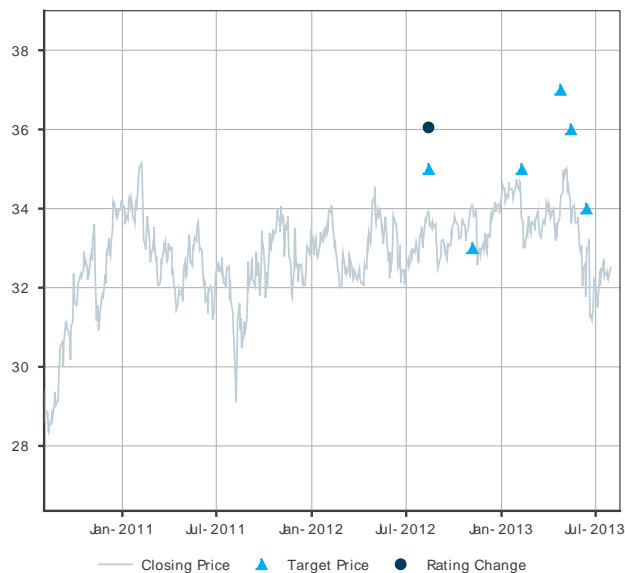
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - CAD (as of 31-Jul-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 35 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15.2x our Canadian utility operations '15E EPS of CAD 1.90. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 15.2x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.34) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.13.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

This material is issued in Taiwan by Barclays Capital Securities Taiwan Limited. This material on securities not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.





Fortis Inc.

## Q3 Miss \$0.23; Numbers Unchanged

**Reiterating Equal Weight:** We are reiterating our Equal Weight rating and our CAD 35 price target as well as our earnings per share forecast of CAD 1.71/1.84/1.93 for '13/14/15 respectively.

**Q3 '13 EPS \$0.23:** For the quarter the company reported ongoing earnings per share of \$0.23 versus \$0.24 last year, consensus estimates of \$0.27 and our estimate of \$0.27. Results were driven by the inclusion of the recently acquired (end of Q2 '13) Central Hudson utilities in New York, and better results in the Generation segment as a result of better hydrology in Belize. These positive factors were more than offset by higher losses at FortisBC Energy as a result of higher O&M expenses and lower allowed returns on equity and equity ratios as well as lower than expected customer growth.

**Central Hudson in the Fold:** CH Energy Group was acquired in late June and management noted that the unit has successfully integrated into the Fortis family. The group was acquired for US\$1.5 Billion including the assumption of US\$518 million of debt on closing. Central Hudson contributed \$12 million in earnings for Q3 '13 comparable with Q3 '12. Due to the common share offering to fund the acquisition and financing costs associated with the transaction EPS in Q3 '13 was not materially impacted by the acquisition of CH Energy Group. Management still expects the acquisition to be accretive to earnings per share beginning in 2015.

**Regulatory Update:** The company expects a final decision in the British Columbia generic cost of capital proceeding in the first half of next year. In May, interim rates were approved using returns on equity of 8.75% for FEI, 9.25% for FEVI and FEWI, and 9.15% for BC Electric. Given that interest rates have risen since May, there could be upside to our modeled estimates if the BC regulator raises allowed returns in kind. In Alberta, final capital structure and allowed return on equity are yet to be determined, and final resolution of tracked capital expenditures outside of performance based ratemaking is also awaiting resolution. Currently rates reflect an interim decision to allow 60% of the amount filed for to be recovered.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.66A	0.67A	0.67A	0.67A	N/A	N/A	0.69E	2%	N/A
Q2	0.36A	0.32A	0.32A	0.31A	N/A	N/A	0.31E	-11%	N/A
Q3	0.24A	N/A	0.23A	0.27E	N/A	N/A	0.29E	-4%	N/A
Q4	0.47A	N/A	0.49E	0.48E	N/A	N/A	0.51E	4%	N/A
Year	1.70A	1.71E	1.71E	1.71E	1.84E	1.84E	1.81E	0.59%	8%
P/E	19.1		19.0			17.6			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5.

Stock Rating

**EQUAL WEIGHT**

Unchanged

Industry View

**NEUTRAL**

Unchanged

Price Target

**CAD 35.00**

Unchanged

Price (31-Oct-2013)	CAD 32.43
Potential Upside/Downside	+8%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	6889
Shares Outstanding (mn)	212.42
Free Float (%)	99.71
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	3.8
Return on Equity TTM (%)	6.89
Current BVPS (CAD)	22.19

Source: FactSet Fundamentals

Price Performance

Exchange-TOR

52 Week range

CAD 35.14-29.78



Link to Barclays Live for interactive charting

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

ross.a.fowler@barclays.com

BCI, New York

Daniel Ford, CFA

1.212.526.0836

daniel.x.ford@barclays.com

BCI, New York

## North America Utilities

Industry View: NEUTRAL

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,352	1,456	1,570	7.5%
EBIT (adj)	794	840	904	951	6.2%
Pre-tax income (adj)	432	424	454	484	3.9%
Net income (adj)	371	338	372	400	2.5%
EPS (adj) (CAD)	1.70	1.71	1.84	1.93	4.5%
Diluted shares (mn)	191	198	203	209	3.0%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	35.9	37.5	39.0	36.8
EBIT (adj) margin (%)	21.7	22.3	23.3	23.7	22.7
Pre-tax (adj) margin (%)	12.0	12.1	12.8	13.2	12.5
Net (adj) margin (%)	8.8	9.0	9.6	9.9	9.3
ROIC (%)	7.0	7.0	6.9	7.0	7.0
ROA (%)	2.5	2.2	2.3	2.4	2.4
ROE (%)	6.9	7.3	7.3	7.7	7.3

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,623	10,300	11,038	11,744	6.9%
Total net assets	14,950	15,081	16,070	16,567	3.5%
Capital employed	11,292	12,075	13,033	13,647	6.5%
Shareholders' equity	5,410	4,622	5,084	5,209	-1.3%
Net debt/(funds)	5,882	6,550	6,822	7,549	8.7%
Cash flow from operations	976	909	985	1,079	3.4%
Capital expenditure	-1,062	-1,576	-1,385	-1,420	N/A
Free cash flow	-221	-972	-720	-677	N/A
Pre-dividend FCF	-391	-727	-460	-402	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	19.1	19.0	17.6	16.8	18.1
EV/EBITDA (adj) (x)	10.1	9.9	9.4	9.2	9.7
EV/EBIT (adj) (x)	16.1	16.0	15.2	15.2	15.6
P/BV (x)	1.1	1.4	1.3	1.3	1.3
Dividend yield (%)	3.7	3.8	3.9	4.1	3.9
Total debt/capital (%)	53.5	54.2	54.0	55.1	54.2
Net debt/EBITDA (adj) (x)	4.7	4.8	4.7	4.8	4.7

Selected operating metrics	Average				
Payout ratio (%)	70.7	72.6	69.8	68.9	70.5
Interest cover (x)	3.5	3.4	3.5	3.6	3.5
Regulated (%)	87.5	88.6	89.6	91.4	89.3

Price (31-Oct-2013) CAD 32.43  
Price Target CAD 35.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

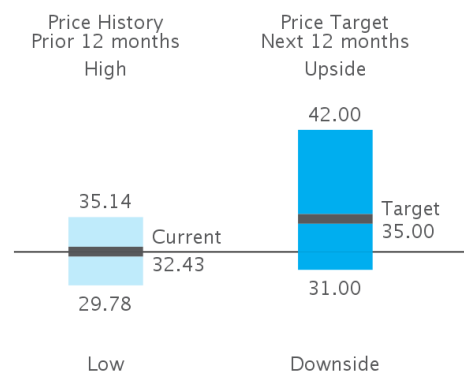
**Upside case** CAD 42.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 42

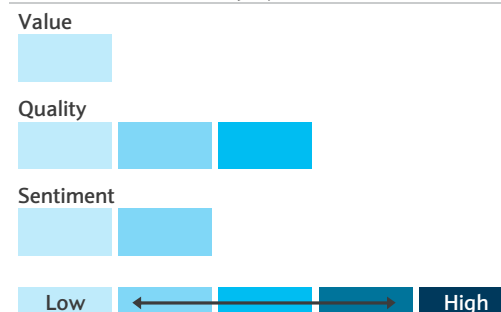
**Downside case** CAD 31.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 31

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

## Waneta Expansion Construction Update

---

Construction of the 335MW, CAD 900 million Waneta hydroelectric expansion project continues on track for completion in the spring of 2015. The project remains on budget. About CAD 534 million has been invested as of the end of the third quarter since 2010 with CAD 98 million spent so far in 2013. Year to date in 2013 civil construction of the power house and intake have continued, installation of the turbine components and ancillary mechanical and electrical powerhouse services has been completed. The scroll case (the large spiral area surrounding the turbine) has also been encapsulated in concrete. In the quarter, the generator step-up transformers were delivered to the site for assembly. Offsite in the quarter the first turbine runner and turbine operating mechanism were completed.

## Regulatory Update

---

### British Columbia

In February, the British Columbia Utilities Commission (BCUC) denied the application of the company's gas utility subsidiaries to amalgamate into one utility and implement common rates across the service territory. The company filed for appeal and the reconsideration filing was taken up by the BCUC in June. The regulatory process for the reconsideration decision is expected to wrap up this month and a decision is expected from the BCUC in early 2014.

In May, the BCUC issued the order in the first phase of the generic cost of capital proceeding, which set allowed returns on equity at 8.75% with a 38.5% equity ratio. This benchmark is the allowed return and capital structure for FEI. FEVI, FEWI, and BC Electric will have their return metrics determined in the second phase of the process for which a decision is expected in early 2014. For now interim rates have been approved using allowed returns of 9.25%, 9.25%, and 9.15% respectively. Furthermore, the BCUC has reinstituted an automatic adjustment mechanism (AAM) for the cost of capital through the end of 2015. The AAM will commence when the long term Government of Canada bond yield exceeds 3.8%.

The two main utility subsidiaries in British Columbia also filed for the reinstitution of a performance based ratemaking plan for 2014 through 2018. FEI filed for a delivery rate increase of approximately 1.4% in 2014 premised upon a 2014 mid-year rate base of CAD 2,789 million. BC Electric filed for a 3.3% rate increase premised upon a 2014 mid-year rate base of 1.192 million. FEVI and FEWI have filed applications with the BCUC to hold rates flat in 2014. Decisions on the rate applications are expected in mid-2014.

### Alberta

In March, the Alberta Utilities Commission (AUC) issued an interim decision for performance based ratemaking using a productivity factor of 1.71% and a "K-factor" (capex outside of PBR) placeholder of 60% for the capital tracker. Approximately CAD 14.5 Billion of the CAD 24 million was approved in FortisAlberta's capital tracker application. The impact on rates from the interim decision was approximately 4%. A final decision around all performance based ratemaking placeholders is expected by the end of the year.

In September FortisAlberta filed with the AUC for adjustments for 2014 under performance based ratemaking. The filing called for a 5.36% increase to distribution rates, which incorporates a 1.59% productivity factor and a 60% placeholder for the capital tracker. A decision is expected on the filing by the end of the year.

## Newfoundland & Labrador

In September, the Public Utilities Board approved the 2014 capital plan as filed by Newfoundland Power totalling CAD 84 million in capital expenditures prior to customer contributions.

## Grand Cayman

In July, the Electricity Regulatory Authority (ERA) on Grand Cayman announced the cancellation of the solicitation process for new generation begun in November 2011 as a result of unavoidable and unforeseen delays. Caribbean Utilities believes that the generation need for mid-2014 remains, and with the cancellation of the solicitation process the company will now explore all cost effective options for generation capacity with the ERA.

In June, the ERA approved a base customer electricity rate increase of 1.8% under the normal annual rate adjustment process that takes account of inflation via consumer price indices and the utilities targeted return on assets of 6.50%-8.50%.

## Q3 2013 Results

For the quarter, the company reported ongoing earnings per share of \$0.23 versus \$0.24 last year, consensus estimates of \$0.27 and our estimate of \$0.27. Results were driven by the acquisition of CH Energy Group, mainly Central Hudson, and better results at Fortis Generation as a result of improved hydrology in Belize. Corporate costs were also lower year over year. These positive factors were more than offset by negative results at CH Energy Group's non-regulated petroleum product delivery subsidiary, a higher number of shares outstanding, slightly lower results at the Canadian electric utilities, and lower results for the FortisBC Energy companies. This was mainly driven by the BCUC regulatory decision on returns noted above.

Results by segment are provided in the table below.

FIGURE 1  
Q3 2013 Year over Year Earnings by Segment

<i>CAD millions except per share data</i>	Q3 2013	Q3 2012	Variance	EPS
FortisBC Energy Companies	(14)	(6)	(8)	(\$0.04)
Central Hudson	12	0	12	\$0.06
FortisAlberta	25	26	(1)	(\$0.01)
FortisBC Electric	11	13	(2)	(\$0.01)
Newfoundland Power	8	9	(1)	(\$0.01)
Other Canadian Electric Utilities	7	7	0	---
Caribbean Regulated Electric Utilities	6	6	0	---
Non-Regulated Fortis Generation	8	5	3	\$0.02
Non-Regulated NonUtility	6	8	(2)	(\$0.01)
Corporate & Other	(21)	(23)	4	<u>\$0.01</u>
<b>Ongoing Earnings</b>	<b>48</b>	<b>45</b>	<b>(3)</b>	<b>\$0.02</b>
Shares Outstanding	212.0	190.2		<u>(\$0.03)</u>
<b>Ongoing Earnings Per Share</b>	<b>\$ 0.23</b>	<b>\$ 0.24</b>		<b>(\$0.01)</b>

Source: Q3 2013 Fortis Earnings Press Release, Barclays Research Estimates

## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <http://group.barclays.com/corporates-and-institutions/research/research-policy>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 31-Oct-2013, CAD 32.43), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

## IMPORTANT DISCLOSURES CONTINUED

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
National Grid Plc (NGG)	NiSource, Inc. (NI)	Northeast Utilities (NU)
NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

### Distribution of Ratings:

Barclays Equity Research has 2478 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 50% of companies with this rating are investment banking clients of the Firm.

39% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 44% of companies with this rating are investment banking clients of the Firm.

14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental

## IMPORTANT DISCLOSURES CONTINUED

analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### **Barclays offices involved in the production of equity research:**

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)



## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 32.43 (31-Oct-2013)

Stock Rating

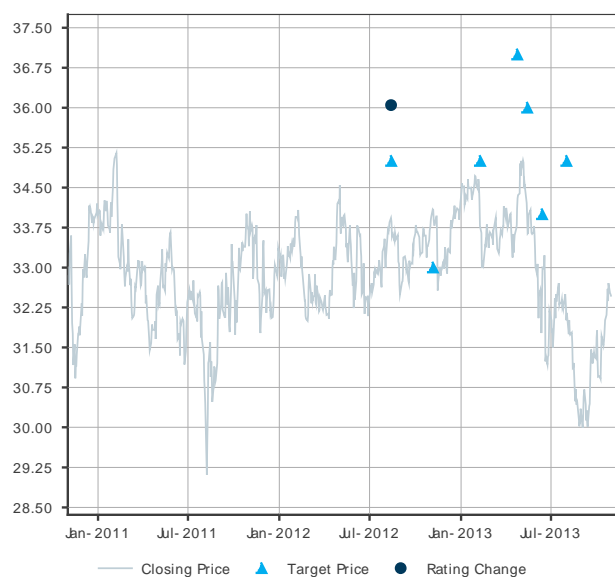
Industry View

EQUAL WEIGHT

NEUTRAL

## Rating and Price Target Chart - CAD (as of 31-Oct-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 35 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15.2x our Canadian utility operations '15E EPS of CAD 1.90. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 11.2x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 15.2x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 15.3x our CAD (0.34) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.13.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or

services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## Fortis to Acquire UNS Energy

**Fortis Inc. To Acquire UNS Energy:** After the close yesterday Fortis Inc. announced the acquisition of UNS Energy Corporation (UNS-NR) for approximately US\$4.3 Billion including the assumption of US\$1.8 Billion in debt. This equates to a purchase price of \$60.25/share, a 31% premium to yesterday's closing price of \$45.84/share. The acquisition requires the approval of UNS shareholders, and regulatory approval from the Arizona Corporation Commission (ACC), the Federal Energy Regulatory Commission (FERC), and compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The management of Fortis expects the transaction to close by the end of 2014.

**Acquisition Valuation:** Based upon the announced purchase price UNS is valued at 17.9x 2015 consensus earnings per share, 8.2x 2015 consensus EBITDA, and 2.0x estimated rate base premised upon UNS's most recent regulatory filings. Based upon the current book value of \$27.09 per share, Fortis is paying 2.2x current book value. This price looks high versus the current average multiples for US mid-cap regulated utilities of 14.7x 2015E earnings per share, 8.3x 2015E EBITDA, and 1.6x book value. The recently announced acquisition of NV Energy (NVE-EW) by Berkshire Hathaway was at a 16.4x estimated 2015 earnings per share. A somewhat higher multiple might be justified by UNS's higher growth rate of 7%/year as estimated by Fortis's management. There is also a potential opportunity to raise the equity ratio at UNS's main subsidiary Tucson Electric from 43.5% to the low 50% range where other utilities in Arizona are regulated. This could be accretive to eps by approximately \$0.04/share in 2015 on a post-deal basis. There are also cross boarder tax benefits that could be accretive by \$0.01-\$0.02/share. We rate Arizona an average regulator as Tier 3.

**Getting to Accretion:** Based on our preliminary analysis, either the equity ratio needs to be moved to the low 50s or approximately US\$25 million (pre-tax) in synergies need to be delivered above what the regulator provides for ratepayers to achieve accretion in 2015 earnings per share. Cross boarder tax benefits will also be helpful. US\$25 million is approximately 2% of the companies combined O&M budgets for 2012.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2012		2013		2014		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2013	2014
Q1	0.66A	0.67A	0.67A	0.67A	N/A	N/A	0.69E	2%	N/A
Q2	0.36A	0.32A	0.32A	0.31A	N/A	N/A	0.33E	-11%	N/A
Q3	0.24A	0.23A	0.23A	0.23A	N/A	N/A	0.27E	-4%	N/A
Q4	0.47A	0.49E	0.49E	0.49E	N/A	N/A	0.52E	4%	N/A
Year	1.70A	1.71E	1.71E	1.69E	1.84E	1.84E	1.79E	0.59%	8%
P/E	18.4		18.2			17.0			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 9.

Stock Rating	<b>EQUAL WEIGHT</b>
	Unchanged
Industry View	<b>NEUTRAL</b>
	Unchanged
Price Target	<b>CAD 35.00</b>
	Unchanged

Price (11-Dec-2013)	CAD 31.19
Potential Upside/Downside	+12%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	6655
Shares Outstanding (mn)	212.43
Free Float (%)	99.71
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	4.0
Return on Equity TTM (%)	6.97
Current BVPS (CAD)	22.07

Source: FactSet Fundamentals

Price Performance	Exchange-TOR
52 Week range	CAD 35.14-29.78



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: NEUTRAL

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	1,264	1,352	1,456	1,570	7.5%
EBIT (adj)	794	840	904	951	6.2%
Pre-tax income (adj)	432	424	454	484	3.9%
Net income (adj)	371	338	372	400	2.5%
EPS (adj) (CAD)	1.70	1.71	1.84	1.93	4.5%
Diluted shares (mn)	191	198	203	209	3.0%
DPS (CAD)	1.20	1.24	1.28	1.32	3.2%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.6	35.9	37.5	39.0	36.8
EBIT (adj) margin (%)	21.7	22.3	23.3	23.7	22.7
Pre-tax (adj) margin (%)	12.0	12.1	12.8	13.2	12.5
Net (adj) margin (%)	8.8	9.0	9.6	9.9	9.3
ROIC (%)	7.0	7.0	6.9	7.0	7.0
ROA (%)	2.5	2.2	2.3	2.4	2.4
ROE (%)	6.9	7.3	7.3	7.7	7.3

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	9,623	10,300	11,038	11,744	6.9%
Total net assets	14,950	15,081	16,070	16,567	3.5%
Capital employed	11,292	12,075	13,033	13,647	6.5%
Shareholders' equity	5,410	4,622	5,084	5,209	-1.3%
Net debt/(funds)	5,882	6,550	6,822	7,549	8.7%
Cash flow from operations	976	909	985	1,079	3.4%
Capital expenditure	-1,062	-1,576	-1,385	-1,420	N/A
Free cash flow	-221	-972	-720	-677	N/A
Pre-dividend FCF	-391	-727	-460	-402	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	18.4	18.2	17.0	16.1	17.4
EV/EBITDA (adj) (x)	9.9	9.7	9.2	9.0	9.5
EV/EBIT (adj) (x)	15.8	15.7	14.9	14.9	15.3
P/BV (x)	1.1	1.3	1.2	1.2	1.2
Dividend yield (%)	3.8	4.0	4.1	4.2	4.0
Total debt/capital (%)	53.5	54.2	54.0	55.1	54.2
Net debt/EBITDA (adj) (x)	4.7	4.8	4.7	4.8	4.7

Selected operating metrics	Average				
Payout ratio (%)	70.7	72.6	69.8	68.9	70.5
Interest cover (x)	3.5	3.4	3.5	3.6	3.5
Regulated (%)	87.5	88.6	89.6	91.4	89.3

Price (11-Dec-2013) CAD 31.19  
Price Target CAD 35.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

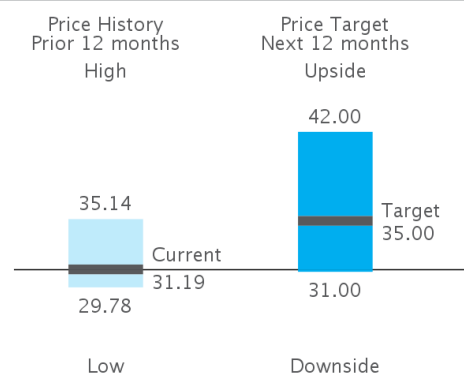
**Upside case** CAD 42.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 42

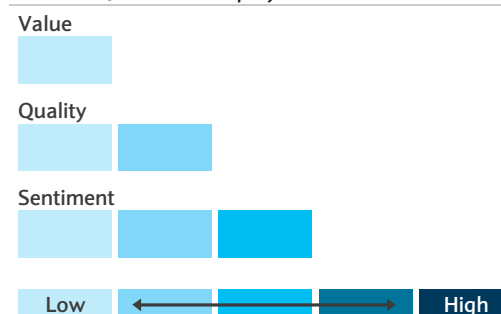
**Downside case** CAD 31.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 31

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

Source: Company data, Barclays Research  
Note: FY End Dec

## Fortis to Acquire UNS Energy for \$60.25/Share

### Acquisition Details

After the close yesterday Fortis Inc. announced the acquisition of UNS Energy Corporation (UNS-NR) for US\$60.25/share in cash, which represented a purchase price of US\$4.3 Billion, including the assumption of US\$1.8 Billion in debt. The acquisition is expected to close by the end of 2014 and requires the approval of UNS shareholders. The acquisition also requires regulatory approval of the Arizona Corporation Commission (ACC), the Federal Energy Regulatory Commission (FERC), and compliance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. UNS will continue to pay dividends until the transaction closes. The acquisition deal was achieved through a bilateral negotiation and Fortis had not yet informed the ACC of the deal prior to their press release although UNS may have. Fortis intends to, consistent with its model and the recent CHG Energy acquisition in New York, keep the UNS utilities management in place and UNS Energy as autonomous and ring fenced utility subsidiaries.

### Financing Details

Commensurate with the announcement of the acquisition, Fortis Inc. also announced a \$1.594 Billion aggregate principal amount of convertible debt with a coupon of 4%. In addition, there is a private placement amount of \$206 million and an overallotment option of \$239.1 million. The convertible debt will revert into equity upon the close of the Fortis Inc. and UNS transaction at a conversion price of \$30.72/share. If the full overallotment is used and all convertible bonds, including those private placed convert to shares, the share issuance to fund the transaction will equate to \$2,039 Billion and 77.4 million new shares.

### Sources & Uses and Accretion Analysis

Based upon the announced parameters of the acquisition, and assuming the full overallotment of convertible bonds is sold and \$125 million in cash from the balance sheet's current \$154 million is used, the company would have to issue new debt of approximately \$339 million in addition to the US\$1.8 Billion in debt assumed.

The analysis assumes a 1.0x Canadian to US\$ exchange rate for the purposes of simplicity.

FIGURE 1

#### Sources & Uses for Fortis Inc. Acquisition of UNS, US\$ millions

Item	Amount
<b>SOURCES</b>	
UNS Shares Outstanding	41.5 million
Acquisition Price per Share	\$60.25/share
Equity	\$2,503
Debt	<u>\$1,800</u>
<b>TOTAL SOURCES</b>	<b>\$4,303</b>
<b>USES</b>	
Debt Assumed	\$1,800
Debt Issued (plug)	\$339
Cash (\$154 on BS as of 9/30/13)	\$125
Convertible Debt to Equity on Close	<u>\$2,039</u> (assumes full overallotment is issued)
<b>TOTAL USES</b>	<b>\$4,303</b>
New Shares at Convert Price of \$30.72/share	77.4 million

Source: Fortis Inc. Press Release and Presentation; Barclays Research Estimates

## Multiples High at First Blush; But There Are Risks and Opportunities

Using the current consensus estimates available for UNS and our own estimates for Fortis, we believe accretion can be achieved as guided to by management in the first full year post close (i.e., 2015) through a combination of several factors, all of which may or may not happen.

At the purchase price of \$60.25/share, Fortis Inc. is paying 17.9x 2015 consensus earnings per share, 8.2x 2015 consensus EBITDA, and 2.0x estimated rate base premised upon UNS's most recent regulatory filings. Based upon the current book value of \$27.09 per share, Fortis is paying 2.2x current book value. This price looks high versus the current average multiples for US mid-cap regulated utilities of 14.7x 2015E earnings per share, 8.3x 2015E EBITDA, and 1.6x book value. The recently announced acquisition of NV Energy (NVE-EW) by Berkshire Hathaway was at a 16.4x estimated 2015 earnings per share.

However, the deal can be accretive due to cross boarder tax benefits of \$0.01-\$0.02/share, the potential for the equity ratio for Tucson Electric to be raised from the current 43.5% to the low 50% range, which is more comparable with other utilities in the state, and/or the delivery of at least US\$25 million in synergies above what regulators provide to customers. Fortis management is not basing its accretion analysis on delivering any synergies to shareholders. US\$25 million pre-tax represents about 2% of the companies combined pro-forma O&M budget for 2012. A look at recent utility deals would estimate that synergies between 5-8% of O&M budgets are an achievable goal.

FIGURE 2

### Fortis Inc./UNS Combination Pro Forma Analysis US\$ millions, except EPS

PRO FORMA Accretion/Dilution Analysis	2013 E	2014 E	2015 E
UNS Consensus EPS	\$ 3.06	\$ 3.35	\$ 3.37
CHG Shares Outstanding	41.54	41.54	41.54
Projected Net Income	\$ 127	\$ 139	\$ 140
FTS Estimated EPS	\$ 1.71	\$ 1.84	\$ 1.93
FTS Estimated Shares Outstanding (mn)	190.0	197.6	203.1
FTS Estimated Net Income	\$ 325	\$ 363	\$ 393
Increased Interest Expense pretax (@4.5%)			\$ 15
Tax Shield Savings			\$ 2
Consolidated Net Income			\$ 520
Consolidated Shares Outstanding			280.5
Consolidated EPS			\$ 1.85
Dilution			\$ (0.08)
Cross Boarder Tax Savings			\$ 0.02
Downside Case Dilution			\$ (0.06)
Move to a 51% equity ratio			\$ 0.04
Synergies US\$25M pre-tax			\$ 0.09
Upside Case Accretion			\$ 0.07
US Average Utility Multiple			14.6
Downside Case Incremental Value per Share			\$ (1)
Upside Case Incremental Value per Share			\$ 1

Source: Fortis Inc. Press Release and Presentation; Barclays Research Estimates



As shown in the table above, our downside case, where additional interest expenses are offset only by the cross boarder tax savings leads to (\$0.06)/share of dilution and an indicative incremental value of \$1/share lower than our \$35 price target. Our upside case includes moving the equity ratio at Tucson Electric from 43.5% to 51% which adds \$0.04/share and pre-tax synergies to shareholders of \$25 million which adds \$0.09/share. This leads to an indicative incremental value of \$1/share higher than our \$35 price target.

For now we are not changing any of our numbers for Fortis Inc., as we will wait for the deal to close and to determine the impact of any terms imposed by the regulator. We believe that any overhang in the market in the shares that was present due to anticipation of a deal will now dissipate. That will likely be offset by perception of risks/opportunities around potential accretion and dilution related to the transaction. We believe the regulatory process of M&A could provide a new overhang to share performance in the near term until the transaction's terms are known from the regulator, and the likelihood of closure or a break of the deal becomes more readily apparent.

It should be noted that we view Arizona as an average Tier 3 regulatory jurisdiction in our latest rankings for 2013, as presented in the table below. It should also be noted that there has been some improvement in regulation in the state as we had rated Arizona a Tier 4 state in 2012. Arizona allows for the recovery of fuel and purchased power through a fuel adjustor clause, has a rider for environmental compliance costs, and allows the recovery of fixed costs associated with any sales lost to energy efficiency or distributed generation.

FIGURE 3

## 2013 North American &amp; U.K. Jurisdictional Regulatory Rankings

Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
<b>Lowest Cost Of Capital</b>		<b>2013</b>		<b>Highest Cost of Capital</b>
		Kansas		
		Newfoundland & Labrador		
		Nevada		
		Alabama		
		Minnesota		
		Oklahoma		
		Pennsylvania		
		Washington		
		Illinois		
	Indiana	North Dakota	New Mexico	
	South Carolina	Louisiana	Missouri	
	North Carolina	Utah	Ohio	
	Virginia	New Jersey	Mississippi	
British Columbia	Nova Scotia	California	West Virginia	
Kentucky	Wisconsin	Delaware	Massachusetts	Maryland
Michigan	Florida	Oregon	Hawaii	Maine
Wyoming	Colorado	Ontario	South Dakota	Vermont
Iowa	Arkansas	Arizona	Rhode Island	Connecticut
Idaho	Tennessee	Texas	District of Columbia	New Hampshire
Alberta	Georgia	New York	Prince Edward Island	Montana

Note: Red indicates a drop in 1 Tier, Green indicates an rise in 1 Tier, Black indicates no change (vs. 2012 rankings).

Source: SNL Financial, Barclays Research Estimates

Arizona is an elected commission and a tangible benefit state for merger reviews. In 2004, Arizona denied the acquisition of UNS by Saguaro Acquisition Corporation. The ACC at that time concluded that ratepayers would not receive a tangible benefit. The commission found in its ruling that the claimed benefits of an improved Tucson capital structure, increased liquidity, a continued local community presence, and the retention of current management did not outweigh the risks of the transaction which included increased leverage, potential for concentration of control with a general partner inexperienced in the utility sector, and uncertainties concerning commission oversight.

The Fortis Inc. acquisition will likely make similar benefit arguments but is likely to improve the equity at Tucson, reducing leverage, is a company with significant utility experience, and

there should be no uncertainties concerning continued commission oversight of the UNS assets.

## A Closer Look at UNS Energy and the Combination

---

### Fortis Stand Alone

Fortis Inc. today has \$17.6 Billion in total assets and \$10.3 Billion in mid-year 2013 rate base, approximately 90% of which are regulated. A large proportion of the assets are in Western Canada (61%), with a further 12% in Eastern Canada and the United States. Rate Base for Fortis Inc. is projected to grow at about a 7% CAGR through 2018 to \$13.7 Billion. This is a result of the current projected capital program of \$3.7 Billion over the next six years, which is inclusive of the Waneta hydroelectric expansion project which constitutes \$900 million of that total.

### UNS Energy Stand Alone

UNS Energy is a vertically integrated utility in Arizona, primarily serving the southeast of the state around the Tucson metro area. The company has approximately 505,000 electric and 149,000 gas customers. UNS Energy rate base is currently around \$2.1 Billion and is projected by Fortis Inc to reach \$3 Billion by 2015. UNS Energy Inc. has three regulated utility subsidiaries: Tucson Electric Power (~70% of rate base), UNS Electric, and UNS Gas. The company owns or leases 2,420MWs of regulated generating capacity including 19MWs of solar. The generating capacity is 59% coal, 34% natural gas, 6% dual fuel, and 1% solar.

From 2003 through 2012, UNS Energy has shown a dividend per share CAGR of 12.4%, a Total Asset CAGR of 3.1%, and a net income CAGR of 7.7%. Although we would note net income has been essentially flat from 2009 – 2012. Leverage has decreased from 84% debt to total capital in 2000 to 62% at the end of September which led to a four notch ratings upgrade to Baa2 over the same timeframe.

Tucson Electric's last rate case was decided at the end of 2011 with a rate base of \$1.5 Billion, a 43.5% equity ratio, and an allowed return on equity of 10%. UNS Gas's last rate case was decided in April of 2012 with a \$183.1 million rate base, a 50.8% equity ratio, and an allowed return on equity of 9.8%. UNS Electric is currently in a rate case before the ACC requesting a rate base of \$216.6 million, an equity ratio of 52.6%, and an allowed return on equity of 10.5%.

UNS Energy has forecast capital expenditures of \$2.3 Billion through 2018 and is expected to grow Tucson Electric's rate base from \$1.5 Billion to \$2.0 Billion by 2015. Overall rate base for the company is expected to reach \$3.0 Billion by 2015. Capital expenditures are forecast to be \$306 million in '13, \$627 million in '14, \$521 million in '15, \$271 million in '16, \$328 million in '17, and \$281 million in '18. These capital expenditures are driven by environmental controls, deployment of renewable , and a shift in the generation mix for Tucson Electric from predominately coal (53%) to predominately gas (49%) and renewable (from 6% to 14%). UNS Energy is purchasing leased interests in the Springerville Generating Station and at close with own 49.5% of the plant. In August of this year the company also agreed to purchase the Gila River Unit 3 power plant with a definitive acquisition agreement still pending. Gila River Unit 3 is a 550MW CCGT plant and the purchase is expected to close at the end of next year.

### Fortis Inc. Acquisition History

Fortis Inc. does have a history of growth through acquisition. The company acquired what is now known as FortisBC Electric and FortisAlberta from Aquila for \$1.5 Billion in enterprise value in May 2004. They acquired what is now known as FortisBC Energy (formerly Teresen) for \$3.7 Billion in enterprise value in May 2007. Recently they completed their first

acquisition in the United States, acquiring CH Energy Group in New York for \$1.5 Billion in enterprise value in June of this year. Prior to the CH Energy Group deal, they had tried to acquire Central Vermont but eventually were outbid by the Montreal-based private utility company Gaz Metro, which already owned Green Mountain Power in Vermont.

## Fortis's Strategies for the Deal

Fortis Inc. management believes the deal, if closed, would achieve several goals. It is accretive to earnings in the first full year (i.e., 2015) in their view, excluding one-time acquisition related expenses. It provides for diversification of regulated earnings, and management sees Arizona as a favorable regulatory environment with local economic conditions that support growth. The capital expenditure needs at UNS should drive significant rate base growth in Fortis's view, and there is an experienced management team that will stay in place.

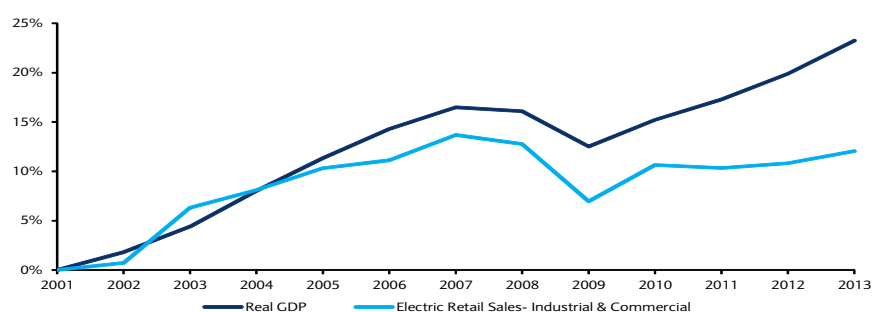
Based upon financials as of the end of September, UNS Energy would represent 25% of the combined entity's assets and 28% of the combined entity's operating earnings. There should be diversification benefits for the combined entity as no subsidiary of the newly formed entity will account for more than 32% of total assets or 28% of total operating earnings. The combined entity will have more than 3,000,000 customers across Canada, the United States, and the Caribbean.

Fortis management sees an Arizona economic environment that is improving with job growth projected to increase from 2.1% in 2013 to 2.9% in 2018, retail sales growth improving from 4.1% in 2013 to 5.1% in 2018, and personal income growth projected to increase from 3.9% in 2013 to 6.0% in 2018.

We would add a note of caution concerning growth rates in electricity sales. Not only are there risks related to cannibalization of sales through distributed solar generation, we have also not observed electric sales growth in the US commensurate with the increased in economic growth, as shown in the figure below.

FIGURE 4

### New Normal Electric Sales Growth



Source: SNL Financial, EIA, BEA, Barclays Research Estimates

Historically, electricity sales growth ran at about 60% of Gross Domestic Product. However, since 2010, we have seen a relationship more akin to 50-60% of GDP less a factor of 1% for energy efficiency, distributed generation, and demand side management. While Arizona could well see a pick-up in economic conditions and a commensurate increase in load growth we would remain cautious and see any increase in electricity sales growth as back end loaded over the six year period being discussed by Fortis management.



## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <http://group.barclays.com/corporates-and-institutions/research/research-policy>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 11-Dec-2013, CAD 31.19), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

## IMPORTANT DISCLOSURES CONTINUED

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrus Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NV Energy, Inc. (NVE)	OGE Energy Corp. (OGE)
Pepco Holdings (POM)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	SCANA Corp. (SCG)
Sempra Energy (SRE)	Southern Co. (SO)	TECO Energy (TE)
Westar Energy (WR)	Wisconsin Energy (WEC)	Xcel Energy (XEL)

### Distribution of Ratings:

Barclays Equity Research has 2589 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 48% of companies with this rating are investment banking clients of the Firm.

39% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 43% of companies with this rating are investment banking clients of the Firm.

15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental

## IMPORTANT DISCLOSURES CONTINUED

analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### **Barclays offices involved in the production of equity research:**

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 31.19 (11-Dec-2013)

Stock Rating

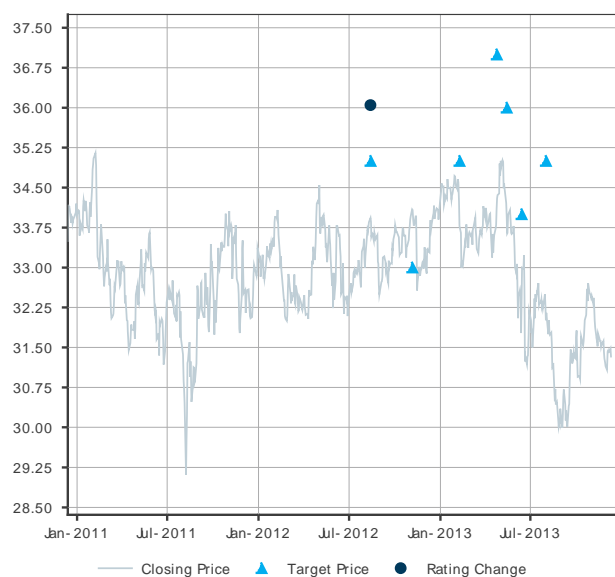
Industry View

EQUAL WEIGHT

NEUTRAL

## Rating and Price Target Chart - CAD (as of 11-Dec-2013)

Currency=CAD



Date	Closing Price	Rating	Price Target
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 35 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 14.6x our Canadian utility operations '15E EPS of CAD 1.90. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 16.8x based upon consensus estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 14.6x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 14.6x our CAD (0.34) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.13.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.



## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or

services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2013). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## Q4 In-line; Regulatory Schedule for Proposed UNS Acquisition Released

**Reiterating Equal Weight; Updating '14 EPS for Proposed UNS Deal:** We are reiterating our equal weight rating and our CAD 32 price target. We are updating our earnings per share forecast from CAD 1.83/1.86 to CAD 1.68/1.84 for '14/15, respectively. We have included the impacts from the proposed UNS deal into our estimates to put ourselves more in line with consensus estimates, although we would point out that there could be downside to our numbers depending on what conditions, if any, the regulator requires for deal approval.

**Schedule for Merger Proceeding Released:** In January 2014 the company and UNS Energy filed a joint petition before the Arizona Corporation Commission (ACC) seeking approval of the proposed acquisition. The ACC released a schedule which indicates staff testimony on April 22 and any potential settlement filing on May 12, 2014. The Administrative Law Judge would commence hearings on June 16. We would anticipate that this schedule would imply a final vote on the proposed acquisition by year-end.

**Q4'13 in Line:** For the quarter the company reported ongoing earnings per share of CAD 0.47 versus CAD 0.49 consensus and our estimate of CAD 0.49. Results were driven by the contribution from Central Hudson, better results at the Canadian utilities, save Fortis Alberta, and better results in the Caribbean. These positive factors were more than offset by lower earnings at Fortis Alberta, and higher share count.

**Capital Projects on Track; Merger Approval Process a Headwind:** Capital projects remain on track with the Waneta hydro project on budget and on schedule to go into service in spring 2015. The company projected capital expenditures of CAD 6.5 billion from 2014-2018 up from a projected CAD 6.0 billion from 2013 -2017. If the UNS acquisition is successfully closed it would add CAD 1.5 billion to the capex forecast. We believe that the regulatory approval process will create a headwind to share performance in the near to intermediate term.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2013		2014		2015		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	2014	2015
Q1	0.67A	N/A	N/A	0.65E	N/A	N/A	0.73E	N/A
Q2	0.32A	N/A	N/A	0.29E	N/A	N/A	0.37E	N/A
Q3	0.23A	N/A	N/A	0.22E	N/A	N/A	0.31E	N/A
Q4	0.47A	N/A	N/A	0.46E	N/A	N/A	0.56E	N/A
Year	1.69A	1.83E	1.68E	1.67E	N/A	1.84E	1.94E	-0.59%
P/E	18.1		18.3			16.6		10%

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 8.

Stock Rating	<b>EQUAL WEIGHT</b>
	Unchanged
Industry View	<b>NEUTRAL</b>
	Unchanged
Price Target	<b>CAD 32.00</b>
	Unchanged

Price (06-Feb-2014)	CAD 30.65
Potential Upside/Downside	+4%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	6533
Shares Outstanding (mn)	213.16
Free Float (%)	99.66
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	4.2
Return on Equity TTM (%)	7.38
Current BVPS (CAD)	22.07

Source: Thomson Reuters

Price Performance	Exchange-TOR
52 Week range	CAD 35.14-29.51



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: NEUTRAL

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
EBITDA (adj)	1,393	1,436	1,550	N/A	N/A
EBIT (adj)	852	884	931	N/A	N/A
Pre-tax income (adj)	432	438	468	N/A	N/A
Net income (adj)	400	356	383	N/A	N/A
EPS (adj) (CAD)	1.69	1.68	1.84	N/A	N/A
Diluted shares (mn)	198	210	210	N/A	N/A
DPS (CAD)	1.24	1.28	1.32	N/A	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	35.9	37.1	38.7	N/A	37.2
EBIT (adj) margin (%)	22.2	22.9	23.3	N/A	22.8
Pre-tax (adj) margin (%)	12.0	12.3	12.7	N/A	12.4
Net (adj) margin (%)	8.9	9.2	9.6	N/A	9.2
ROIC (%)	6.0	6.8	6.8	N/A	6.6
ROA (%)	2.2	2.2	2.3	N/A	2.3
ROE (%)	6.3	7.0	7.4	N/A	6.9

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	11,618	11,038	11,744	N/A	N/A
Total net assets	17,908	16,036	16,515	N/A	N/A
Capital employed	14,164	13,005	13,600	N/A	N/A
Shareholders' equity	6,376	5,056	5,162	N/A	N/A
Net debt/(funds)	7,716	6,852	7,596	N/A	N/A
Cash flow from operations	899	968	1,062	N/A	N/A
Capital expenditure	-1,101	-1,385	-1,420	N/A	N/A
Free cash flow	-976	-745	-695	N/A	N/A
Pre-dividend FCF	-730	-476	-418	N/A	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	18.1	18.3	16.6	N/A	17.7
EV/EBITDA (adj) (x)	10.2	9.3	9.1	N/A	9.6
EV/EBIT (adj) (x)	16.7	15.1	15.2	N/A	15.7
P/BV (x)	1.0	1.3	1.2	N/A	1.2
Dividend yield (%)	4.0	4.2	4.3	N/A	4.2
Total debt/capital (%)	55.0	54.1	55.3	N/A	54.8
Net debt/EBITDA (adj) (x)	5.5	4.8	4.9	N/A	5.1

Selected operating metrics	Average				
Payout ratio (%)	73.5	75.4	72.2	N/A	73.7
Interest cover (x)	3.6	3.4	3.6	N/A	3.5
Regulated (%)	88.5	89.1	91.0	N/A	89.6

Price (06-Feb-2014) CAD 30.65  
Price Target CAD 32.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

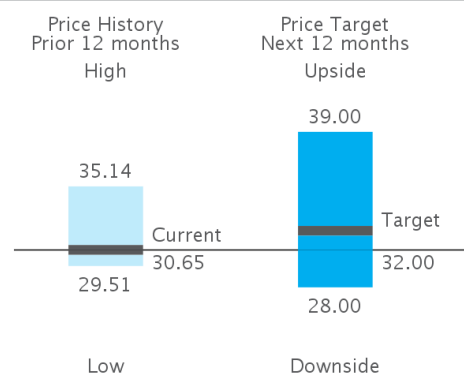
**Upside case** CAD 39.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of CAD 39.

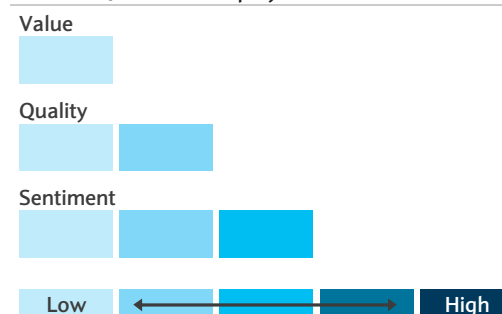
**Downside case** CAD 28.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of CAD 28.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec

## Proposed UNS Energy Acquisition

### Reviewing the Deal Terms

On December 11, 2013 the company announced the pending acquisition of UNS Energy Corporation (UNS-NR) for approximately US\$4.3 billion including the assumption of US\$1.8 billion in debt. This equates to a purchase price of US\$60.25/share for UNS. UNS will continue to pay dividends until the transaction closes. Commensurate with the announcement Fortis also announced a US\$1.594 billion aggregate principal amount convertible debt issuance with a coupon of 4%, with a private placement amount of US\$206 million and an overallotment portion of US\$239.1 million. The converts will revert to equity upon the close of the transaction at a conversion price of CAD 30.72/share.

Assumed sources and uses for the transaction are provided in the table below.

FIGURE 1

#### Assumed Sources & Uses for Fortis Inc. Acquisition of UNS, US\$ millions

Item	Amount
<b>SOURCES</b>	
UNS shares outstanding	41.5 million
Acquisition price per share	\$60.25/share
Equity	\$2,503
Debt	<u>\$1,800</u>
<b>TOTAL SOURCES</b>	<b>\$4,303</b>
<b>USES</b>	
Debt assumed	\$1,800
Debt issued (plug)	\$339
Cash (\$154 on BS as of 9/30/13)	\$125
Convertible debt to equity on close	<u>\$2,039</u>
<b>TOTAL USES</b>	<b>\$4,303</b>

New shares at convert price of CAD 30.72/share 77.4 million

Source: Fortis Inc. Press Release and Presentation, Barclays Research Estimates

At the purchase price of \$60.25/share, Fortis Inc. is paying 17.9x 2015 consensus earnings per share, 8.2x 2015 consensus EBITDA, and 2.0x estimated rate base premised upon UNS's most recent regulatory filings. Based upon the current book value of \$27.09 per share, Fortis is paying 2.2x current book value. This price looks high versus the current average multiples for US mid-cap regulated utilities of 14.7x 2015E earnings per share, 8.3x 2015E EBITDA, and 1.6x book value. The recently completed acquisition of NV Energy by Berkshire Hathaway was at a 16.4x estimated 2015 earnings per share.

We see the transaction as CAD 0.08 dilutive in 2014 including costs to close, the equity issuance required in 2014 to close the transaction, and a CAD 15 million placeholder for benefits to customers. There could be upside/downside to our numbers dependent upon the ultimate timing of the equity convert/closing, and on the ultimate benefit to ratepayers required by the ACC to approve the transaction.

### Arizona Regulator Releases Schedule for Merger Proceedings

On January 10, 2014 Fortis Inc. and UNS Energy filed a joint petition with the Arizona Corporation Commission (ACC) requesting that the ACC approve the proposed acquisition detailed above. On February 3, 2014 the ACC issued a procedural schedule for the approval process, which is provided below.

FIGURE 2  
ACC Merger Filing Procedural Schedule

Milestone	Date
ACC staff & intervening parties testimony	4/22/14
Settlement discussions begin	4/28/14
Settlement agreement, if reached, filed	5/12/14
Testimony per settlement agreement, if filed	5/30/14
Responsive testimony per settlement, if filed	6/13/14
Rebuttal testimony, if no settlement	5/7/14
ACC staff & intervening parties testimony, if no settlement	5/30/14
Filers rejoinder testimony, if no settlement	6/13/14
Administrative Law Judge hearing commences	6/16/14

Source: Fortis Inc. Press Release, Barclays Research Estimates

We believe that this schedule, if adhered to, will lead to a final decision on the transaction by the ACC before the end of the year. We would however point out, in light of the recent experience of Fortis in New York that concessions to ratepayers demanded by the regulator could lead to further negotiation and push the approval process into 2015.

## Update on Capital Projects and CapEx Forecast

### Capital Projects Update

Fortis Alberta spent CAD 22 million on the ongoing pole management program what will replace 110,000 poles through 2019. The company raised the total forecasted capital budget from CAD 327 million to CAD 353 million.

FortisBC Electric spent CAD 13 million through the end of 2013 on environmental compliance. The projects are expected to be completed this year for a total cost of CAD 27 million.

Fortis Properties is continuing construction of a 12 story office building in downtown St. John's, Newfoundland and Labrador, having spent CAD 45 million of a projected CAD 50 million budget in 2013. Construction is expected to be complete by the middle of this year.

The Waneta hydroelectric project continues with an additional CAD 143 million spend in 2013. Overall approximately CAD 579 million of the CAD 900 million budget (64%) has been spent through the end of last year. In 2013 key milestones included:

- Substantial completion of civil construction of the powerhouse and tailrace structure
- Significant progress on the intake structure
- Installation of the turbine components
- Ancillary mechanical and electrical powerhouse services
- Encapsulating the scrollcase in concrete
- Receipt of generator step up transformers and the first turbine runner on-site for assembly and installation
- Completion of the construction of the first turbine runner and turbine manufacturing system

The Waneta project remains on budget and on schedule with an expected in service date of spring 2015.

### Updated Capital Expenditure Forecast

Capital expenditures came in at CAD 1.175 million for 2013 or approximately CAD 155 million short of the forecast for the year. There were lower capital expenditures for the Waneta project due to the timing of payments. FortisBC Electric experiences lower capital expenditures than forecast in the year due to labour disruptions, which were resolved in the fourth quarter of last year. Fortis Properties capital spending was lower due to a shift in timing of spend from 2013 to 2014. Capital expenditures for the year do include CAD 57 million at Central Hudson from the date of the acquisition.

The capital expenditure forecasts for 2014 and for 2014–2018 by segment are provided in the table below.

FIGURE 3

#### Capital Expenditure Forecast for 2014 and 2014-2018, CAD Millions

Segment	2014
FortisBC Energy Companies	329
FortisAlberta	413
FortisBC Electric	130
Newfoundland Power	105
Other Regulated Electric	56
<i>Total Regulated Canadian</i>	<i>1,033</i>
CHG Energy Group	122
Caribbean	61
<i>Total Regulated</i>	<i>1,216</i>
Non-Regulated/Fortis Generation	131
Fortis Properties	83
<i>Total Non-Regulated</i>	<i>214</i>
<b>TOTAL</b>	<b>1,430</b>
	<b>2014-2018</b>
Canadian Regulated Utilities - Electric	3,250
Canadian Regulated Utilities - Gas	1,755
Central Hudson	715
Caribbean Regulated Utilities	325
Non-Regulated Operations	455
<b>TOTAL</b>	<b>6,500</b>

Source: Fortis Inc. 2013 Earnings Release, Barclays Research Estimates

### Regulatory Update

#### Combination of the Three BC Gas Utilities

In February last year the British Columbia Utilities Commission (BCUC) denied the company's request to combine its three gas utilities in British Columbia to implement common rates. The company appealed this decision and the BCUC completed the reconsideration application process in November of last year. A decision on the reconsideration is expected in the first quarter of 2014.



## Performance Based Ratemaking

The application for FEI's performance based ratemaking mechanism for 2014-2018 assumes a 2014 mid-year rate base of approximately CAD 2,789 million. The application also requests a delivery rate increase of 1.4% and a continuation of the rate making methodology for four more years. As of the beginning of the year the BCUC approved a 1.4% interim refundable delivery rate increase, with a final decision on the requested expected in the third quarter.

FortisBC Electric's application assumed a 2014 mid-year rate base of approximately CAD 1,192 million and requested a base customer rate increase of 3.3%. Similar to the ruling for FEI, the BCUC approved a 3.3% interim refundable rate as of the beginning of the year, and a final decision is also expected in the third quarter.

## Utility Asset Disposition in Alberta

In November of last year the Alberta Utility Commission (AUC) issued an order indicating that Alberta utilities would be responsible for the gains and losses related to extraordinary retirement of utility assets, although the ruling was not clear on how those requirements would be determined. FortisAlberta has appealed this ruling along with other Alberta utilities, on the grounds that the AUC decision does not provide sufficient certainty around statutory rights of utilities in the province to recover prudently incurred costs and expenses of capital investments in the utilities.

## Alberta Capital Tracker Decision

The AUC has issued a decision requiring re-filing of FortisBC Electric's capital tracker application for 2013 in May of this year. The decision sets forth the following criteria for a project to be included in the capital tracker mechanism:

- The project is outside the normal course of ongoing operations
- The project is replacing existing assets or be required by an external party
- The project has a material impact on the company's finances

The AUC has directed the company to maintain interim rates of 60% of the applied for capital tracker amounts. A decision on the refilled 2013 capital tracker is expected by the end of the year. The utility will also file a combined 2014 and 2015 capital tracker application in March.

## Caribbean Overhead Costs

In December the Government of Turks and Caicos approved Fortis Turks and Caicos's (FortisTCI) application to capitalize overhead costs not directly attributable to specific utility capital assets, but which do relate to the overall capital expenditure program of the company. In the fourth quarter FortisTCI capitalized approximately CAD 3 million which was about 14% of overhead costs for the year.

## 2013 Q4 and Annual Results

---

For the quarter the company reported ongoing earnings per share of CAD 0.47 versus CAD 0.44 last year, consensus estimates of CAD 0.49, and our estimate of CAD 0.49. For the year the company reported ongoing earnings per share of CAD 1.69 versus CAD 1.70 last year, consensus estimates of CAD 1.71 and our estimate of CAD 1.71.

The CH Energy acquisition contributed CAD 11 million in the quarter from Central Hudson slightly offset by a CAD 2 million loss at the non-regulated operations, of which Griffith Energy is now being sold. Generation results were higher as a result of better hydrology in Belize partially offset by the taxes associated with the Exploits Partnership settlement. The

Caribbean segment showed better results due to the ruling allowing FortisTCI to capitalize 14% of overhead costs in 2013. The British Columbia utilities delivered marginally higher earnings as a result of lower finance charges and rate base growth that was almost completely offset by lower allowed ROEs and a lower equity ratio at FEI. Fortis Alberta's results were lower year on year as a result of the timing of certain D&A and operating expenses and lower net transmission revenues, partially offset by rate base and customer growth.

Drivers for the year are provided in the table below.

FIGURE 4

**Q4 2013 Quarterly Earnings Variances, Year over Year**

<i>CAD millions except per share data</i>	Q4 2013	Q4 2012	Variance	EPS
FortisBC Energy Companies	50	49	1	\$ 0.01
Central Hudson	11	0	11	\$ 0.06
FortisAlberta	18	23	-5	\$ (0.03)
FortisBC Electric	13	12	1	\$ 0.01
Newfoundland Power	10	9	1	\$ 0.01
Other Canadian Electric Utilities	4	5	-1	\$ (0.01)
Caribbean Regulated Electric Utilities	8	4	4	\$ 0.02
Fortis Generation	4	2	2	\$ 0.01
Non-Regulated, Non-Utility	3	5	-2	\$ (0.01)
Corporate & Other	-21	-22	1	\$ 0.01
<b>Ongoing Earnings</b>	<b>100</b>	<b>87</b>	<b>13</b>	<b>\$ 0.07</b>
Shares Outstanding	212.7	191.0		\$ (0.05)
<b>Ongoing Earnings Per Share</b>	<b>\$ 0.47</b>	<b>\$ 0.46</b>		<b>\$ 0.01</b>

Source: Fortis Earnings Releases, Barclays Research Estimates

FIGURE 5

**2013 Annual Earnings Variances, Year over Year**

<i>CAD millions except per share data</i>	2013	2012	Variance	EPS
FortisBC Energy Companies	127	138	-11	\$ (0.06)
Central Hudson	23	0	23	\$ 0.12
FortisAlberta	94	96	-2	\$ (0.01)
FortisBC Electric	50	50	0	\$ -
Newfoundland Power	49	37	12	\$ 0.06
Other Canadian Electric Utilities	26	24	2	\$ 0.01
Caribbean Regulated Electric Utilities	23	19	4	\$ 0.02
Fortis Generation	39	17	22	\$ 0.12
Non-Regulated, Non-Utility	18	22	-4	\$ (0.02)
Corporate & Other	-96	-88	-8	\$ (0.04)
Ongoing EPS Adjustments	-10	8	-18	\$ (0.09)
<b>Ongoing Earnings</b>	<b>343</b>	<b>323</b>	<b>20</b>	<b>\$ 0.11</b>
Shares Outstanding	202.5	190.0		\$ (0.11)
<b>Ongoing Earnings Per Share</b>	<b>\$ 1.69</b>	<b>\$ 1.70</b>		<b>\$ (0.01)</b>

Source: Fortis Earnings Releases, Barclays Research Estimates

## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <http://group.barclays.com/corporates-and-institutions/research/research-policy>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 06-Feb-2014, CAD 30.65), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

## IMPORTANT DISCLOSURES CONTINUED

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrus Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	NiSource, Inc. (NI)
Northeast Utilities (NU)	OGE Energy Corp. (OGE)	Pepco Holdings (POM)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	PPL Corporation (PPL)	SCANA Corp. (SCG)
Sempra Energy (SRE)	Southern Co. (SO)	TECO Energy (TE)
Westar Energy (WR)	Wisconsin Energy (WEC)	Xcel Energy (XEL)

### Distribution of Ratings:

Barclays Equity Research has 2599 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 47% of companies with this rating are investment banking clients of the Firm.

38% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 43% of companies with this rating are investment banking clients of the Firm.

15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental

## IMPORTANT DISCLOSURES CONTINUED

analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### **Barclays offices involved in the production of equity research:**

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 30.65 (06-Feb-2014)

Stock Rating

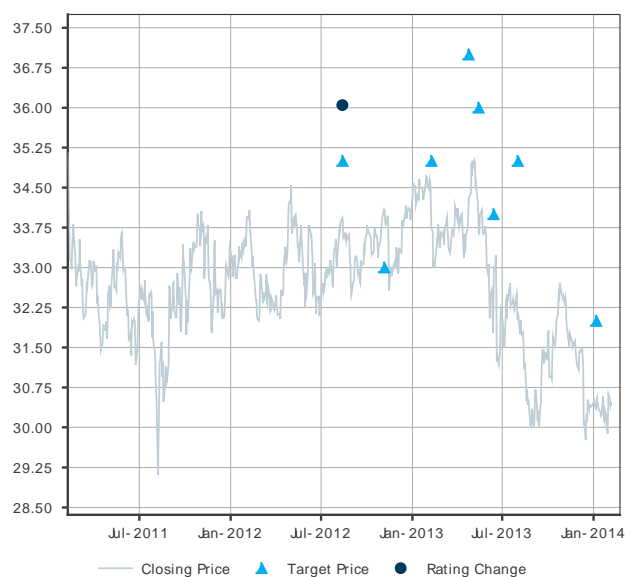
Industry View

EQUAL WEIGHT

NEUTRAL

## Rating and Price Target Chart - CAD (as of 06-Feb-2014)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
06-Jan-2014	30.35		32.00
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 32 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 14.2x our Canadian utility operations '15E EPS of CAD 1.89. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 12x based upon our estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 13.5x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 14.2x our CAD (0.35) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.13. We add \$0.06 of dilution from the UNS Energy acquisition and that impacts our valuation by CAD (1) per share.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or

services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2014). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.





Fortis Inc.

## Looking to 2016; Upping PT to C\$36

**Updating Earnings Forecast; PT to C\$36:** We are updating our eps forecast from C\$1.68/C\$1.84 to C\$1.62/C\$1.98 for '14/15 respectively and publishing a 2016 eps estimate of C\$2.14. Our '16 estimate fully incorporates the UNS Energy acquisition and a rate case at Central Hudson in 2015. We are increasing our price target from C\$32 to C\$36 as a result of moving to a 2016 valuation year and multiple expansion.

**Reiterating Equal Weight on Rate Case and Acquisition Risks:** Our C\$36 price target implies over 10% upside in the company's shares, however, we are reiterating our Equal Weight rating on risks related to our '16 estimate which presupposes a constructive outcome in the Central Hudson rate case and close of the proposed acquisition of UNS Energy. Further, given management's desire to be 50% U.S. on assets we would view another US acquisition as possible after the UNS deal is consummated.

**Q1 '14 C\$0.65:** For the qtr the company reported ongoing eps of C\$0.65 versus C\$0.67 last year, and consensus of C\$0.65. Results were driven by the earnings contribution from Central Hudson (acquired mid-year last year), better results at Newfoundland Power due to regulator approved adjustments that impacted the timing of quarterly earnings, and better results in the Caribbean driven by electricity sales growth. These positive results were offset by lower results at the British Columbia subsidiaries reflective of lower year on year allowed returns on equity and equity ratio.

**Moving Forward through UNS Process; Central Hudson Rate Case to Come:** The proposed UNS Energy acquisition continues to move through the regulatory process. We anticipate that the deal will be approved with conditions, by October, but a settlement in our view is unlikely. At Central Hudson, management expects to file a rate case in mid-2014 for rates effective mid-2015. Capital expenditures excluding UNS are expected to be C\$6.5 billion through 2018, and UNS could add C\$1.5 billion to that total. In Alberta the company continues to recover only 60% of the requested capital tracker amounts and intends to file a revised capital tracker application for 2013 -2015.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2013		2014		2015		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.67A	N/A	0.65A	0.65E	N/A	N/A	0.63E	-3%	N/A
Q2	0.32A	N/A	N/A	0.28E	N/A	N/A	0.39E	N/A	N/A
Q3	0.23A	N/A	N/A	0.23E	N/A	N/A	0.53E	N/A	N/A
Q4	0.47A	N/A	N/A	0.49E	N/A	N/A	0.45E	N/A	N/A
Year	1.69A	1.68E	1.62E	1.66E	1.84E	1.98E	1.99E	-4%	22%
P/E	19.2		20.1			16.4			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating **EQUAL WEIGHT**  
Unchanged

Industry View **NEUTRAL**  
Unchanged

Price Target **CAD 36.00**  
raised 13% from CAD 32.00

Price (07-May-2014) CAD 32.46  
Potential Upside/Downside +11%  
Tickers FTS CN / FTS.TO

Market Cap (CAD mn) 6955  
Shares Outstanding (mn) 214.28  
Free Float (%) 99.63  
52 Wk Avg Daily Volume (mn) 0.5  
Dividend Yield (%) 3.9  
Return on Equity TTM (%) 7.55  
Current BVPS (CAD) 22.38

Source: Thomson Reuters

Price Performance Exchange-TOR  
52 Week range CAD 34.88-29.51



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

## North America Utilities

Industry View: NEUTRAL

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	4,047	4,437	4,565	4,691	5.0%
EBITDA (adj)	1,393	1,446	1,580	1,680	6.5%
EBIT (adj)	852	839	927	981	4.8%
Pre-tax income (adj)	396	413	476	518	9.3%
Net income (adj)	353	333	396	433	7.1%
EPS (adj) (CAD)	1.69	1.62	1.98	2.14	8.2%
Diluted shares (mn)	209	220	272	272	9.1%
DPS (CAD)	1.25	1.29	1.33	1.37	3.1%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.4	32.6	34.6	35.8	34.4
EBIT (adj) margin (%)	21.1	18.9	20.3	20.9	20.3
Pre-tax (adj) margin (%)	10.7	9.2	10.5	11.1	10.4
Net (adj) margin (%)	10.1	8.8	9.9	10.4	9.8
ROIC (%)	7.2	5.8	6.3	6.5	6.5
ROA (%)	2.0	1.8	2.0	2.1	2.0
ROE (%)	6.9	4.6	5.4	5.8	5.6

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	11,618	12,532	13,401	14,223	7.0%
Total net assets	17,908	18,854	19,737	20,594	4.8%
Capital employed	11,786	14,370	14,773	15,125	8.7%
Shareholders' equity	5,147	7,292	7,384	7,501	13.4%
Net debt/(funds)	5,338	5,830	6,154	6,381	6.1%
Cash flow from operations	899	994	1,099	1,182	9.5%
Capital expenditure	-1,135	-1,596	-1,596	-1,596	N/A
Free cash flow	-422	-940	-909	-837	N/A
Pre-dividend FCF	-241	-657	-547	-464	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	19.2	20.1	16.4	15.2	17.7
EV/EBITDA (adj) (x)	8.8	8.8	8.3	7.9	8.5
EV/EBIT (adj) (x)	14.4	15.2	14.1	13.6	14.3
P/BV (x)	1.3	1.0	1.2	1.2	1.2
Dividend yield (%)	3.9	4.0	4.1	4.2	4.0
Total debt/capital (%)	45.9	40.7	41.7	42.3	42.6
Net debt/EBITDA (adj) (x)	3.8	4.0	3.9	3.8	3.9

Selected operating metrics	Average				
Payout ratio (%)	74.1	79.7	67.1	64.1	71.3
Interest cover (x)	3.6	3.6	3.8	3.9	3.7
Regulated (%)	87.1	86.2	86.1	86.6	86.5

Price (07-May-2014) CAD 32.46  
Price Target CAD 36.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

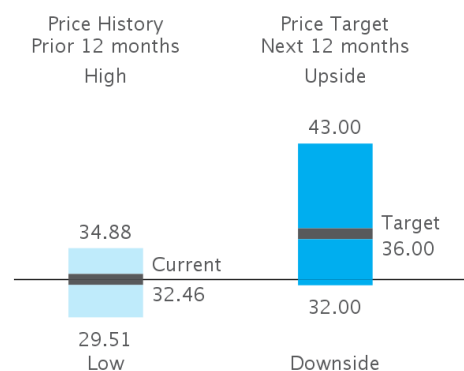
**Upside case** CAD 43.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of C\$43.

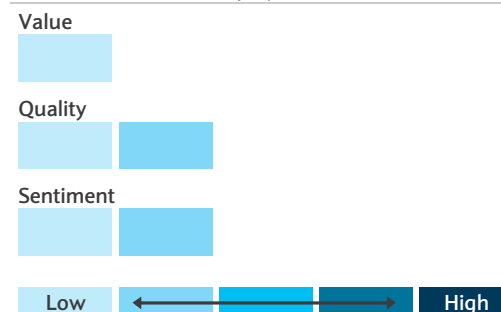
**Downside case** CAD 32.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of C\$32.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec

## Regulatory Update

---

### Proposed UNS Energy Acquisition

The company continues to be engaged in the regulatory process for potential approval of the proposed UNS Energy acquisition in Arizona before the Arizona Corporation Commission (ACC). The company and interveners and staff have all filed briefs in the case and scheduled settlement discussions are underway. If a settlement is reached it would be filed next Friday May 16<sup>th</sup>. UNS Energy shareholders and the U.S. Federal Energy Regulatory Commission approved the proposed transaction in March and April respectively.

As a reminder, Fortis has proposed to acquire UNS Energy for US\$60.25/share in cash which represents an aggregate purchase price of US\$4.3 billion, inclusive of the assumption of US\$1.8 billion in debt.

In April the ACC Staff and other interveners in the process filed direct testimony. Specifically the ACC Staff called for the following conditions to apply to the acquisition:

- Establishment of a \$60 million liability, including a one-time \$12 million bill credit for the benefit of ratepayers in future rate cases. This, in the opinion of the staff represents 90/10 sharing of the merger benefits between ratepayers and shareholders.
- Ringfencing of the utilities in Arizona from any financial distress that may be incurred by Fortis Inc. or any of its other subsidiaries. Establishment of a “golden share” to be held by an independent director whom resides in Arizona, restrictions on dividends, establishment of an independent Board of Directors for UNS Energy, and prohibition of intercompany loans and/or guarantees.
- Require ACC approval before distributing funds from UNS to Fortis for the first five years post transaction close. Also, a five year prohibition on selling or transferring ownership of any of the UNS Energy assets.
- Requirement to inform the ACC of any planned workforce reduction 120 days prior to such action
- Prohibition on allocation of any Fortis specific costs to UNS Energy for the purpose of recovery in a future rate proceeding for the first five years after transaction close.
- UNS Energy must maintain separate accounting records
- In all rate cases through 2020, the UNS regulated utilities must demonstrate that the requested increase in rates is materially lower than it otherwise would have been had the transaction not occurred.
- Fortis must hold the UNS Energy subsidiaries harmless from any impact related to fluctuations in exchange rates or incremental taxes arising from the international ownership structure.
- Fortis can infuse equity of \$357 million into UNS Energy for the purchase of Gila River Block 3 and Springville Unit 1, but this should not predetermine prudence of those investments.

The upcoming schedule is as shown below.

#### Settlement Track (if a settlement is reached and filed)

Settlement Agreement Filed

May 16, 2014

Testimony in support/opposition to Settlement	June 2, 2014
Settlement Agreement Responsive Testimony	June 13, 2014
<u>Non-Settlement Track (if no settlement is reached)</u>	
Rebuttal Testimony	May 16, 2014
ACC Staff/Intervener Rebuttal Testimony	June 2, 2014
Company Rejoinder Testimony	June 13, 2014
Administrative Law Judge Hearings Commence	June 16, 2014

### Central Hudson Rate Case

Management continues to expect to file a rate case in New York for the Central Hudson subsidiary at mid-year for rates effective mid-year of 2015. In our model we assume capital spending of C\$122 million per year, an allowed return on equity of 10.5% and a 48% equity ratio.

### Capital Tracker in Alberta

The FortisAlberta subsidiary is currently only recovering 60% of the requested amount related to growth capital expenditures within the performance based ratemaking structure approved by the Alberta Utilities Commission (AUC). The AUC will consider revised capital tracker applications this year. The company intends to file revised capital tracker applications for the years 2013 – 2015 this month. A decision is expected on the matter by the end of the year. Our model presupposes adequate recovery of growth capital expenditures, and an adverse ruling by the AUC could impact our 2016 earnings per share estimate by approximately C\$0.05/share.

### Amalgamation of Utilities in British Columbia

In February the BCUC approved the application of the company to amalgamate their regulated utility subsidiaries in British Columbia. There will be common rates for the vast majority of all natural gas customers that will be phased in over a three year period. The amalgamation still needs approval from the Lt. Governor in Council to become effective, and management expects it will be effective by the end of this year.

## Q1 Results and Capital Forecast

---

### Capital Expenditures

Capital expenditures totalled C\$237 million in the first quarter of 2014. The construction of the Waneta hydroelectric plant continued and the project continues to be on time and on budget. Expected in-service date for the 335 MW hydroelectric facility is expected in spring 2015. The project is expected to cost C\$900 million of which C\$603 million has been spent to date. The company has also begun work on the Tilbury LNG facility in British Columbia, which is estimated to cost C\$400 million and include a second LNG tank and a new liquefier and be in service by 2016. The company's capital program is expected to total C\$1.4 billion in 2014 and C\$6.5 billion through 2018. The UNS Energy acquisition would add a projected C\$1.5 billion in capital expenditures over the same time period.

### Q1 2014 Results

For the quarter the company reported earnings per share of C\$0.67 versus C\$0.79 last year. Earnings in the first quarter this year included C\$5 million of C\$0.02/share associated with Griffith Energy which was sold for US\$95 million in March. Also in this quarter earnings per share were reduced by C\$0.05 as a result of after-tax interest expenses associated with the convertible debentures issued to finance a portion of the proposed acquisition of UNS

Energy. In the first quarter of 2013 earnings included an after-tax extraordinary gain of C\$0.12/share related to the settlement of expropriation matters associated with the Exploits River Hydro Partnership in Newfoundland.

Ongoing earnings per share results were C\$0.65 for Q1 2014 versus C\$0.67 last year, and consensus estimates of C\$0.65. Results were driven by a C\$18 million contribution from Central Hudson which was acquired mid-year last year. Further, Newfoundland Power showed an increase of C\$ 3 million as a result of regulatory changes which impacted the timing of quarterly earnings. The Caribbean utilities also showed better results by C\$2 million as a result of favourable exchange rates and electricity sales growth. Excluding the charge related to the Exploits Partnership in Newfoundland non-regulated generation showed better results by C\$4 million as a result of increased production in Belize due to higher rainfall.

These positive drivers were offset by the interest expense on the convertible debentures related to the proposed UNS acquisition, and lower results by C\$6 million at the BC gas utilities related to lower allowed returns and equity ratios. The British Columbia Utility Commission (BCUC) issued an order in the second quarter of last year that lowered allowed returns to 8.75%. While the lower returns were retroactively applicable to the beginning of 2013, the earnings impacts were not booked until the second quarter, leading to the year on year lower earnings in the first quarter period.

FIGURE 1  
Segmented Results of Operations, C\$ Millions

	Q1 2014	Q1 2013	Change
Fortis BC Energy Companies	79	85	(6)
Central Hudson	18	0	18
FortisAlberta	25	26	(1)
FortisBC Electric	18	18	0
Newfoundland Power	10	7	3
Other Canadian Electric Utilities	7	6	1
Caribbean Utilities	5	3	2
Non-Regulated Fortis Generation	6	24	(18)
Non-Regulated Non-Utility	5	0	5
Corporate & Other	(30)	(18)	(12)
<b>TOTAL</b>	<b>143</b>	<b>151</b>	<b>(8)</b>
Avg. Shares Outstanding (Diluted)	213.6	192	21.6
Reported Earnings Per Share	\$0.67	\$0.79	
Exploits Partnership Gain	---	22	
Griffith Energy Sale	5	---	
Total EPS Extraordinary Items	<u>\$0.02</u>	<u>\$0.22</u>	
<b>Ongoing Earnings Per Share</b>	<b>\$0.65</b>	<b>\$0.67</b>	<b>(\$0.02)</b>

Source: Fortis Inc. Q1 2014 MD&A Filing, Barclays Research Estimates

## SOTP Valuation Methodologies

### Current Price Target

Our CAD 36 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15x our Canadian utility operations '16E EPS of C\$1.89. We apply the straight '16E multiple of 15x

our Central Hudson '16E EPS of C\$0.13. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 14.8x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.13. For unregulated generation we use a '16 power multiple of 12.7x our '16E EPS of C\$0.09. For corporate and other, inclusive of UNS Energy we use the straight '16EUS regulated utility multiple of 15x our C\$0.33 EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '16E EPS of C\$0.06.

### **Prior Price Target**

Our CAD 32 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 14.2x our Canadian utility operations '15E EPS of CAD 1.89. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '15 multiple of 12x based upon our estimates. We apply this to our Caribbean '15E EPS of CAD 0.21. For unregulated generation we use a '15 power multiple of 13.5x our '15E EPS of CAD 0.03. For corporate and other we use the straight '15 US regulated utility multiple of 14.2x our CAD (0.35) EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '15E EPS of CAD 0.13. We add \$0.06 of dilution from the UNS Energy acquisition and that impacts our valuation by CAD (1) per share.

## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <http://group.barclays.com/corporates-and-institutions/research/research-policy>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 07-May-2014, CAD 32.46), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.



## IMPORTANT DISCLOSURES CONTINUED

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrus Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	National Grid Plc (NG.L)
NiSource, Inc. (NI)	Northeast Utilities (NU)	OGE Energy Corp. (OGE)
Pepco Holdings (POM)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	PPL Corporation (PPL)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

### Distribution of Ratings:

Barclays Equity Research has 2629 companies under coverage.

45% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 45% of companies with this rating are investment banking clients of the Firm.

37% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 42% of companies with this rating are investment banking clients of the Firm.

14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 38% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

## IMPORTANT DISCLOSURES CONTINUED

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### **Barclays offices involved in the production of equity research:**

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Bank Limited (Absa, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 32.46 (07-May-2014)

Stock Rating

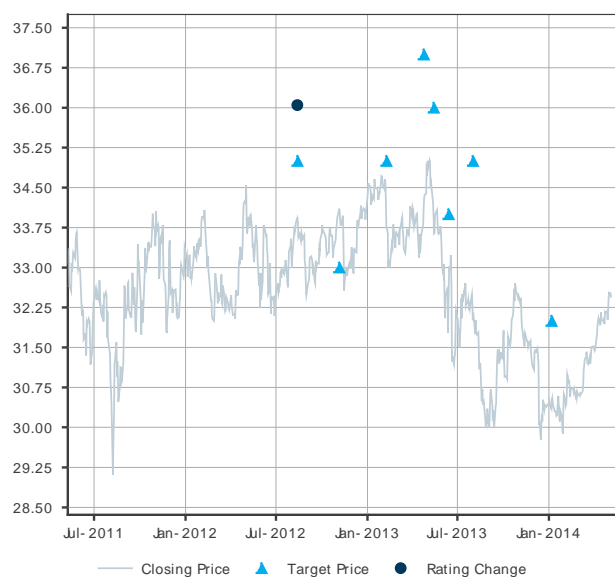
Industry View

EQUAL WEIGHT

NEUTRAL

## Rating and Price Target Chart - CAD (as of 07-May-2014)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
06-Jan-2014	30.35		32.00
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our CAD 36 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2015 US regulated utility multiple of 15x our Canadian utility operations '16E EPS of C\$1.89. We apply the straight '16E multiple of 15x our Central Hudson '16E EPS of C\$0.13. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 14.8x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.13. For unregulated generation we use a '16 power multiple of 12.7x our '16E EPS of C\$0.09. For corporate and other, inclusive of UNS Energy we use the straight '16EUS regulated utility multiple of 15x our C\$0.33 EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '16E EPS of C\$0.06.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This material has been issued and approved for distribution in the UK and European Economic Area ("EEA") by Barclays Bank PLC. It is being made available primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, the Corporate & Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of the Corporate & Investment Banking Division of Absa Bank Limited in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Bank Limited is a member of the Barclays group.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE) | Corporate Identification Number: U67120MH2006PTC161063 | Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays

Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2014). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## Q2 EPS \$0.28; Investor Day October 1

**Reiterating Equal Weight; Like UNS Deal Vote in mid-August:** We are reiterating our Equal Weight rating, our price target of C\$36 and our earnings per share estimates of C\$1.62/C\$2.02/C\$2.20 for '14/15/16, respectively. The company announced in its MD&A with the quarter that it will be holding an investor day in Toronto on October 1. As a reminder the company is pursuing the acquisition of Arizona based UNS Energy for US\$60.25/share, initiated in December of last year. The aggregate price is approximately US\$4.3 Billion including the assumption of approximately US\$1.8 Billion of debt on closing. On July 29 the administrative law judge in Arizona issued a recommended order approving the transaction which will now go to the Arizona Corporation Commission (ACC) for a vote. Consideration of the deal has been tentatively scheduled for the ACC open meeting on August 12 – 13, and if approved at that meeting management indicated an expected close by the end of August.

**Q2 EPS C\$0.28, Excluding Interest on Convertible Bond Issued for UNS Deal:** For the quarter the company reported ongoing earnings per share of C\$0.28 versus C\$0.32 last year, consensus estimates of C\$0.27, and our estimate of C\$0.29. The results do not include C\$13 post-tax, or C\$0.06/share of interest expenses associated with the convertible debentures issued to finance a portion of the pending acquisition of UNS Energy, discussed above.

**Waneta on Schedule; Tilbury LNG Commences:** Construction of the 335MW, C\$900million Waneta hydroelectric power plant remains on schedule for an in-service date in the spring of next year. Of the budget C\$633 million or approximately 70% has been spent to date. The Tilbury LNG project, which will constitute a C\$400 million capital investment commenced in the quarter and is expected to be in service in the second half of 2016. Capital expenditures for 2014 are expected to be C\$1.4 Billion and management continues to anticipate a total capital program through 2018 exceeding C\$6.5 Billion, not inclusive of the projected C\$1.5 Billion capital program over that same frame forecast by UNS Energy.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2013		2014		2015		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.67A	0.65A	0.65A	0.65A	N/A	N/A	0.66E	-3%	N/A
Q2	0.32A	N/A	0.28A	0.27E	N/A	N/A	0.37E	-12%	N/A
Q3	0.23A	N/A	N/A	0.21E	N/A	N/A	0.52E	N/A	N/A
Q4	0.47A	N/A	N/A	0.49E	N/A	N/A	0.45E	N/A	N/A
Year	1.69A	1.62E	1.62E	1.61E	1.98E	2.02E	2.00E	-4%	25%
P/E	19.9		20.7			16.6			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

Stock Rating	<b>EQUAL WEIGHT</b>
	Unchanged
Industry View	<b>NEUTRAL</b>
	Unchanged
Price Target	<b>CAD 36.00</b>
	Unchanged

Price (31-Jul-2014)	CAD 33.55
Potential Upside/Downside	+7%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	7225
Shares Outstanding (mn)	215.34
Free Float (%)	99.59
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	3.8
Return on Equity TTM (%)	7.58
Current BVPS (CAD)	22.91

Source: Thomson Reuters

Price Performance	Exchange-TOR
52 Week range	CAD 33.88-29.51



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

<b>North America Utilities</b>	<b>Industry View: NEUTRAL</b>
<b>Fortis Inc. (FTS.TO)</b>	<b>Stock Rating: EQUAL WEIGHT</b>

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	4,047	4,437	4,575	4,711	5.2%
EBITDA (adj)	1,393	1,446	1,587	1,693	6.7%
EBIT (adj)	852	839	934	993	5.2%
Pre-tax income (adj)	396	413	484	533	10.4%
Net income (adj)	353	333	403	446	8.1%
EPS (adj) (CAD)	1.69	1.62	2.02	2.20	9.3%
Diluted shares (mn)	209	219	270	270	8.9%
DPS (CAD)	1.25	1.29	1.33	1.37	3.1%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.4	32.6	34.7	35.9	34.4
EBIT (adj) margin (%)	21.1	18.9	20.4	21.1	20.4
Pre-tax (adj) margin (%)	10.7	9.2	10.6	11.3	10.5
Net (adj) margin (%)	10.1	8.8	10.1	10.7	9.9
ROIC (%)	7.2	5.8	6.4	6.6	6.5
ROA (%)	2.0	1.8	2.1	2.2	2.0
ROE (%)	6.9	4.6	5.5	5.9	5.7

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	11,618	12,532	13,233	13,899	6.2%
Total net assets	17,908	18,855	19,605	20,304	4.3%
Capital employed	11,786	14,370	14,688	14,955	8.3%
Shareholders' equity	5,147	7,293	7,393	7,526	13.5%
Net debt/(funds)	5,338	5,829	6,026	6,157	4.9%
Cash flow from operations	899	994	1,106	1,196	10.0%
Capital expenditure	-1,135	-1,596	-1,423	-1,436	N/A
Free cash flow	-422	-940	-726	-660	N/A
Pre-dividend FCF	-241	-657	-367	-290	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	19.9	20.7	16.6	15.3	18.1
EV/EBITDA (adj) (x)	9.0	9.0	8.3	7.9	8.6
EV/EBIT (adj) (x)	14.7	15.5	14.2	13.4	14.5
P/BV (x)	1.4	1.0	1.2	1.2	1.2
Dividend yield (%)	3.7	3.8	4.0	4.1	3.9
Total debt/capital (%)	45.9	40.7	41.3	41.5	42.3
Net debt/EBITDA (adj) (x)	3.8	4.0	3.8	3.6	3.8

Selected operating metrics	Average				
Payout ratio (%)	74.1	79.6	65.8	62.3	70.4
Interest cover (x)	3.6	3.6	3.8	3.9	3.7
Regulated (%)	87.1	86.2	85.9	86.2	86.3

Price (31-Jul-2014)	CAD 33.55
Price Target	CAD 36.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

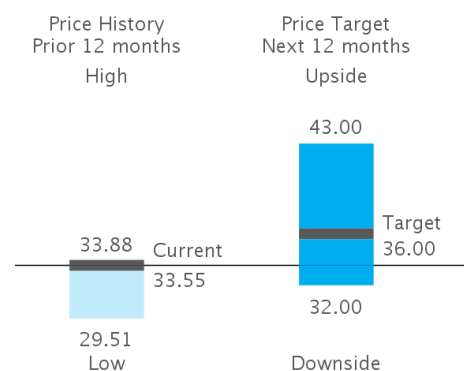
<b>Upside case</b>	<b>CAD 43.00</b>
--------------------	------------------

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of C\$43.

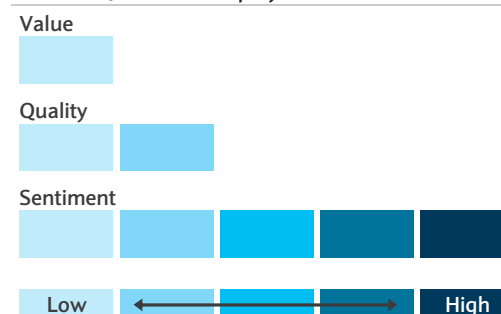
<b>Downside case</b>	<b>CAD 32.00</b>
----------------------	------------------

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of C\$32.

#### Upside/Downside scenarios



#### POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec



## Pending UNS Energy Acquisition and Corporate Strategy

On July 29, the assigned administrative law judge at the Arizona Corporation Commission (ACC) issued a recommended order approving the acquisition of UNS Energy by Fortis, in line with the already issued to settlement agreement. Consideration of the recommended order has been scheduled for the ACC open meeting to be held on August 12 – 13 of this year. If the vote is held at that meeting, and the acquisition, as we expect, is approved, management indicated that they would be able to close the deal by the end of August.

Management believes this acquisition is consistent with their stated long term strategy of geographic diversification as post the UNS deal, should it be approved and close, the company's rate base will increase by US\$3 Billion and no more than one-third of the company's total asset base will be in any single regulatory jurisdiction. Over the intermediate to longer term we believe the company would prefer to get to a position where 50% of their asset base is in the US and 50% is in Canada. This, in our view, would require acquisition of US based assets in the US\$4 - US\$6 Billion range over time. In our view, if the company reached a half and half asset disposition pursuit of a US listing of the shares would potentially be a next logical step in management's strategic thought process.

## Capital Program and Project Updates

For the first half of the year consolidated capital expenditures were C\$535 million and management anticipates that the five year capital program through 2018 remains unchanged with a forecast of C\$6.5 Billion. This does not include the currently forecast C\$1.5 Billion over that same timeframe for UNS Energy. Management indicated that they expected this capital program to grow rate base by an annual rate of approximately 7% over the next five years. The composition of the C\$6.5 Billion plus capital program is expected to break down as: 50% Canadian regulated electric utilities, mostly at FortisAlberta; 26% at Canadian regulated gas utilities; 12% at Central Hudson; 5% at Caribbean utilities; and, 7% at non-regulated activities. Of the overall total 46% is expected to be sustaining capital, 37% will be to meet customer growth, and the remaining 17% will be for facilities, equipment, vehicles, IT, and other assets.

The Waneta hydroelectric plant construction project continues to come in on budget at C\$900 million and remains on schedule for an in service date in the spring of next year. Since construction commenced in 2010 approximately 70% of the budget has been spent to date (\$633 million). C\$54 million was invested in the first half of 2014. Key construction activities during the first half of the year included forming and casting on concrete at the intake structure, forming of the power tunnel transition and excavation of the tailrace channel. Equipment installation and assembly continued on generator components, powerhouse mechanical and electric auxiliary systems. Testing was performed on several systems and the construction of the 230kV transmission line was completed and is expected to be energized in September.

Meanwhile the company has commenced the first of potentially several investment projects related to LNG in British Columbia. The C\$400 million Tilbury LNG project will consist of construction of a second tank at the Tilbury site and a new liquefier. Both components of the project are expected to be in service in the second half of 2016. FortisBC is pursuing additional LNG related investment opportunities in British Columbia that are not included in the current capital plan. These include a further expansion at the Tilbury LNG site, and a potential pipeline expansion for the proposed Woodfibre LNG site. The pipeline for Woodfibre would scope to an approximate C\$400 million in capital project.

## Regulatory Updates

### Central Hudson Rate Case

In July the Central Hudson subsidiary filed a general rate case in New York seeking a rate increase in July 2015. The filing request a US\$40.1 million electric revenue increase and a US\$5.9 million gas revenue increase under docket numbers 14-E-0318 and 14-G-0319 respectively. The requested increases are premised upon a 9% allowed return on equity and a 48% equity ratio applied to average rate bases of US\$850.8 million for electric and \$282.8 million for gas based upon a fully forecasted test year ending mid-year 2016. We anticipate approval of an allowed return on equity range of approximately 150bps above/below the mid-point; therefore, in our model we assume capital spending of C\$122 million per year, an allowed return on equity of 10.5% and a 48% equity ratio.

### Capital Tracker in Alberta

The FortisAlberta subsidiary is currently only recovering 60% of the requested amount related to growth capital expenditures within the performance based ratemaking structure approved by the Alberta Utilities Commission (AUC). The company filed revised capital tracker applications for the years 2013 – 2015 requesting C\$23 million for 2013, C\$48 million for 2014, and C\$69 million for 2015. A hearing on the capital tracker application is scheduled for October. Our model presupposes adequate recovery of growth capital expenditures, and an adverse ruling by the AUC could impact our 2016 earnings per share estimate by approximately C\$0.05/share. The impacts of any decision by the AUC will be recognized in the consolidated financial statements in the quarter in which the decision is rendered.

### Amalgamation of Utilities in British Columbia

In February the BCUC approved the application of the company to amalgamate their regulated utility subsidiaries in British Columbia. There will be common rates for the vast majority of all natural gas customers that will be phased in over a three year period. The amalgamation received approval from the Lt. Governor in Council in May and is expected to become effective on December 31.

Ongoing regulatory proceedings are outlined in the table below.

FIGURE 1  
Ongoing Regulatory Proceedings

Regulated Utility	Application/Proceeding	Filing Date	Expected Decision
FEI	PBR Plan for 2014 – 18	June 2013	2H 2014
FortisBC Electric	PBR Plan for 2014 – 18	July 2013	2H 2014
FortisAlberta	Cost of Capital '13/14	N/A	4Q 2014
FortisAlberta	Capital Tracker 2013 -15	May 2014	1Q 2015
Central Hudson	General Rate Case	July 2014	1H 2015

Source: Q2 2014 Fortis Inc. MD&A Filing, Barclays Research Estimates

## Q2 2014 Results

For the quarter the company reported ongoing earnings per share of C\$0.28 versus C\$0.32 last year, consensus estimates of C\$0.27 and our estimates of C\$0.29. The quarterly results in both periods excluded several tax and acquisition related items.

The Q2 2014 excluded C\$13 post-tax, or \$C0.06 per share, related to C\$1.8 billion in convertible debentures with a 4% coupon issued to fund a portion of the pending UNS Energy acquisition. Earnings in the second quarter excluded a C\$32 million or C\$0.17/share in costs related to the acquisition of Central Hudson. There were C\$1 million of acquisition

related expenses in the Q2 2014 related to the pending acquisition of UNS Energy. Earnings in Q2 2013 also excluded a tax recovery of C\$25 million of C\$0.13/share related to the enactment of higher deductions associated with the Part VI.1 tax on preferred share dividends.

Earnings at the FortisBC energy companies were consistent with the second quarter of last year excluding a C\$5 million reduction in earnings in Q2 2013 related to the retroactive booking to the beginning of the 2013 in impact of the cost of capital decision in British Columbia. Central Hudson did not contribute to earnings in Q2 2013, however, on an apples to apples basis, earnings at Central Hudson were lower by C\$2 million related to higher D&A and other capital investment related expenses during the two year rate freeze period. In Alberta results were broadly consistent with last year as were results at the electric utility in British Columbia. Newfoundland Power results were lower by C\$13 million which was related to a tax recovery booked in Q2 2013. Other Canadian Utilities also saw a year over year decrease related to tax recovery bookings in the same quarter last year. Caribbean utilities saw better results be C\$2 million as a result of electricity sales growth and favorable exchange rate movements, as well as warmer temperatures and higher air conditioning load on Grand Cayman. Fortis Generation results increased by C\$2 million mainly due to higher volumes as a result of better hydrological conditions in Belize.

Segmented year over year results are provided in the table below.

FIGURE 2

**Segmented Results of Operations, C\$ Millions except per share data**

	Q2 2014	Q2 2013	Change
Fortis BC Energy Companies	12	6	6
Central Hudson	7	0	7
FortisAlberta	26	25	1
FortisBC Electric	7	8	(1)
Newfoundland Power	11	24	(13)
Other Canadian Electric Utilities	5	9	(4)
Caribbean Utilities	8	6	2
Non-Regulated Fortis Generation	6	4	2
Non-Regulated Non-Utility	7	8	(1)
Corporate & Other	(42)	(36)	(6)
<b>TOTAL</b>	<b>47</b>	<b>54</b>	<b>(7)</b>
Avg. Shares Outstanding (Diluted)	215.4	193.4	22
Reported Earnings Per Share	\$0.26	\$0.29	
Total EPS Extraordinary Items	<u>\$0.02</u>	<u>\$0.03</u>	
<b>Ongoing Earnings Per Share</b>	<b>\$0.28</b>	<b>\$0.32</b>	<b>(\$0.04)</b>

Source: Fortis Inc. Q2 2014 Fortis Inc. MD&A Filing, Barclays Research Estimates

## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <http://group.barclays.com/corporates-and-institutions/research/research-policy>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 31-Jul-2014, CAD 33.55), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

**IMPORTANT DISCLOSURES CONTINUED**

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

**Guide to the Barclays Fundamental Equity Research Rating System:**

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

**Stock Rating**

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

**Industry View**

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

**North America Utilities**

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrus Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	National Grid Plc (NG.L)
NiSource, Inc. (NI)	Northeast Utilities (NU)	OGE Energy Corp. (OGE)
Pepco Holdings (POM)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	PPL Corporation (PPL)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

**Distribution of Ratings:**

Barclays Equity Research has 2581 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 56% of companies with this rating are investment banking clients of the Firm.

39% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Firm.

14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 43% of companies with this rating are investment banking clients of the Firm.

**Guide to the Barclays Research Price Target:**

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

**Guide to the POINT® Quantitative Equity Scores:**

## IMPORTANT DISCLOSURES CONTINUED

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### **Barclays offices involved in the production of equity research:**

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Bank Limited (Absa, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 33.55 (31-Jul-2014)

Stock Rating

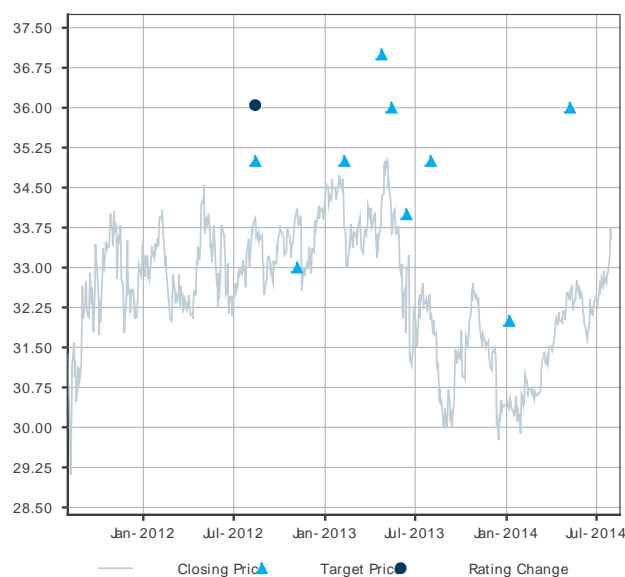
EQUAL WEIGHT

Industry View

NEUTRAL

## Rating and Price Target Chart - CAD (as of 31-Jul-2014)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
08-May-2014	32.38		36.00
06-Jan-2014	30.35		32.00
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our C\$36 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2016 US regulated utility multiple of 14.4x our Canadian utility operations '16E EPS of C\$1.41. We apply the straight '16E multiple of 14.4x our US Utility operations '16E EPS of C\$0.13. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 15.3x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.15. For unregulated generation we use a '16 power multiple of 15.6x our '16E EPS of C\$0.10. For corporate and other, we use the straight '16E US regulated utility multiple of 14.4x our C\$0.34 EPS for the segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '16E EPS of C\$0.07.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This material has been issued and approved for distribution in the UK and European Economic Area ("EEA") by Barclays Bank PLC. It is being made available primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, the Corporate & Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of the Corporate & Investment Banking Division of Absa Bank Limited in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Bank Limited is a member of the Barclays group.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE) | Corporate Identification Number: U67120MH2006PTC161063 | Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays



Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2014). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## PT to C\$40: A Shift from Acquisition to Organic Growth Going Forward

**Reiterating Equal Weight:** We are reiterating our Equal Weight rating and increasing our price target from C\$36 to C\$40 premised upon multiple expansion and inclusion of partial valuation of the upside related to potential LNG opportunities in British Columbia. We are updating our earnings per share forecast to C\$1.72/C\$1.99/C\$2.17 from C\$1.62/C\$2.02/C\$2.20.

**Shift to Organic Growth:** On the conference call management indicated a shift from acquisition driven growth to a focus on organic growth opportunities within the company's expanded geographic footprint. Most prominent of these are opportunities currently being explored for LNG in British Columbia and generation diversity investment in Arizona, inclusive of renewable resources. On an asset basis the company now has 32% of total assets in British Columbia and 57% of total assets in Canada. Management did not discount the potential for renewed acquisition growth to achieve its stated long-term goal of 50/50 Canadian/US asset distribution, but noted that the focus for the next 18-24 months would be on organic growth opportunities.

**3Q Beat of \$0.33 with Acquisition Cost Adjustments:** For the quarter the company reported earnings per share of C\$0.06 versus C\$0.23 last year. Adjusting for both one-time acquisition costs and the interest on convertible debentures related to the UNS acquisition completed in the quarter by adding back C\$0.16 and C\$0.11, respectively, yields the adjusted earnings per share number for the quarter of C\$0.33. Earnings were mostly driven by the inclusion of C\$37 million from the UNS subsidiary versus last year, offset by higher corporate costs. Management indicated on the conference call that it expects corporate costs to be higher going forward as a result of increased financing costs related to funding at the parent for the UNS acquisition.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2013		2014		2015		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.67A	0.65A	0.65A	0.65A	N/A	N/A	0.61E	-3%	N/A
Q2	0.32A	0.28A	0.28A	0.22A	N/A	N/A	0.39E	-12%	N/A
Q3	0.23A	N/A	0.33A	0.26E	N/A	N/A	0.50E	43%	N/A
Q4	0.47A	N/A	0.46E	0.51E	N/A	N/A	0.48E	-2%	N/A
Year	1.69A	1.62E	1.72E	1.66E	2.02E	1.99E	1.99E	2%	16%
P/E	22.2		21.8			18.8			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating **EQUAL WEIGHT**  
Unchanged

Industry View **NEUTRAL**  
Unchanged

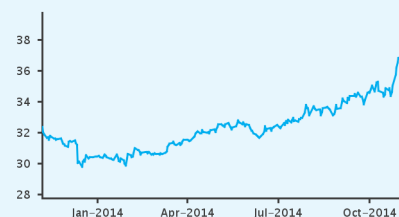
Price Target **CAD 40.00**  
raised 11% from CAD 36.00

Price (06-Nov-2014) CAD 37.42  
Potential Upside/Downside +7%  
Tickers FTS CN / FTS.TO

Market Cap (CAD mn) 10263  
Shares Outstanding (mn) 274.26  
Free Float (%) 99.64  
52 Wk Avg Daily Volume (mn) 0.6  
Dividend Yield (%) 3.4  
Return on Equity TTM (%) 6.98  
Current BVPS (CAD) 22.73

Source: Thomson Reuters

Price Performance Exchange-TOR  
52 Week range CAD 37.93-29.51



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

North America Utilities	Industry View: NEUTRAL
Fortis Inc. (FTS.TO)	Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	4,047	4,429	4,433	4,485	3.5%
EBITDA (adj)	1,393	1,438	1,534	1,646	5.7%
EBIT (adj)	852	832	881	939	3.3%
Pre-tax income (adj)	396	406	442	496	7.8%
Net income (adj)	353	325	363	415	5.6%
EPS (adj) (CAD)	1.69	1.72	1.99	2.17	8.8%
Diluted shares (mn)	209	218	265	268	8.6%
DPS (CAD)	1.25	1.29	1.33	1.37	3.1%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.4	32.5	34.6	36.7	34.5
EBIT (adj) margin (%)	21.1	18.8	19.9	20.9	20.2
Pre-tax (adj) margin (%)	10.7	9.1	10.0	11.1	10.2
Net (adj) margin (%)	10.1	8.6	9.5	10.5	9.7
ROIC (%)	7.2	5.8	5.9	6.1	6.3
ROA (%)	2.0	1.7	1.8	2.0	1.9
ROE (%)	6.9	4.5	4.9	5.4	5.4

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	11,618	12,520	13,596	14,774	8.3%
Total net assets	17,908	18,856	20,485	21,180	5.8%
Capital employed	11,786	14,374	14,884	15,266	9.0%
Shareholders' equity	5,147	7,287	7,454	7,660	14.2%
Net debt/(funds)	5,338	5,822	5,612	6,284	5.6%
Cash flow from operations	899	986	1,063	1,171	9.2%
Capital expenditure	-1,135	-1,582	-1,819	-1,984	N/A
Free cash flow	-422	-932	-1,155	-1,228	N/A
Pre-dividend FCF	-241	-651	-803	-861	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	22.2	21.8	18.8	17.2	20.0
EV/EBITDA (adj) (x)	11.2	11.2	10.4	10.1	10.7
EV/EBIT (adj) (x)	18.3	19.3	18.0	17.6	18.3
P/BV (x)	1.5	1.1	1.3	1.3	1.3
Dividend yield (%)	3.3	3.4	3.6	3.7	3.5
Total debt/capital (%)	45.9	40.8	41.7	41.8	42.5
Net debt/EBITDA (adj) (x)	3.8	4.0	3.7	3.8	3.8

Selected operating metrics	Average				
Payout ratio (%)	74.1	75.0	66.8	63.1	69.8
Interest cover (x)	3.6	3.6	3.8	4.0	3.7
Regulated (%)	92.2	78.1	58.6	62.7	72.9

Price (06-Nov-2014)	CAD 37.42
Price Target	CAD 40.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

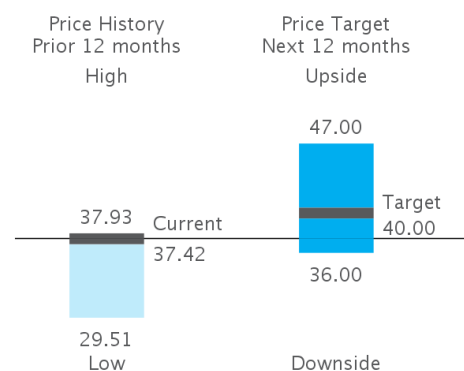
<b>Upside case</b>	<b>CAD 47.00</b>
--------------------	------------------

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of C\$47.

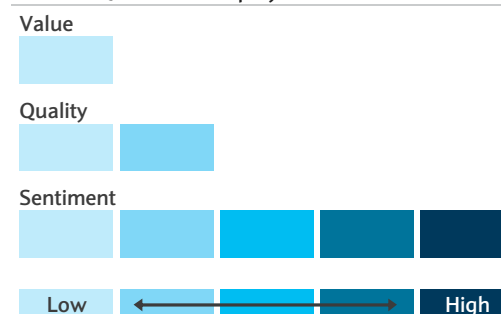
<b>Downside case</b>	<b>CAD 36.00</b>
----------------------	------------------

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of C\$36.

#### Upside/Downside scenarios



#### POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec

## Project and Regulatory Update

---

### Project Update

#### *Waneta Hydroelectric Facility*

The Waneta Hydroelectric facility remains on track and on budget for final completion in the spring of 2015. On the conference call management indicated a refined timeline of April – May of next year. Approximately slightly under \$650 million has been spent on the project to date since the commencement of construction activities in 2010. A total of \$69 million of this has been invested in 2014. The project is expected to cost \$900 million at completion, and the facilities' output will be sold through long-term purchased power agreements. So far this year major construction activity has focused on concrete work at the intake structure, civil construction of one of two power tunnel transitions, and excavation of the tailrace channel, all of which have been substantially completed.

#### *Tilbury LNG Expansion Phase 1A*

In October the company commenced construction of the C\$400 million project to expand the Tilbury LNG facility in British Columbia. The project will include a second LNG tank at the site as well as a new liquefier. The project is expected to be in service in the second half of 2016. The Tilbury site has thirty-five acres of LNG available land with ocean access and there are opportunities available for expansion. The project would go into rate base for recovery in British Columbia.

#### *Tilbury LNG Phase 1B and Woodfibre LNG Pipeline*

The company also provided an update to their opportunity for further capital deployment and organic growth related to LNG expansions in British Columbia. These opportunities allow for leveraging the existing infrastructure at the company to cost effectively and quickly bring LNG supplies to the marketplace. The next phase at the Tilbury site has been proposed and would expand in order to export LNG from British Columbia to Hawaii. This is called Phase 1B and constitutes a C\$450 million capital opportunity. Currently the import of LNG from the Tilbury site is awaiting approval from the Hawaii Public Service Commission.

The company is also currently negotiating a transfer agreement with the owner of the Woodfibre LNG facility in British Columbia. This project, if commenced would constitute building out pipeline capacity to transport natural gas for liquefaction to the facility. It is projected to cost C\$900 million.

Both projects would go into rate base for recovery in British Columbia. The British Columbian government did modify the taxes related to LNG exports, but we do not believe this significantly changes the economic dynamics for the company to invest in these projects. It is likely in our view that the management team contemplated potential tax changes when determining whether to invest in the projects. The changes essentially allow for a tier 1 tax to apply up through the company's capital costs are recovered after which a tier 2 tax would apply. Even with the additional taxes, it is likely that LNG from British Columbia would remain significantly competitive versus the low sulphur diesel alternative in Hawaii.

### Updated Capital Forecast

Management expects a capital budget for the current year of approximately C\$1.8 billion, and so far this year C\$875 million of that has been spent. Spending will be significantly weighted to the fourth quarter as a result of the close of the UNS transaction and no equivalent spending in the first three quarters for that unit, the commencement of the Tilbury LNG project, which will approximate \$100 million in spending in the fourth quarter

and the investment by UNS in the Gila River plant set to close in December for US\$219 million.

Overall management anticipates a capital budget, not inclusive of LNG expansion opportunities or additional renewable resources of C\$9 billion for the period 2014 through 2018 with the approximate breakdown of 37% at Canadian electric utilities, 33% at US electric and gas utilities, 22% at Canadian gas utilities, 5% in the Caribbean, and the remaining 3% at non-regulated operations. The breakdown will also be 46% for sustaining capital expenditures, 37% to meet customer growth, and 17% for facilities, equipment, vehicles, information technology, and other assets.

### **Properties Strategic Review Continues**

The review of the Fortis Properties segment which owns hotels throughout Canada and commercial property mostly in Atlantic Canada was announced in early October in conjunction with the company's Analyst Day in Toronto. That process is continuing and no results are expected until the middle of next year. Several options for the business remain on the table including but not limited to sale of all or a portion of the assets, a sale of shares of Fortis Properties, or an initial public offering.

### **Regulatory Activity Update**

#### *Central Hudson General Rate Increase*

In July the Central Hudson subsidiary in New York filed a general rate case for increased electric and gas delivery rates effective on July 1 next year. The rate case requests a US\$40.1 million rate increase (+14.8%) at the electric segment premised upon a average rate base of approximately US\$850 million, a 48% equity ratio, and an allowed return on equity of 9%. At the gas segment the filing requests a US\$5.9 million rate increase (+7.4%) premised upon a rate base of US\$282.8 million, a 48% equity ratio and an allowed return on equity of 9%. The utility is currently under a rate freeze ending on July 1 of next year and is regulated with an allowed return on equity of 10%.

New York regulators are also pursuing a complete review of regulatory structures in that state and are likely to change the regulatory construct going forward to encourage significantly more energy efficiency, demand side management, and distributed generation. Also in New York the companies in that state are likely to form a "NY TransCo" for go forward large scale transmission projects, in which Central Hudson will play a role.

#### *Alberta Regulatory Proceedings*

In Alberta, for electric utility subsidiary FortisAlberta there are ongoing regulatory proceedings underway regarding the generic cost of capital for 2013 and 2014 with a decision expected before year-end. Also the capital tracker applications are ongoing with a decision expected in the first quarter of next year. The company continues to book capital tracker revenues using the interim 60% factor, and will move to the newly approved 90% interim factor in 2015. When making the capital tracker filing for 2015 the company used a factor of 100% in their request. The subsidiary also filed a 2015 general rates application in September proposing rates effective on an interim basis on January 1 until an Alberta Utility Commission ruling, increasing the distribution component of rates by approximately 10%. This filing used a combined inflation and productivity factor of 1.49%, a 100% k-factor capital tracker request of approximately C\$69 million, and a net refund of Y factor balances of approximately C\$1 million.

#### *Generation Expansion in the Caribbean*

In October the Electric Regulatory Authority (ERA) on Grand Cayman indicated the Caribbean Utilities was the successful bidder in the open procurement for new generation. As a result this segment will spend US\$85 million on a new 39.7MW diesel power plant

composed of two 18.5MW diesel units and a 2.7MW waste heat recovery steam turbine on the island. The plant is expected to go into service no later than mid-2016.

## Third Quarter Results; Updating Our Numbers

For the quarter the company reported earnings per share of C\$0.06 versus C\$0.23 last year. When adding back for one-time acquisition related costs of C\$30 million related to customer benefits given to close the UNS deal, C\$23 million related to interest on the convertible debentures used to partially fund the UNS deal, and C\$5 million related to fees to close the UNS deal, reported earnings were C\$0.33 versus C\$0.23 last year.

FIGURE 1

### Q3 2014 Earnings Summary

(C\$M except per share)	Q3 2014	Q3 2013	Change
Basic EPS	\$0.06	\$0.23	(\$0.17)
Net Earnings	\$14	\$48	(\$34)
<u>Adjustments</u>			
Acquisition costs	\$35	\$0	\$35
Interest on Convertibles	\$23	\$0	\$23
Adjusted Net Earnings	\$72	\$48	\$24
Adjusted EPS	\$0.33	\$0.23	\$0.10

Source: Fortis Inc. Q3 2014 Earnings Conference Call Presentation, Barclays Research Estimates

### Updating our Numbers

For the current year we have increased our contribution from the UNS acquisition as well as increase our exchange rate assumptions related to the stronger US\$ leading to higher earnings contributions from the now larger US segment. We are updating our earnings per share forecast to C\$1.72/C\$1.99/C\$2.17 from C\$1.62/C\$2.02/C\$2.20.

We are reiterating our Equal Weight rating and are moving our price target from C\$36 to C\$40 as a result of multiple expansion and inclusion of a proportion of the upside related to potential LNG opportunities into our valuation.

### Valuation Methodologies

Current Price Target: Our C\$40 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 16% premium to the 2016 US regulated utility multiple of 15.9x our Canadian utility operations '16E EPS of C\$1.47. We apply the straight '16E multiple of 15.9x our US Utility operations '16E EPS of C\$0.71. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 15.3x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.15. For unregulated generation we use a '16 power multiple of 14.8x our '16E EPS of C\$0.09. For corporate and other, we use the straight '16E US regulated utility multiple of 15.9x our (C\$0.25) EPS for the segment. To this we add a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2016 at a 10% discount rate and applying a 15.9x multiple and a 50% probability of completion.

Prior Target: Our C\$36 price target for Fortis was premised upon a sum-of-the-parts (SOTP) methodology. We apply a 20% premium to the 2016 US regulated utility multiple of 14.4x our Canadian utility operations '16E EPS of C\$1.41. We apply the straight '16E multiple of 14.4x our US Utility operations '16E EPS of C\$0.13. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 15.3x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.15. For unregulated generation we use a '16 power multiple of 15.6x our '16E EPS of C\$0.10. For corporate and other, we use the straight '16E US regulated utility multiple of 14.4x our C\$0.34 EPS for the

segment. To this we add a valuation for the real estate operations based on a 5% cap rate (implying a 20x multiple) on our '16E EPS of C\$0.07.

### A Closer Look at Results by Segment

Exchange rates due to the strengthening US\$ versus the C\$ were a significant help to results in the quarter given the now larger US segment contribution after the close of the UNS deal. Management indicated they expect the accretion from the UNS deal to be greater than originally estimated as a result of a stronger US\$ and lower financing costs than originally assumed. The UNS deal also closed earlier in the year than originally anticipated. In the quarter the UNS subsidiary contributed C\$37 million to results. Results at Central Hudson were lower year over year by US\$4 million despite higher exchange rates of 1.09 USD/CAD versus 1.04 USD/CAD in the prior period. Consumption was lower as a result of cooler summer weather, while earnings were down as a result of higher depreciation and operating expenses during the rate freeze period.

In British Columbia results at the Energy companies in British Columbia were equivalent with the same period last year. Customer counts increased by 4,000 at the segment since year-end 2013. At the electric subsidiary results were lower by C\$2 million due to lower average consumption as a result of cooler summer weather. Earnings were also down as a result of lower than expected finance charges in the prior period as a result of them not being subject to regulatory deferral last year and the timing of operating expenses.

In Alberta results were higher by C\$2 million as a result of higher electricity volumes related to both customer growth as customer counts increased 12,000 year on year and as a result of higher usage. Revenues were up as a result of the rate increase effective on January 1 of this year and earnings were higher as a result of the non-recurring nature of C\$1.5 million in costs last period related to the floods in southern Alberta. For the normalized business higher income tax recoveries, customer growth and rate base growth were almost fully offset by the timing of certain operating expenses.

Results for the eastern Canadian utilities were down C\$1 million as sales were essentially flat, revenues were down as a result of lower energy supply cost pass-through in Ontario and earnings were lower primarily related to Newfoundland Power's lower earnings as a result of rebasing to a lower return on equity and the overall outcome of the 2013/14 general rate application in that province.

In the Caribbean results were better by US\$2 million as a result of higher exchange rates as sales were stronger related to warmer summer weather and increases in both customers and usage as the Caribbean economies continue to do better related to North American economic recovery and increased tourism. These positive impacts were partially offset by higher overall operating expenses net of higher capitalized overhead costs at Fortis Turks & Caicos.

At the non-regulated generation segment earnings were lower by C\$4 million as a result of lower output mostly resulting from significantly lower rainfall in Belize. Corporate and Other saw a significant increase in costs related to the UNS acquisition. Excluding those costs results were C\$35 million in the quarter compared to C\$21 million last year in the same period as a result of higher finance charges related to the funding at the corporate level of a portion of the UNS acquisition and higher employee related expenses including C\$8 million in non-recurring retirement expenses, and increase share based compensation expenses of C\$1 million as a result of share price appreciation. There were also higher legal and consulting fees and general inflationary increases in costs.



## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-conflict-management.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 06-Nov-2014, CAD 37.42), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: Barclays Bank PLC and/or an affiliate is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12

## IMPORTANT DISCLOSURES CONTINUED

months.

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

T: Barclays Bank PLC and/or an affiliate is providing equity advisory services to this issuer.

### Risk Disclosure(s)

Master limited partnerships (MLPs) are pass-through entities structured as publicly listed partnerships. For tax purposes, distributions to MLP unit holders may be treated as a return of principal. Investors should consult their own tax advisors before investing in MLP units.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Canadian Utilities Ltd. (CU.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Edison International (EIX)	Emera Inc. (EMA.TO)	Fortis Inc. (FTS.TO)
Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)	Integrus Energy Group Inc. (TEG)
ITC Holdings (ITC)	National Grid Plc (NGG)	National Grid Plc (NG.L)
NiSource, Inc. (NI)	Northeast Utilities (NU)	OGE Energy Corp. (OGE)
Pepco Holdings (POM)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	PPL Corporation (PPL)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

### Distribution of Ratings:

Barclays Equity Research has 2602 companies under coverage.

45% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

40% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 41% of companies with this rating are investment banking clients of the Firm.

## IMPORTANT DISCLOSURES CONTINUED

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Bank Limited (Absa, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 37.42 (06-Nov-2014)

Stock Rating

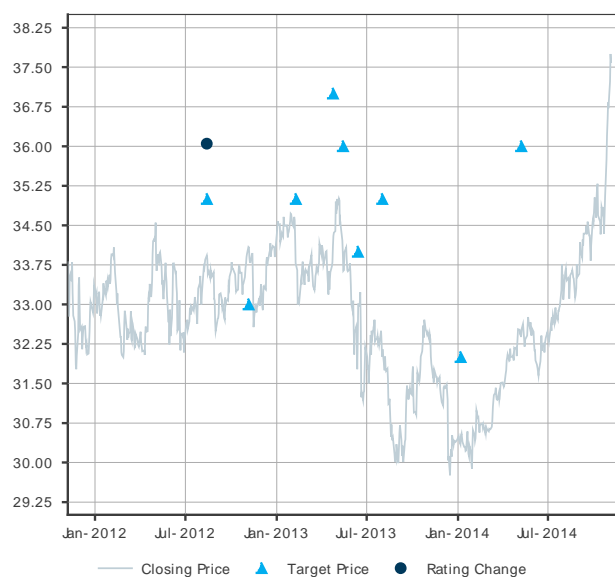
EQUAL WEIGHT

Industry View

NEUTRAL

## Rating and Price Target Chart - CAD (as of 06-Nov-2014)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
08-May-2014	32.38		36.00
06-Jan-2014	30.35		32.00
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our C\$40 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 16% premium to the 2016 US regulated utility multiple of 15.9x our Canadian utility operations '16E EPS of C\$1.47. We apply the straight '16E multiple of 15.9x our US Utility operations '16E EPS of C\$0.71. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 15.3x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.15. For unregulated generation we use a '16 power multiple of 14.8x our '16E EPS of C\$0.09. For corporate and other, we use the straight '16E US regulated utility multiple of 15.9x our (C\$0.25) EPS for the segment. To this we add a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2016 at a 10% discount rate and applying a 15.9x multiple and a 50% probability of completion.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This material has been issued and approved for distribution in the UK and European Economic Area ("EEA") by Barclays Bank PLC. It is being made available primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, the Corporate & Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of the Corporate & Investment Banking Division of Absa Bank Limited in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Bank Limited is a member of the Barclays group.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE) | Corporate Identification Number: U67120MH2006PTC161063 | Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays

Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2014). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



# Canadian Regulated Utilities

## 2015 Year Ahead

**Remain Neutral Utilities; Canada Could See More Defense in 2015 than US:** As we look forward into 2015 we remain Neutral on North American Utilities, with plays for value being our favorite names for the coming year (see our *North American Utilities Year Ahead* report, also published this morning). From a more narrow Canadian perspective we see the economic headwinds from low oil prices weighing on any potential economic recovery. As the economy potentially remains more sluggish than that in the U.S. it is also probable that interest rate policies between the Federal Reserve and the Bank of Canada could diverge. If the Fed raises rates in 2015 it is likely, in our view, that the Bank of Canada might not follow that move higher. In this scenario, Canadian regulated utilities are poised for potential outperformance versus their U.S. counterparts as defensive fund flows predominate, and lower relative interest rates keep return spreads higher. Another dynamic to consider is the likelihood of a strengthening \$/C\$ exchange rate in this environment. All else equal this would favor C\$ reporters with significant assets in the U.S. and Caribbean such as Emera and Fortis versus companies without U.S. \$ exposure such as Canadian Utilities.

**Initiating Coverage of Brookfield's Yield Co's:** We are expanding our Canadian utility coverage universe by initiating coverage of Brookfield Renewable Energy Partners LP (Overweight; BEP, BEP\_u.TO), and Brookfield Infrastructure Partners LP (Equal Weight; BIP, BIP\_u.TO) under a separate report, also published this morning.

### Revising Price Targets, Introducing 2017 Estimates:

- We remain **Overweight Emera** and set a 2017 EPS estimate of C\$2.35. We see meaningful potential upside in 2017-19 to earnings power related to leverage to increasing pricing in New England capacity markets and continued execution of the Maritime Link project. We raise our price target to C\$44 from C\$42.
- We remain **Equal Weight Fortis** and are rolling out a 2017 EPS estimate of C\$2.34. We see potential upside to earnings power in 2017-18 from execution of the small-scale LNG projects at the Tilbury and Woodfibre sites. Further LNG opportunity at Tilbury may be pushed out in 2015 given the current global growth environment and the potential for curtailment in drilling activity. We increase our price target to C\$41 from C\$40.
- We remain **Underweight Canadian Utilities** as we believe that lower oil prices will continue to have significant knock-on effects to CU's business in Alberta (see our report, *Downgrading to Underweight*, published 10/31/14). We roll out our 2017 EPS estimate of C\$2.47, which is inclusive of the likely shutdown of a unit at the Battle River generating facility. We raise our price target to C\$42 from C\$40.

The increases in all of our price targets are a result of multiple expansion in the comparable group from 15.4x to 16.5x 2016 EPS estimates.

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 11.

### PRICE TARGET CHANGE

#### North America Utilities

**NEUTRAL**

Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

#### North America Utilities

**Ross A. Fowler, CFA**

1.212.526.3432

ross.a.fowler@barclays.com

BCI, New York

**Daniel Ford, CFA**

1.212.526.0836

daniel.x.ford@barclays.com

BCI, New York



## Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	02-Jan-15	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
North America Utilities	Neu	Neu										
Canadian Utilities Ltd. (CU CN / CU.TO)	UW	UW	41.21	40.00	42.00	5	2.24	2.24	-	2.30	2.29	0
Emera Inc. (EMA CN / EMA.TO)	OW	OW	38.85	42.00	44.00	5	2.06	2.06	-	1.99	2.07	4
Fortis Inc. (FTS CN / FTS.TO)	EW	EW	39.22	40.00	41.00	3	1.72	1.72	-	1.99	2.01	1

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.

FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.

Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended

Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

## Valuation Methodology and Risks

## North America Utilities

## Canadian Utilities Ltd. (CU CN / CU.TO)

**Valuation Methodology:** Our current price target of C\$42 is premised upon a sum of the parts valuation. This valuation uses a 16% premium to the 2016 US regulated utility multiple of 16.7x our Canadian utility operations '16E eps of C\$1.67, our Australian utility operations '16E eps of C\$0.15 and our other segment '16E eps of (C\$0.05). We value the midstream operations using a comp group '16E multiple of 17.2x our '16E midstream eps of C\$0.02. For power we use the US comparable power '16E eps multiple of 15x '16E eps of C\$0.64.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Risks include economic growth in Alberta and Western Australia, execution risks related to capital deployment, levels of the demand for power in the UK and Alberta and their impact on spark spreads, and the Alberta regulatory environment.

## Emera Inc. (EMA CN / EMA.TO)

**Valuation Methodology:** Our C\$44 price target is premised upon a sum of the parts approach. We value Canadian utility operations at a 16% premium to the '16E US regulated utility multiple of 16.7x our '16 EPS of C\$1.34. US regulated utility operations use the '16E 50/50 blended distribution/transmission multiple of 17.8x our '16 EPS of C\$0.34. For Caribbean operations we use a '16E multiple of 15.4x based upon the current multiple of publically traded Caribbean Utilities Corporation. We apply this to our '16 Caribbean EPS of C\$0.30. We use a '16E pipeline comp multiple of 19.1x our '16 pipeline EPS of C\$0.30. For corporate and other earnings of C\$(0.08) in '16 we use the straight US regulated multiple of 16.7x. To all this we added the NPV for capacity from the New England plants in the 2018 year. This adds C\$3/share to our valuation.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Economic growth and regulatory environment in Nova Scotia. Execution of large scale capital projects. Government environmental policy in Nova Scotia. Regulation by the Federal Energy Regulatory Commission and state regulators in Maine. Execution on capital deployment projects in joint ventures to achieve appropriate hurdle rates.

## Fortis Inc. (FTS CN / FTS.TO)

**Valuation Methodology:** Our C\$41 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 16% premium to the 2016 US regulated utility multiple of 16.7x our Canadian utility operations '16E EPS of C\$1.48. We apply the straight '16E multiple of 16.7x our US Utility operations '16E EPS of C\$0.72. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 15.4x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.14. For unregulated generation we use a '16 power multiple of 13.0x our '16E EPS of C\$0.10. For corporate and other, we use the straight '16E US regulated utility multiple of 16.7x our (C\$0.26) EPS for the segment. To this we add a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2016 at a 10% discount rate and applying a 16.7x multiple and a 50% probability of completion.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

Source: Barclays Research.

North America Utilities	Industry View: NEUTRAL
Canadian Utilities Ltd. (CU.TO)	Stock Rating: UNDERWEIGHT

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	3,381	3,409	3,543	3,700	3.1%
EBITDA (adj)	1,527	1,696	1,836	1,979	9.0%
EBIT (adj)	1,049	1,147	1,209	1,301	7.4%
Pre-tax income (adj)	759	771	795	842	3.5%
Net income (adj)	572	581	599	635	3.6%
EPS (adj) (CAD)	2.21	2.24	2.29	2.42	3.1%
Diluted shares (mn)	259	260	261	262	0.4%
DPS (CAD)	0.97	1.08	1.19	1.30	10.3%

Margin and return data	Average				
EBITDA (adj) margin (%)	45.2	49.8	51.8	53.5	50.1
EBIT (adj) margin (%)	31.0	33.6	34.1	35.2	33.5
Pre-tax (adj) margin (%)	23.5	23.6	23.4	23.7	23.5
Net (adj) margin (%)	17.9	18.0	17.9	18.1	18.0
ROIC (%)	9.0	8.7	8.4	8.5	8.7
ROA (%)	3.8	3.5	3.4	3.4	3.5
ROE (%)	14.5	13.1	12.7	12.7	13.3

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	12,905	14,530	16,157	17,316	10.3%
Total net assets	15,051	16,450	17,667	18,586	7.3%
Capital employed	11,685	13,184	14,367	15,252	9.3%
Shareholders' equity	3,936	4,435	4,718	5,003	8.3%
Net debt/(funds)	5,795	6,850	8,011	8,705	14.5%
Cash flow from operations	1,801	1,214	1,418	1,498	-6.0%
Capital expenditure	-2,153	-2,174	-2,255	-1,836	N/A
Free cash flow	-1,219	-1,324	-1,339	-864	N/A
Pre-dividend FCF	-1,103	-1,043	-1,028	-523	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	18.7	18.4	18.0	17.0	18.0
EV/EBITDA (adj) (x)	8.9	8.6	8.6	8.3	8.6
EV/EBIT (adj) (x)	12.9	12.7	13.0	12.7	12.8
P/BV (x)	2.7	2.4	2.3	2.2	2.4
Dividend yield (%)	2.4	2.6	2.9	3.2	2.8
Total debt/capital (%)	53.8	55.3	57.0	57.6	55.9
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics	Average				
Payout ratio (%)	44.0	48.3	51.9	53.7	49.5
Interest cover (x)	5.6	4.6	4.4	4.2	4.7
Regulated (%)	76.1	71.2	72.9	72.8	73.2

Price (02-Jan-2015)	CAD 41.21
Price Target	CAD 42.00

**Why Underweight?** We see significant headwinds to stock performance in 2015 including lower oil prices driving slower growth, lower power margins, and lower capital needs in Alberta. We also see the company shifting to riskier unregulated growth in Mexico, having challenges for new business at the Structures unit and a lower than average yield.

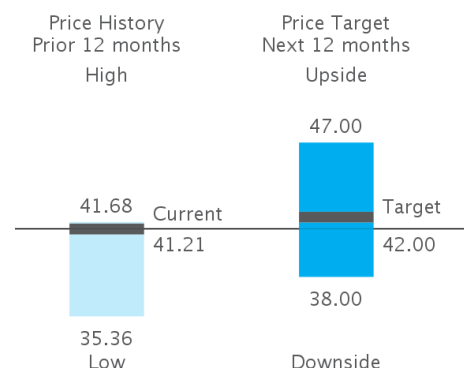
Upside case	CAD 47.00
-------------	-----------

Increasing top line sales growth by 1% per year, expanding both Alberta spark spreads by \$3/MWh, and valuing shares using a 20% premium to US regulated utilities indicates a valuation of C\$47.

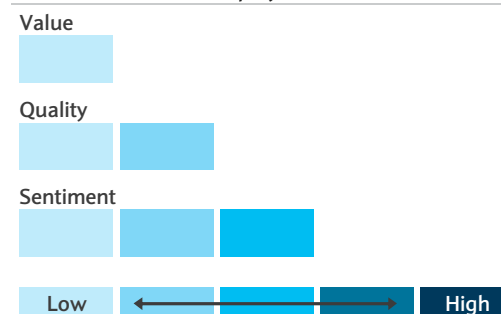
Downside case	CAD 38.00
---------------	-----------

Decreasing top line sales growth by 1% per year, compressing Alberta spark spreads by \$3/MWh, and valuing shares using a 10% premium to US regulated utilities indicates a valuation of C\$38.

#### Upside/Downside scenarios



#### POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec

North America Utilities	Industry View: NEUTRAL
<b>Emera Inc. (EMA.TO)</b>	<b>Stock Rating: OVERWEIGHT</b>

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	2,230	2,759	2,785	2,799	7.9%
EBITDA (adj)	705	863	893	922	9.3%
EBIT (adj)	407	526	532	547	10.4%
Pre-tax income (adj)	260	401	417	441	19.2%
Net income (adj)	217	297	312	332	15.2%
EPS (adj) (CAD)	1.87	2.06	2.07	2.20	5.5%
Diluted shares (mn)	133	148	155	155	5.2%
DPS (CAD)	1.41	1.45	1.55	1.65	5.3%

Margin and return data	Average				
EBITDA (adj) margin (%)	31.6	31.3	32.0	32.9	32.0
EBIT (adj) margin (%)	18.3	19.1	19.1	19.6	19.0
Pre-tax (adj) margin (%)	13.4	15.5	16.1	17.1	15.5
Net (adj) margin (%)	9.7	10.8	11.2	11.9	10.9
ROIC (%)	5.8	6.6	6.1	5.7	6.0
ROA (%)	2.4	3.0	2.9	2.9	2.8
ROE (%)	9.1	9.9	10.1	10.3	9.9

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	5,092	5,612	6,786	7,632	14.4%
Total net assets	8,877	9,872	10,707	11,601	9.3%
Capital employed	7,027	7,931	8,761	9,653	11.2%
Shareholders' equity	2,383	2,993	3,096	3,211	10.5%
Net debt/(funds)	4,008	3,773	4,749	5,283	9.6%
Cash flow from operations	564	556	698	742	9.5%
Capital expenditure	-1,165	-857	-1,535	-1,220	N/A
Free cash flow	-782	-410	-1,071	-731	N/A
Pre-dividend FCF	-596	-196	-831	-476	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	20.7	18.9	18.7	17.7	19.0
EV/EBITDA (adj) (x)	13.6	10.8	11.5	11.8	11.9
EV/EBIT (adj) (x)	23.5	17.7	19.4	19.8	20.1
P/BV (x)	2.2	1.9	1.9	1.9	2.0
Dividend yield (%)	3.6	3.7	4.0	4.2	3.9
Total debt/capital (%)	58.8	52.6	54.8	55.7	55.5
Net debt/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics	Average				
Payout ratio (%)	75.4	70.4	74.8	75.0	73.9
Interest cover (x)	3.9	4.4	4.0	3.4	3.9
Regulated (%)	60.7	61.7	54.7	46.7	56.0

Price (02-Jan-2015)	CAD 38.85
Price Target	CAD 44.00

**Why Overweight?** We believe Emera offers a potential 20% total shareholder return opportunity at relatively lower risk than peers. Growth is dependent upon infrastructure deployment that is driven by Nova Scotia's environmental policy in a constructive regulatory environment. Execution risk of these capital projects on time and on budget is essential to achieving our CAGR.

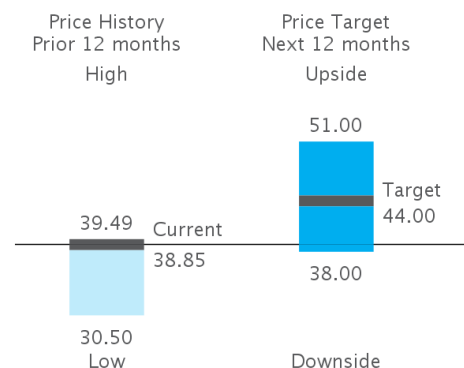
<b>Upside case</b>	<b>CAD 51.00</b>
--------------------	------------------

We increase estimated growth rates by 1%/year, assume a 100% probability of completion for the Northeast Energy Link (vs. 65% in our base case) and value Canadian utility operations at a 30% premium. This leads to an indicative valuation of C\$51.

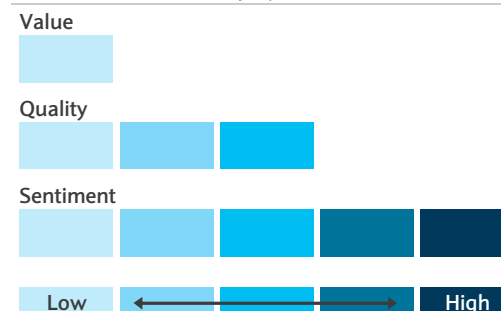
<b>Downside case</b>	<b>CAD 38.00</b>
----------------------	------------------

We decrease estimated growth rates by 1%/year, assume a 0% probability of completion for the Northeast Energy Link (vs. 65% in our base case) and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of C\$38.

#### Upside/Downside scenarios



#### POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec

North America Utilities	Industry View: NEUTRAL
-------------------------	------------------------

## Fortis Inc. (FTS.TO)

Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	4,047	4,429	4,433	4,484	3.5%
EBITDA (adj)	1,393	1,438	1,534	1,645	5.7%
EBIT (adj)	852	832	881	937	3.2%
Pre-tax income (adj)	396	406	442	494	7.7%
Net income (adj)	353	325	364	414	5.5%
EPS (adj) (CAD)	1.69	1.72	2.01	2.18	9.0%
Diluted shares (mn)	209	218	263	266	8.3%
DPS (CAD)	1.25	1.29	1.33	1.37	3.1%

Margin and return data	Average				
EBITDA (adj) margin (%)	34.4	32.5	34.6	36.7	34.5
EBIT (adj) margin (%)	21.1	18.8	19.9	20.9	20.2
Pre-tax (adj) margin (%)	10.7	9.1	10.0	11.1	10.2
Net (adj) margin (%)	10.1	8.6	9.5	10.5	9.7
ROIC (%)	7.2	5.8	5.9	6.1	6.3
ROA (%)	2.0	1.7	1.8	2.0	1.9
ROE (%)	6.9	4.5	4.9	5.4	5.4

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	11,618	12,520	13,596	14,774	8.3%
Total net assets	17,908	18,856	20,489	21,185	5.8%
Capital employed	11,786	14,374	14,887	15,271	9.0%
Shareholders' equity	5,147	7,287	7,458	7,665	14.2%
Net debt/(funds)	5,338	5,822	5,609	6,279	5.6%
Cash flow from operations	899	986	1,064	1,169	9.2%
Capital expenditure	-1,135	-1,582	-1,819	-1,984	N/A
Free cash flow	-422	-932	-1,152	-1,226	N/A
Pre-dividend FCF	-241	-651	-803	-863	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	23.2	22.8	19.5	18.0	20.9
EV/EBITDA (adj) (x)	11.6	11.6	10.7	10.4	11.1
EV/EBIT (adj) (x)	18.9	20.0	18.6	18.2	18.9
P/BV (x)	1.6	1.2	1.4	1.4	1.4
Dividend yield (%)	3.2	3.3	3.4	3.5	3.3
Total debt/capital (%)	45.9	40.8	41.6	41.8	42.5
Net debt/EBITDA (adj) (x)	3.8	4.0	3.7	3.8	3.8

Selected operating metrics	Average				
Payout ratio (%)	74.1	74.9	66.2	62.7	69.5
Interest cover (x)	3.6	3.6	3.8	4.0	3.7
Regulated (%)	92.2	78.1	58.4	62.5	72.8

Price (02-Jan-2015) CAD 39.22  
Price Target CAD 41.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

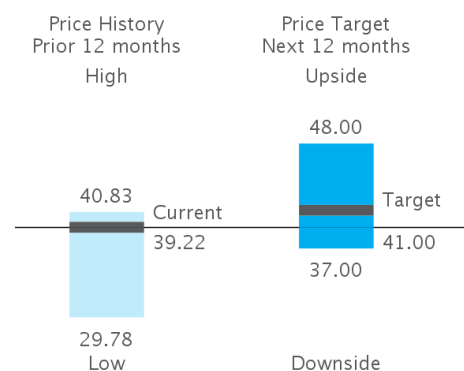
**Upside case** CAD 48.00

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of C\$48.

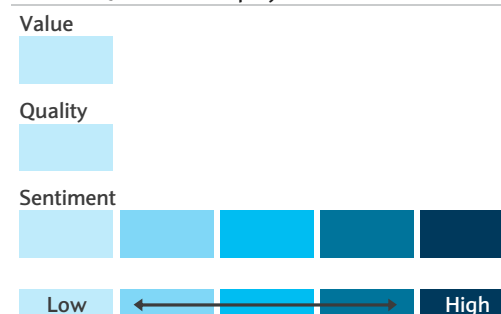
**Downside case** CAD 37.00

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of C\$37.

## Upside/Downside scenarios



## POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Source: Company data, Barclays Research  
Note: FY End Dec

## Canada Could Be More Defensive than the U.S. in 2015

As we look forward into 2015 we see the potential for an economic slowdown in Canada, or, at the least, economic growth not keeping pace with that of the United States. Barclays Economics' forecasts for Canadian and U.S. GDP growth are shown in the table below.

FIGURE 1

### GDP Growth (%) Forecasts for the US and Canada

	2010A	2011A	2012A	2013A	2014E	2015E
US	2.5	1.6	2.3	2.2	2.3	2.9
Canada	3.4	3.0	1.9	2.0	2.4	2.6

Source: Barclays Research Estimates

We believe that the Canadian GDP has more downside risks related to the headwinds created by low oil prices and potential for downward move in property prices. We would also be biased to more upside potential in the U.S. economy than downside risks related to strong consumer spending driving 5% GDP growth in the third quarter of 2015, and lower oil prices having a net positive effect on the overall economy related to greater disposable income leading to an acceleration of consumer spending going forward.

On December 10, 2014, in their semi-annual Financial System Review, the Bank of Canada (BoC) warned that Canadian housing prices could be overvalued by as little as 10% and as much as 30%. The bank went on to predict a soft landing from this overvaluation. BoC Governor Stephen Poloz noted that the estimated overvaluation raises the risks that a shock to the economy could trigger a housing price correction. The low oil price environment, in our view, has the potential to deliver that shock in 2015. Mr. Poloz went on to say that he believes the risk of such a correction to be low, but that if it did occur the economic effects would be severe. The BoC did note strengthening in areas of the economy related to exports to the strengthening US, but also noted that the lower oil price environment could impact 2015 GDP by 0.3%.

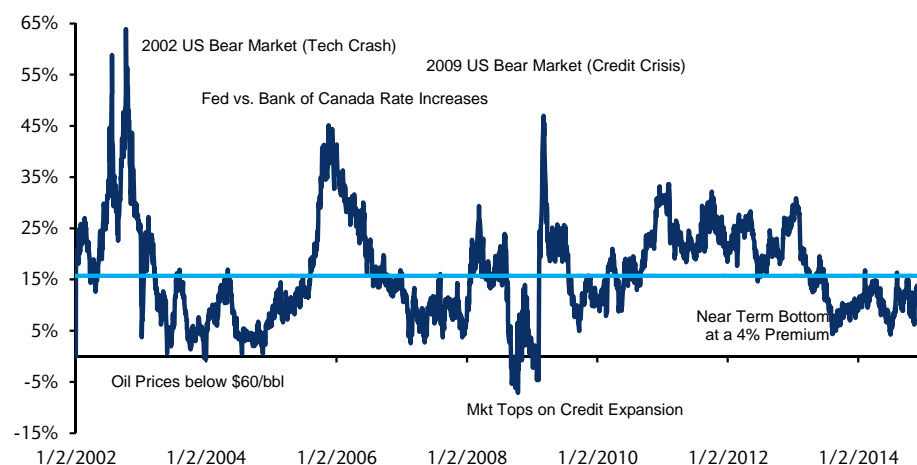
If our more sanguine view of the Canadian economy and more optimistic view of the U.S. economy is correct for 2015 we would expect three main macro impacts to move utility stocks in the relative markets. First, the U.S. Federal Reserve would be more likely to raise U.S. interest rates sooner and faster than the Bank of Canada. Current options pricing around a U.S. rate hike actually show a 57% probability of a rate hike in June 2015 with the predicted fed funds rate about evenly split between 25bp and 50bp. By October 2015 the probability of a rate hike is 89% with the predicted fed funds rate between 50bp and 100bp. The BoC may follow suit with the Fed to forestall continued build-up of a potential housing price bubble, but if low oil keeps economic growth and inflation in check, rates in Canada may decouple from those in the United States.

A strong U.S. dollar versus Canadian dollar could also continue into 2015 and as rates decouple, the U.S. dollar would get stronger, all else equal. This would potentially help the segment of the Canadian economy exporting goods to the US, but the BoC may set policy to allow that to continue to outweigh any negative impacts of lower oil prices.

The question becomes what will dominate the landscape in 2015. If low oil prices are the main feature and interest rates do not decouple, Canadian regulated utility premiums are likely to stay low versus their U.S. counterparts similar to the period from 2003 to 2004. We think the risks to the downside in the Canadian regulated names to this scenario are limited given that the current premium to their U.S. counterparts is only 6%. Alternatively, if rates do decouple between the two countries, the Canadian regulated utilities will likely trade to a significant premium versus their U.S. counterparts, as seen in 2005, when they traded to a premium of 44%.

FIGURE 2

## Canadian Regulated Utilities versus U.S. Regulated Utilities FY2 P/E Ratio Premium



Source: Thomson Reuters, Barclays Research Estimates

Looking at the last time rates decoupled between the two countries the U.S. Federal Reserve raised rates by 316bp between December 2003 and December 2005 while the Bank of Canada only raised rates by 50bp over the same timeframe. The Canadian to U.S. regulatory premium then fell from the peak of 44% to 4% as, subsequently the BoC raised rates by 125bp to the Fed's 33bp from December 2005 to November 2007.

FIGURE 3

## Relative Rates and FY2 P/E Ratio Premium of Canadian to US Regulated Utilities

	Cdn vs. US	Bank of Canada	US Fed Funds		
	FY2 P/E Premium	Rates	Change	Rate	Change
December '03	0%	3%		1%	
December '05	44%	3.50%	0.50%	4.16%	3.16%
November '07	4%	4.75%	1.25%	4.49%	0.33%

Source: US Federal Reserve, Bank of Canada, Barclays Research Estimates

## In 2015 Play for Value

As noted in our North American Power & Utilities year ahead publication, also published this morning, our favorite names reflect a play for value in a year with potentially significant headwinds. Looking at the subset of Canadian regulated utilities we see significant value related to a current premium of only 5.9% versus the long run average, since 2002, premium of approximately 16%. The premium could stay low due to depressed oil prices as seen in 2003-04, but given that the premium is already low we see little downside risk should this scenario materialize. Further, there is significant upside opportunity for an increase in the premium should interest rates in both countries diverge in 2015.

Lastly, looking through an even finer lens into the Canadian regulated utility universe, low oil prices and their knock-on effects will have significantly greater impacts on Canadian Utilities than Emera and Fortis, by our analysis. Further, even if rates don't diverge, a strong US\$/C\$ exchange rate will be beneficial, all else equal, to Emera and Fortis, which own assets in the US and Caribbean where the U.S. dollar is the local currency. Lastly, we do see some risk related to potential delays in Fortis's potential LNG projects in 2015, and as a result continue to believe Emera offers the best overall return opportunity at lower relative risks of the Canadian Regulated names. We go through expectations for the upcoming year

for each company below as well as a review of capital expenditure and growth assumptions embedded in our 2017 earnings per share estimates.

## Thoughts on 2015 and Introducing 2017 Forecasts

---

### Canadian Utilities

In 2015 we anticipate the finalization of the Economic Regulatory Authority's decision on rates of return for the company's assets in Western Australia. The current return on equity is a 10.4% rate; however, the draft decision issued by the ERA called for an allowed return on equity of only 6.8%. Our model incorporates a rate of 8.9%, and comments are due on January 12, 2015.

In 2015 we also anticipate increased clarity on the first investments in Mexico, and how long Battle River Unit 3 will be able to run economically in a currently depressed Alberta power market. We also anticipate that management will provide updates throughout the year on the lower potential earnings at the structures & logistics business related to continued sluggish global growth.

On the positive side we anticipate finalization of the capital tracker mechanism in Alberta, where currently the company is recovering 90% of their request on an interim basis. We believe that Alberta has a solid track record related to incorporating interim decisions as final orders, and therefore anticipate a 90% recovery rate going forward. We would also expect management to continue to provide details on the progress of storage, water, and pipeline replacement investments in the province.

Our 2017 EPS estimate incorporates a similar capital expenditure profile to 2016, although there is potential for an uptick in capital expenditures related to the recent award to the company of the C\$1.43 billion Fort McMurray West project that will commence construction in 2017, pending Alberta Utility Commission approval and be in service by 2019. Our forecast also incorporates current Alberta power and gas forwards, and assumes top-line growth at the utilities between 1.50% and 1.75%.

The Fort McMurray West project is a 500km 500kV transmission line that will be 80% owned by Canadian Utilities and 20% owned by Quanta Services. The project was awarded by the Alberta Electric System Operator (AESO) after a worldwide competitive open bidding process. Valard Construction, a subsidiary of Quanta will provide turnkey construction under an EPC contract, while CU subsidiary ATCO Electric will be responsible for route planning and operations and maintenance of the line. The proposed route, substations, and design of the transmission line are subject to approval by the Alberta Utilities Commission. The company will begin the process of talking to landowners along the proposed route in the coming months.

### Emera Inc.

For Emera we expect a rather busy 2015, but with no requested rate increase in Nova Scotia for 2015 we expect a relatively less active regulatory and political environment to reduce risk in the coming year. We anticipate updates from management around the awarding of the transmission construction contract for the Maritime Link in 1Q15, and the construction of the Nova Scotia portion of the HVDC transmission line and connection to be completed by the end of the year. We also expect the decision from the U.S. Department of Energy on the company's proposed export of CNG from Florida to Grand Bahama in the first quarter. Capacity values are also likely to continue to increase in New England which will hold the auction related to 2018-19 capacity, or FCA 9, in the first quarter with the result available in March of next year. As a reminder, FCA 8 cleared at \$7.025/kW-month in 2014, up from a clearing price of \$2.950/kW-month for the FCA 7 in 2013. We also anticipate that the



company will deploy the first new tidal power test units as a 4MW array (two 2MW units) into the Bay of Fundy and hopefully have initial results of this potential opportunity by the end of the year.

Our 2017 EPS estimate includes the potential upside related to the FCA 8 capacity auction results and their impact on the earnings power of the New England gas plant assets which Emera acquired at the end of 2013. Our capital expenditure forecast for 2017 falls to C\$720 million to be in line with current management forecasts, which do not include any potential capital opportunities related to several growth opportunities. These include CNG in the Caribbean, investments through their ownership stake in Algonquin Power & Light, further geothermal or renewable investments in the Caribbean, potential for more gas plant or gas pipeline asset acquisitions or expansions in the U.S. or on the Maritime & NE pipeline, and any investments related to transmission interconnections in Maine under the memorandum of understanding agreement with Central Maine Power. We assume relatively conservative load growth of 1% in Maine and Nova Scotia in 2017, and 1.5% in the Caribbean. The earnings related to the U.S. and Caribbean subsidiaries are forecast at constant currency exchange rates.

*Barclays is providing investment banking services to SunEdison (SUNE) and Terraform Power (TERP) relating to their definitive agreement to acquire First Wind Energy. Our estimates for Emera Inc., which sold its stake to First Wind to allow First Wind Energy to sell itself to SunEdison (SUNE) and Terraform Power (TERP), do not reflect the impact of that transaction.*

### **Fortis Inc.**

In 2015 we expect clarity around the potential smaller scale LNG export investments being explored by the company. We include the approved \$400 million Tilbury Phase 1A project in our model as well as the potential \$600 million Woodfibre project. We do not currently include the potential \$450 million Tilbury Phase 1B project with export to Hawaii in our numbers. We see some risk related to push-out of schedules to both potential projects as continued slower growth in China could push back the Woodfibre project, although we view this as unlikely. The Tilbury Phase 1B project could also face delays in approval as the Hawaii Public Utilities Commission is likely to adjudicate the proposed acquisition of Hawaiian Electric Utilities by NextEra Energy before approval of LNG imports to the state.

The coming year will be one where management's focus, in our view, will be on integration of the UNS Energy acquisition and demonstration of the earnings power of both recently acquired U.S. based subsidiaries. The exchange rate move of a strengthening US\$ versus C\$ has made those acquisitions accretive sooner than we modelled or anticipated at the time they were announced.

In July the rate case filed by Central Hudson in New York will reach a final decision as long as the New York Public Service Commission remains on schedule. Other regulatory matters that will be settled in 2015 include the 2014-19 performance based ratemaking proposal in British Columbia, and three items in Alberta: the capital tracker mechanism, similar to that discussed for Canadian Utilities above, the application by the company for 2015 general rates, and the 2013-14 generic cost of capital proceeding. We would expect risk premium in the shares to decrease as these regulatory items and the risk associated with them mitigates with final orders over the course of the year. We also anticipate finalization of the sale of the properties business in 2015 as well as the completion and placement in service of the Waneta hydroelectric project.

Our 2017 estimate uses approximately C\$1.3 billion in capital expenditures in 2017 and excludes execution of any LNG opportunities beyond Tilbury 1A and Woodfibre. We also estimate the sale of the properties business is completed in 2015 for a cap rate of 10% for



the hotels segment and 5% for the commercial segment which generates a sale price of approximately C\$1 billion. This sale price could be at risk if the Canadian economy slows and real estate prices move lower.

## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-conflict-management.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Canadian Utilities Ltd. (CU.TO, 02-Jan-2015, CAD 41.21), Underweight/Neutral, J/K/M

Emera Inc. (EMA.TO, 02-Jan-2015, CAD 38.85), Overweight/Neutral, A/D/J/L/R

Fortis Inc. (FTS.TO, 02-Jan-2015, CAD 39.22), Equal Weight/Neutral, J

### Materially Mentioned Stocks (Ticker, Date, Price)

Brookfield Infrastructure Partners LP (BIP, 02-Jan-2015, USD 42.45), Equal Weight/Neutral, C/D/J/K/L/M

Brookfield Infrastructure Partners LP (BIP\_u.TO, 02-Jan-2015, CAD 49.99), Equal Weight/Neutral, C/D/J/K/L/M

Brookfield Renewable Energy Partners LP (BEP\_u.TO, 02-Jan-2015, CAD 36.71), Overweight/Neutral, A/D/J/K/L/M/R

Brookfield Renewable Energy Partners LP (BEP, 02-Jan-2015, USD 31.32), Overweight/Neutral, A/D/J/K/L/M/R

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC

## IMPORTANT DISCLOSURES CONTINUED

and/or an affiliate.

**O:** Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

**P:** A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

**Q:** Barclays Bank PLC and/or an affiliate is a Corporate Broker to this issuer.

**R:** Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

**S:** Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

**T:** Barclays Bank PLC and/or an affiliate is providing equity advisory services to this issuer.

### Risk Disclosure(s)

Master limited partnerships (MLPs) are pass-through entities structured as publicly listed partnerships. For tax purposes, distributions to MLP unit holders may be treated as a return of principal. Investors should consult their own tax advisors before investing in MLP units.

### Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### North America Utilities

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)
Brookfield Infrastructure Partners LP (BIP_u.TO)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	Brookfield Renewable Energy Partners LP (BEP)
Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)
Consolidated Edison (ED)	Dominion Resources (D)	DTE Energy (DTE)
Duke Energy (DUK)	Edison International (EIX)	Emera Inc. (EMA.TO)
Fortis Inc. (FTS.TO)	Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)
Integrus Energy Group Inc. (TEG)	ITC Holdings (ITC)	National Grid Plc (NGG)
National Grid Plc (NG.L)	NiSource, Inc. (NI)	Northeast Utilities (NU)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
PPL Corporation (PPL)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)

## IMPORTANT DISCLOSURES CONTINUED

Wisconsin Energy (WEC)

Xcel Energy (XEL)

### Distribution of Ratings:

Barclays Equity Research has 2638 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

40% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 45% of companies with this rating are investment banking clients of the Firm.

13% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 40% of companies with this rating are investment banking clients of the Firm.

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Bank Limited (Absa, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Canadian Utilities Ltd. (CU CN / CU.TO)

CAD 41.21 (02-Jan-2015)

Stock Rating

UNDERWEIGHT

Industry View

NEUTRAL

## Rating and Price Target Chart - CAD (as of 02-Jan-2015)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
31-Oct-2014	38.96	Underweight	40.00
29-Jul-2014	40.60		44.00
21-Feb-2014	39.01		41.00
06-Jan-2014	35.60		39.00
31-Oct-2013	38.31		42.00
18-Jun-2013	38.65		41.00
24-Apr-2013	40.39		42.00
22-Feb-2013	38.45		38.00
05-Nov-2012	33.80		37.00
13-Aug-2012	35.06	Equal Weight	38.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Canadian Utilities Ltd..

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Canadian Utilities Ltd. within the past 12 months.

M: Canadian Utilities Ltd. is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

**Valuation Methodology:** Our current price target of C\$42 is premised upon a sum of the parts valuation. This valuation uses a 16% premium to the 2016 US regulated utility multiple of 16.7x our Canadian utility operations '16E eps of C\$1.67, our Australian utility operations '16E eps of C\$0.15 and our other segment '16E eps of (C\$0.05). We value the midstream operations using a comp group '16E multiple of 17.2x our '16E midstream eps of C\$0.02. For power we use the US comparable power '16E eps multiple of 15x '16E eps of C\$0.64.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Risks include economic growth in Alberta and Western Australia, execution risks related to capital deployment, levels of the demand for power in the UK and Alberta and their impact on spark spreads, and the Alberta regulatory environment.

## IMPORTANT DISCLOSURES CONTINUED

## Emera Inc. (EMA CN / EMA.TO)

CAD 38.85 (02-Jan-2015)

Stock Rating

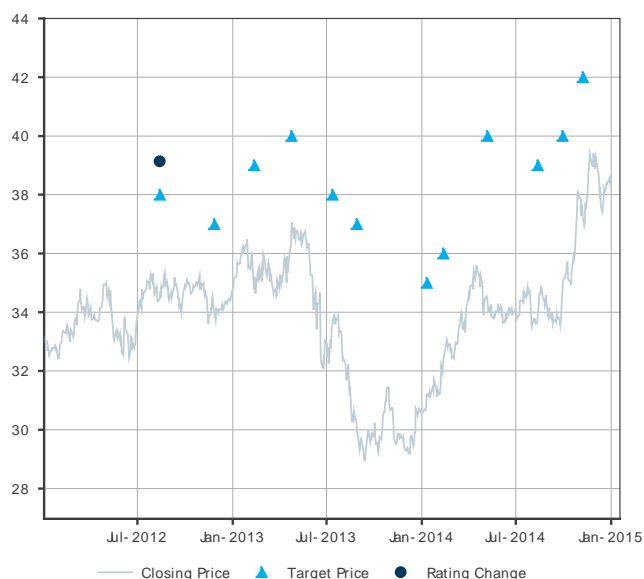
OVERWEIGHT

Industry View

NEUTRAL

## Rating and Price Target Chart - CAD (as of 02-Jan-2015)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
07-Nov-2014	37.28		42.00
29-Sep-2014	34.72		40.00
12-Aug-2014	33.75		39.00
07-May-2014	34.50		40.00
11-Feb-2014	32.35		36.00
10-Jan-2014	31.19		35.00
28-Aug-2013	30.24		37.00
12-Jul-2013	33.54		38.00
24-Apr-2013	36.74		40.00
11-Feb-2013	34.80		39.00
26-Nov-2012	34.00		37.00
13-Aug-2012	34.46	Overweight	38.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Emera Inc. in the previous 12 months.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Emera Inc. in the past 12 months.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Emera Inc..

L: Emera Inc. is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from Emera Inc. in the past 12 months.

**Valuation Methodology:** Our C\$44 price target is premised upon a sum of the parts approach. We value Canadian utility operations at a 16% premium to the '16E US regulated utility multiple of 16.7x our '16 EPS of C\$1.34. US regulated utility operations use the '16E 50/50 blended distribution/transmission multiple of 17.8x our '16 EPS of C\$0.34. For Caribbean operations we use a '16E multiple of 15.4x based upon the current multiple of publically traded Caribbean Utilities Corporation. We apply this to our '16 Caribbean EPS of C\$0.30. We use a '16E pipeline comp multiple of 19.1x our '16 pipeline EPS of C\$0.30. For corporate and other earnings of C\$(0.08) in '16 we use the straight US regulated multiple of 16.7x. To all this we added the NPV for capacity from the New England plants in the 2018 year. This adds C\$3/share to our valuation.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Economic growth and regulatory environment in Nova Scotia. Execution of large scale capital projects. Government environmental policy in Nova Scotia. Regulation by the Federal Energy Regulatory Commission and state regulators in Maine. Execution on capital deployment projects in joint ventures to achieve appropriate hurdle rates.

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 39.22 (02-Jan-2015)

Stock Rating

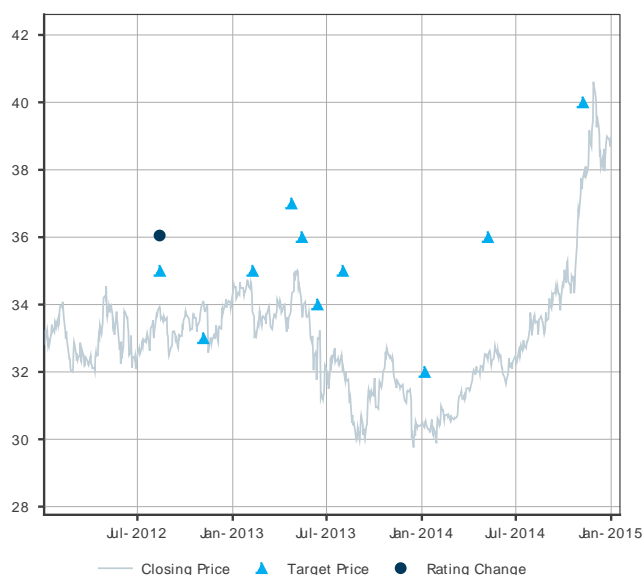
Industry View

EQUAL WEIGHT

NEUTRAL

## Rating and Price Target Chart - CAD (as of 02-Jan-2015)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
07-Nov-2014	37.74		40.00
08-May-2014	32.38		36.00
06-Jan-2014	30.35		32.00
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our C\$41 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 16% premium to the 2016 US regulated utility multiple of 16.7x our Canadian utility operations '16E EPS of C\$1.48. We apply the straight '16E multiple of 16.7x our US Utility operations '16E EPS of C\$0.72. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '16 multiple of 15.4x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.14. For unregulated generation we use a '16 power multiple of 13.0x our '16E EPS of C\$0.10. For corporate and other, we use the straight '16E US regulated utility multiple of 16.7x our (C\$0.26) EPS for the segment. To this we add a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2016 at a 10% discount rate and applying a 16.7x multiple and a 50% probability of completion.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This material has been issued and approved for distribution in the UK and European Economic Area ("EEA") by Barclays Bank PLC. It is being made available primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, the Corporate & Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of the Corporate & Investment Banking Division of Absa Bank Limited in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Bank Limited is a member of the Barclays group.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE) | Corporate Identification Number: U67120MH2006PTC161063 | Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays



Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2015). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.



Fortis Inc.

## New York Analyst Day April 1

**Reiterating Equal Weight:** We are reiterating our Equal Weight rating and are increasing our price target from C\$41 to C\$42 premised upon multiple expansion and our SOTP valuation methodology detailed below. Our earnings per share estimates remain C\$2.01/C\$2.18/C\$2.34 for '15/16/17 respectively. Our price target of C\$42 offers a total shareholder return of approximately 10.5% inclusive of the 3.5% dividend yield however it is inclusive of current LNG opportunities we believe will go forward. Further upside to shares will have to come via execution of further Tilbury LNG expansion and/or regulatory outcomes and operating leverage at the utilities.

**Solid Q4 and 2014 Results, Dividend Increased:** For the quarter the company reported adjusted ongoing earnings per share of C\$0.46 versus C\$0.47 last year. For the year results were C\$1.72 on an adjusted basis versus C\$1.66 last year. Management also announced a dividend increase to C\$0.34/share from C\$0.32/share commencing with the Q1 '15 dividend payable on March 1. This raises the annualized dividend to C\$1.36/share from C\$1.32/share. Results were driven by increased contribution from regulated utilities as a result of the UNS Energy acquisition and a full-year contribution from Central Hudson. Earnings in Alberta were higher as a result of higher rate base and customer growth while results in the Caribbean were better year on year as a result of higher sales. These gains were partially offset by lower results in Eastern Canada and higher financing costs at FortisBC Electric.

**Analyst Day in New York City on April 1:** The company will hold their first US-based Analyst Day for investors on Wednesday April 1 in New York City. Attending from management will be CEO Barry Perry, CFO Karl Smith, EVP Western Canada John Walker, EVP Eastern Canada/Caribbean Earl Ludlow, CEO of UNS Energy David Hutchens, and CEO of Central Hudson James Laurito. US-based investors should be particularly interested in the upcoming catalysts discussed in greater detail below as well as an update on utility operations and overall LNG opportunities.

### FTS.TO: Quarterly and Annual EPS (CAD)

	2014		2015		2016		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	2015	2016
Q1	0.65A	N/A	N/A	0.64E	N/A	N/A	N/A	N/A
Q2	0.28A	N/A	N/A	0.41E	N/A	N/A	N/A	N/A
Q3	0.33A	N/A	N/A	0.53E	N/A	N/A	N/A	N/A
Q4	0.46A	N/A	N/A	0.49E	N/A	N/A	N/A	N/A
Year	1.72A	2.01E	2.01E	2.01E	N/A	2.18E	2.14E	17%
P/E	22.8		19.6			18.0		8%

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 9.

Stock Rating	<b>EQUAL WEIGHT</b>
	Unchanged
Industry View	<b>NEUTRAL</b>
	Unchanged
Price Target	<b>CAD 42.00</b>
	raised 2% from CAD 41.00

Price (18-Feb-2015)	CAD 39.30
Potential Upside/Downside	+7%
Tickers	FTS CN / FTS.TO

Market Cap (CAD mn)	10852
Shares Outstanding (mn)	276.12
Free Float (%)	99.63
52 Wk Avg Daily Volume (mn)	0.7
52 Wk Avg Daily Value (CAD mn)	25.28
Dividend Yield (%)	3.5
Return on Equity TTM (%)	6.24
Current BVPS (CAD)	22.99

Source: Thomson Reuters

Price Performance	Exchange-TOR
52 Week range	CAD 42.23-30.50



[Link to Barclays Live for interactive charting](#)

### North America Utilities

Ross A. Fowler, CFA

1.212.526.3432

[ross.a.fowler@barclays.com](mailto:ross.a.fowler@barclays.com)

BCI, New York

Daniel Ford, CFA

1.212.526.0836

[daniel.x.ford@barclays.com](mailto:daniel.x.ford@barclays.com)

BCI, New York

North America Utilities					Industry View: NEUTRAL
Fortis Inc. (FTS.TO)					Stock Rating: EQUAL WEIGHT

Income statement (CADmn)	2014A	2015E	2016E	2017E	CAGR
Revenue	4,434	4,438	4,487	4,615	1.3%
EBITDA (adj)	1,443	1,539	1,648	1,754	6.7%
EBIT (adj)	837	886	940	1,001	6.2%
Pre-tax income (adj)	406	442	492	529	9.2%
Net income (adj)	325	363	412	455	11.9%
EPS (adj) (CAD)	1.72	2.01	2.18	2.34	10.8%
Diluted shares (mn)	218	262	265	268	7.1%
DPS (CAD)	1.29	1.32	1.36	1.40	2.8%

Margin and return data	Average				
EBITDA (adj) margin (%)	32.5	34.7	36.7	38.0	35.5
EBIT (adj) margin (%)	18.9	20.0	21.0	21.7	20.4
Pre-tax (adj) margin (%)	9.2	10.1	11.2	11.9	10.6
Net (adj) margin (%)	8.7	9.6	10.6	11.2	10.0
ROIC (%)	5.8	5.9	6.1	6.4	6.1
ROA (%)	1.7	1.8	1.9	2.1	1.9
ROE (%)	4.5	4.9	5.4	5.7	5.1

Balance sheet and cash flow (CADmn)	CAGR				
Net PP&E	12,520	13,596	14,774	15,296	6.9%
Total net assets	18,862	20,502	21,204	21,760	4.9%
Capital employed	14,379	14,900	15,290	15,541	2.6%
Shareholders' equity	7,292	7,470	7,684	7,926	2.8%
Net debt/(funds)	5,817	5,596	6,260	6,262	2.5%
Cash flow from operations	991	1,068	1,172	1,262	8.4%
Capital expenditure	-1,582	-1,819	-1,984	-1,342	N/A
Free cash flow	-932	-1,149	-1,225	-509	N/A
Pre-dividend FCF	-651	-803	-865	-134	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	22.8	19.6	18.0	16.8	19.3
EV/EBITDA (adj) (x)	11.6	10.7	10.4	9.8	10.6
EV/EBIT (adj) (x)	19.9	18.6	18.2	17.1	18.4
P/BV (x)	1.2	1.4	1.4	1.3	1.3
Dividend yield (%)	3.3	3.4	3.5	3.6	3.4
Total debt/capital (%)	40.7	41.6	41.7	41.1	41.3
Net debt/EBITDA (adj) (x)	4.0	3.6	3.8	3.6	3.8

Selected operating metrics	Average				
Payout ratio (%)	74.9	65.7	62.4	59.8	65.7
Interest cover (x)	3.6	3.8	4.0	4.1	3.9
Regulated (%)	78.0	57.9	62.0	63.1	65.3

Price (18-Feb-2015)	CAD 39.30
Price Target	CAD 42.00

**Why Equal Weight?** We see shares as fairly valued. Upside can come from higher sales growth and potential JV transmission projects in Ontario. This is offset by growth and execution risk related to completion of large construction projects, which are mitigated by the quality of regulation in British Columbia.

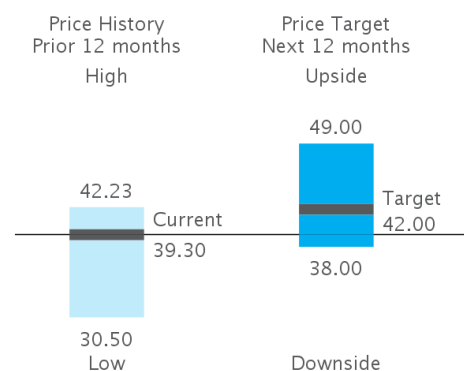
<b>Upside case</b>	<b>CAD 49.00</b>
--------------------	------------------

We increase sales growth by 1%, include the value of potential joint venture transmission projects in Ontario (NPV \$3/share), and value Canadian utility operations at a 25% premium. This leads to an indicative valuation of C\$49.

<b>Downside case</b>	<b>CAD 38.00</b>
----------------------	------------------

We decrease sales growth by 1%, do not include any transmission upside (similar to our base case), and value Canadian utility operations at a 15% premium. This leads to an indicative valuation of C\$38.

#### Upside/Downside scenarios



Source: Company data, Barclays Research  
Note: FY End Dec

## 2015 Outlook and Regulatory Update

Strategically the company remains focused on the integration of the recently acquired UNS Energy subsidiary in Arizona. Going forward key drivers in 2015 include completion of the Waneta hydroelectric expansion, a full year contribution from the UNS Energy segment, a mid-year rate increase at Central Hudson, and a decision on the capital tracker in Alberta. Waneta remains on track for a spring 2015 completion date and management sees earnings of C\$20 – C\$25 million for their 51% share of the project in 2015.

The focus for the company over the next year to year and a half remains the full integration of Central Hudson and UNS Energy, execution of the capital expenditure program, making progress on the LNG opportunities in British Columbia, and completing the strategic review of the Fortis Properties unit. As a result, despite management's stated goal of achieving an eventual 50/50 Canadian/US balance we do not see any further strategic forays into the United States within this 12 – 18 month period.

### LNG Opportunities

In late 2013 the Government of British Columbia approved an Order in Council exempting the Tilbury Phase 1A expansion from normal regulatory review and imposing a limit of C\$400 million in capital expenditures associated with the exemption. The Tilbury Phase 1A expansion associated with this ruling is now underway and is expected to be in service by the end of 2016. Related to the expansion of the Tilbury LNG site, the company executed an agreement with BC Ferries in the quarter to supply LNG for three new mid-size Ferries to be placed into service in the BC Ferry system. This continues to demonstrate the existence of domestic LNG demand within Western Canada.

In late 2014 the Government of British Columbia approved a second Order in Council amending the original Tilbury expansion exemption to now total C\$850 million in capital investments. This Order in Council also approved an additional C\$200 million related to improving coastal access to the site. This incorporated the Tilbury Phase 1B part of the project expected to cost C\$450 million and currently under agreement to be supplied to Hawaii, pending approval of the Hawaii Public Service Commission. The pending agreement is for 140 GJ/day and is a 15 year conditional contract. If Hawaii does not approve the LNG imports from the Tilbury Phase 1B expansion, management expressed confidence in both the local, including Alaska, and international demand for the LNG that would be available from this second expansion.

The company is also pursuing a C\$600 million pipeline expansion project to supply natural gas to the proposed and privately owned Woodfibre LNG facility in British Columbia. The Woodfibre site is a former paper mill near Squamish. Both applications by FortisBC and Woodfibre LNG were accepted by the Environmental Assessment Office (EAO) in early January. The first step in the environmental approval process is a 45 day comment period set for January 26 – March 4 for the pipeline project and January 22 – March 9 for the Woodfibre LNG project. The full review is expected to take six months and conclude in July. Management is currently negotiating a transport contract with the owner of the Woodfibre site.

### Capital Expenditure Update and Guidance

The completion of the Waneta hydroelectric expansion remains on schedule and on budget. The C\$900 million 335MW expansion is expected to be completed in the spring of this year. So far approximately C\$679 million has been invested in the project since construction began in 2010.

The Tilbury Phase 1A expansion in British Columbia, expected to cost C\$400 million and reach completion by the end of 2016 was begun in the fourth quarter. The project will be

included within the company's rate base in British Columbia once completed. The company also purchased, at the UNS Energy subsidiary the 550MW Gila River plant as anticipated in Q4 '14 for C\$252 million (US\$219 million).

The five year go forward capital expenditure program is forecast by management to total C\$2.2 billion in 2015 and approximately C\$9 billion for the five year period through 2019. This will drive rate base growth of approximately 6.5% per annum from approximately C\$14 billion to approximately C\$19 billion by 2019. Inclusive of future LNG opportunities related to the Tilbury Phase 1B expansion and the Woodfibre site, the rate base growth per annum would approximate 7.5%.

Anticipated capital expenditures for 2015 by subsidiary and function are provided in the table below.

FIGURE 1

**2015 Capital Expenditure Forecast by Subsidiary and Function**

<i>C\$Millions</i>	UNS Energy	Central Hudson	BC Energy	Alberta	BC Electric	Eastern Canada	Carib.	Total Regulated	Gen	Non-Utility	Total
Generation	264	1	0	0	3	7	90	365	78	0	443
Transmission	163	52	82	0	19	21	2	339	0	0	339
Distribution	131	79	123	329	33	110	28	833	0	0	833
Facilities, Equipment, Vehicles, & Other	87	20	158	70	42	10	4	391	0	36	427
Information Technology	39	13	22	18	6	11	1	110	0	0	110
<b>TOTAL</b>	<b>684</b>	<b>165</b>	<b>385</b>	<b>417</b>	<b>103</b>	<b>159</b>	<b>125</b>	<b>2,038</b>	<b>78</b>	<b>36</b>	<b>2,152</b>

Source: Company Filings, Barclays Research Estimates

Capital expenditures related to significant capital projects that are underway are detailed in the table below.

FIGURE 2

**Capex Forecast Related to Major Capital Projects, C\$ Millions**

Subsidiary	Project	Pre-2014	Actual 2014	Forecast 2015	Forecast Post 2015	Completed
UNS Energy						
	Gila River Unit 3	0	252	0	0	2014
	Springerville Unit 1	0	23	55	0	2015
	Pinal Transmission	0	9	92	0	2015
BC Energy						
	Tilbury LNG	4	97	170	128	2016
Alberta						
	Pole Management	132	27	41	114	2019+
Caribbean						
	Generation Expansion	0	12	58	30	2016
Waneta						
	Waneta Expansion	579	100	76	72	2015

Source: Company Filings, Barclays Research Estimates

The Pinal transmission project is the construction of a transmission line in Pinal County Arizona that will increase import capacity from Gila River Unit 3 and the Palo Verde trading hub. The pole management program in Alberta is a program to replace 110,000 vintage

poles that were not chemically treated to prevent risk of failure due to age. Caribbean Utilities was the successful bidder for a 39.7MW capacity diesel power plant on Grand Cayman which is to be constructed as two 18.5MW units and a 2.7MW heat recovery steam turbine. The project is expected to be completed mid-year 2016.

## Regulatory Update and Matters Outstanding

### *British Columbia*

The British Columbia Utilities Commission (BCUC) approved the performance based ratemaking in September 2014 and the ruling did not have a significant impact on the current year.

### *Alberta*

A generic cost of capital proceeding is continuing before the Alberta Utilities Commission (AUC) and a final decision is expected in the first quarter of this year. Our model incorporates 8.75% allowed returns on equity in Alberta. The AUC is also expected to decide the recovery amounts related to the capital expenditure tracker mechanism within performance based ratemaking this quarter. The AUC approved interim rates that recovered 60% of the applied for revenue in 2013 and 2014, and 90% of the applied for revenue in 2015. As a reminder, FortisAlberta originally filed for revenue of approximately C\$23/C\$48/C\$69 million related to the capital tracker mechanism for '13/14/15 respectively. Based upon the 60% recovery within the interim decision the company recorded revenues of C\$15/C\$30 million for '13/14 respectively. The revenue true-up at 90% recovery for '13/14 versus 60% recovery would be approximately C\$26 million.

### *New York*

A joint settlement was filed on February 6 related to the ongoing general rate case in New York for the Central Hudson subsidiary. The settlement would call for a three year rate plan beginning on July 1, 2015 reflecting a 48% equity ratio and a 9% allowed return on equity. Public hearings are expected to be held before the New York Public Service Commission (NY PSC) in March and/or April and a final decision from the NY PSC is anticipated in June. We do not view there being significant opposition to the settlement and expect it to be approved by the Commission.

### *Fortis Properties*

The strategic review of Fortis Properties continues and management expects to make a decision regarding the disposition of the non-core asset in the second quarter of this year. Earnings for Fortis Properties in 2013 were C\$23 million which is comparable with 2013. Several options remain open for the unit and could include sale of all or part of the assets, a sale of the shares of Fortis Properties, or an initial public offering. We continue to model a sale at a 10% cap rate for the hotels business and a 5% cap rate for the commercial property business for a total estimated sale price of approximately C\$1.1 billion. In our view the proceeds would be used to fund future utility capital investments and potential future LNG expansion opportunities.

## 2014 Results

For the quarter the company reported earnings per share of C\$0.44 versus C\$0.47 last year. For the year the company reported earnings per share of C\$1.39 versus C\$1.74 last year. On an adjusted and fully diluted basis earnings per share were, for the fourth quarter C\$0.46 versus C\$0.47 last year, and annually C\$1.72 versus C\$1.66 last year.

Reported versus adjusted fully diluted earnings are provided in the tables below for both 2013 and 2014.

FIGURE 3

**2013 Reported versus Adjusted Earnings per Share**

	Q1	Q2	Q3	Q4	ANNUAL
Reported EPS	\$ 0.76	\$ 0.28	\$ 0.23	\$ 0.47	\$ 1.74
Exploits Partnership Settlement	\$ (0.12)	\$ -	\$ -	\$ -	
Income Tax Recovery, Pref. Shares	\$ -	\$ (0.13)	\$ -	\$ -	
CHG Acquisition one-time expenses	\$ -	\$ 0.17	\$ -	\$ -	
<b>Adjusted EPS</b>	<b>\$ 0.64</b>	<b>\$ 0.32</b>	<b>\$ 0.23</b>	<b>\$ 0.47</b>	<b>\$ 1.66</b>

Source: Company Filings, Barclays Research Estimates

FIGURE 4

**2014 Reported versus Adjusted Earnings per Share**

	Q1	Q2	Q3	Q4	ANNUAL
Reported EPS	\$ 0.67	\$ 0.22	\$ 0.06	\$ 0.44	\$ 1.39
Griffiths Contribution pre sale	\$ (0.02)	\$ -	\$ -	\$ -	
Convertible Debentures	\$ -	\$ 0.06	\$ 0.11	\$ -	
UNS Acquisition one-time expenses	\$ -	\$ -	\$ 0.16	\$ 0.02	
<b>Adjusted EPS</b>	<b>\$ 0.65</b>	<b>\$ 0.28</b>	<b>\$ 0.33</b>	<b>\$ 0.46</b>	<b>\$ 1.72</b>

Source: Company Filings, Barclays Research Estimates

Regulated utilities contributed C\$460 million in earnings in 2014 versus C\$392 million in 2013, which was inclusive of C\$60 million in earnings from UNS Energy from the date of acquisition and a full year contribution from Central Hudson, which was acquired in June 2013. FortisAlberta contributed C\$9 million in higher earnings as a result of higher rate base and customer growth. Results in the Caribbean on Grand Cayman and Turks & Caicos were better by C\$4 million as a result of better sales growth year on year. These positive drivers were offset by lower results at the Eastern Canadian utilities, and higher finance costs at FortisBC Electric. Net reported earnings by segment for the year and the quarter are provided in the table below.

FIGURE 5

**Reported Earnings by Segment Full Year and Q4 2014**

<i>C\$ Millions</i>	ANNUAL			QUARTERLY		
	2014	2013	Variance	2014	2013	Variance
US Regulated Electric & Gas						
UNS Energy	60	0	60	23	0	23
Central Hudson	37	23	14	4	11	-7
Canadian Regulated Gas						
FortisBC Energy	127	127	0	49	50	-1
Canadian Regulated Electric						
FortisAlberta	103	94	9	25	18	7
FortisBC Electric	46	50	-4	12	13	-1
Eastern Canadian	60	75	-15	14	14	0
Other						
Caribbean Utilities	27	23	4	6	8	-2
Fortis Generation	20	39	-19	4	4	0
Non-Utility	28	18	10	7	3	4
Corporate & Other	-191	-96	-95	-31	-21	-10

Source: Company Filings, Barclays Research Estimates



Results at UNS Energy were C\$60 million (US\$54 million) for the period since the acquisition. Annualized earnings were US\$144 million in 2014 versus US\$132 million for 2013 excluding the impact of one-time acquisition related expenses. The increase was primarily due to the impact of higher rates related to a rate case outcome at Tucson Electric Power effective in mid-2013, and at UNS Electric effective on January 1 2014.

Central Hudson reported US\$34 million versus US\$ 44 million in 2013. The decrease was a result of higher D&A and O&M during the two-year rate freeze agreed to upon acquisition of the utility by Fortis in 2013. New rates are expected to go into effect in line with the settlement agreement in New York described above at mid-year.

FortisBC Energy reported flat earnings year on year as the positive drivers related to the outcome of the second phase of the generic cost of capital proceeding in British Columbia and higher AFUDC balances were completely offset by regulatory flow through deferrals and greater sharing under the performance based ratemaking mechanism that went into effect at the beginning of 2014.

FortisAlberta results were C\$9 million higher related to greater energy deliveries as a result of customer growth and increased rate base on a year over year basis. At FortisBC electric results were lower as a result of a more normal level of finance charges versus a lower than expected level in 2013.

At the Eastern Canadian utilities results were lower as a result of the tax recoveries realized in 2013. Excluding these one-time tax recoveries results were C\$2 million higher year on year as sales growth was partially offset by higher operating costs at Newfoundland Power related to the loss of energy supply from Newfoundland & Labrador Hydro and related power interruptions in January of last year.

In the Caribbean results were higher related to increased sales growth and the impact of foreign exchange which helped results by approximately C\$1.5 million year on year. These positive factors were partially offset by higher operating expenses.

Excluding the expropriation gain recorded in 2013, results at Fortis Generation were higher by C\$1 million year on year related to favorable foreign exchange rates offset by project development costs related to investigating a possible hydroelectric opportunity in British Columbia.

Corporate & Other saw results lower by C\$95 million, although net of one-time adjustments, expenses were only C\$17 million higher year on year. This increase was related to higher finance charges, preferred dividends, and operating expenses partially offset by higher income tax recovery and interest income. Going forward post the UNS Energy acquisition, as a larger entity with greater preference shares management expects corporate and other costs between C\$125 – C\$130 million on a full year basis.

### *Valuation Methodology*

Our C\$42 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 16% premium to the 2017 US regulated utility multiple of 15.7x our Canadian utility operations '16E EPS of C\$1.57. We apply the straight '16E multiple of 15.7x our US Utility operations '16E EPS of C\$0.77. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '17 multiple of 15.7x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.17. For unregulated generation we use a '17 power multiple of 17.2x our '17E EPS of C\$0.10. For corporate and other, we use the straight '17E US regulated utility multiple of 15.7x our (C\$0.26) EPS for the segment. To this we add a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2017 at a 10% discount rate and applying a 15.7x multiple and a 50% probability of completion.

Our prior C\$41 price target for Fortis was premised upon a sum-of-the-parts (SOTP) methodology. We applied a 16% premium to the then 2016 US regulated utility multiple of 16.7x our Canadian utility operations '16E EPS of C\$1.48. We applied the straight '16E multiple of 16.7x our US Utility operations '16E EPS of C\$0.72. For Caribbean operations we use the then publically traded Caribbean Utilities Corporation '16 multiple of 15.4x based upon consensus estimates. We applied this to our Caribbean '16E EPS of C\$0.14. For unregulated generation we used a '16 power multiple of 13.0x our '16E EPS of C\$0.10. For corporate and other, we used the then straight '16E US regulated utility multiple of 16.7x our (C\$0.26) EPS for the segment. To this we added a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2016 at a 10% discount rate and applied a 16.7x multiple and a 50% probability of completion.

## ANALYST(S) CERTIFICATION(S):

We, Ross A. Fowler, CFA and Daniel Ford, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

## IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-conflict-management.html>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Primary Stocks (Ticker, Date, Price)

Fortis Inc. (FTS.TO, 18-Feb-2015, CAD 39.30), Equal Weight/Neutral, J

### Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: Barclays Bank PLC and/or an affiliate is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

**IMPORTANT DISCLOSURES CONTINUED**

T: Barclays Bank PLC and/or an affiliate is providing equity advisory services to this issuer.

**Risk Disclosure(s)**

Master limited partnerships (MLPs) are pass-through entities structured as publicly listed partnerships. For tax purposes, distributions to MLP unit holders may be treated as a return of principal. Investors should consult their own tax advisors before investing in MLP units.

**Guide to the Barclays Fundamental Equity Research Rating System:**

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

**Stock Rating**

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

**Industry View**

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

**North America Utilities**

Alliant Energy (LNT)	Ameren Corp. (AEE)	American Electric Power (AEP)
American Water Works (AWK)	Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)
Brookfield Infrastructure Partners LP (BIP_u.TO)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	Brookfield Renewable Energy Partners LP (BEP)
Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)
Consolidated Edison (ED)	Dominion Resources (D)	DTE Energy (DTE)
Duke Energy (DUK)	Edison International (EIX)	Emera Inc. (EMA.TO)
Eversource Energy (ES)	Fortis Inc. (FTS.TO)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	Integrus Energy Group Inc. (TEG)	ITC Holdings (ITC)
National Grid Plc (NGG)	National Grid Plc (NG.L)	NiSource, Inc. (NI)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
PPL Corporation (PPL)	SCANA Corp. (SCG)	Sempra Energy (SRE)
Southern Co. (SO)	TECO Energy (TE)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)	

**Distribution of Ratings:**

Barclays Equity Research has 2681 companies under coverage.

43% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 55% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Firm.

14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 43% of companies with this rating are investment banking clients of the Firm.

## IMPORTANT DISCLOSURES CONTINUED

### Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Top Picks:

Barclays Equity Research's "Top Picks" represent the single best alpha-generating investment idea within each industry (as defined by the relevant "industry coverage universe"), taken from among the Overweight-rated stocks within that industry. Barclays Equity Research publishes global and regional "Top Picks" reports every quarter and analysts may also publish intra-quarter changes to their Top Picks, as necessary. While analysts may highlight other Overweight-rated stocks in their published research in addition to their Top Pick, there can only be one "Top Pick" for each industry. The current list of Top Picks is available on <https://live.barcap.com/go/RSL/servlets/dv.search?pubType=4526&contentType=latest>.

To see a list of companies that comprise a particular industry coverage universe, please go to <http://publicresearch.barclays.com>.

### Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Bank Limited (Absa, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

## IMPORTANT DISCLOSURES CONTINUED

## Fortis Inc. (FTS CN / FTS.TO)

CAD 39.30 (18-Feb-2015)

Stock Rating

Industry View

EQUAL WEIGHT

NEUTRAL

## Rating and Price Target Chart - CAD (as of 18-Feb-2015)

Currency=CAD



Date	Closing Price	Rating	Adjusted Price Target
05-Jan-2015	39.18		41.00
07-Nov-2014	37.74		40.00
08-May-2014	32.38		36.00
06-Jan-2014	30.35		32.00
01-Aug-2013	32.01		35.00
13-Jun-2013	32.30		34.00
14-May-2013	33.97		36.00
24-Apr-2013	34.10		37.00
08-Feb-2013	33.78		35.00
05-Nov-2012	34.09		33.00
13-Aug-2012	33.93	Equal Weight	35.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Fortis Inc..

**Valuation Methodology:** Our C\$42 price target for Fortis is premised upon a sum-of-the-parts (SOTP) methodology. We apply a 16% premium to the 2017 US regulated utility multiple of 15.7x our Canadian utility operations '16E EPS of C\$1.57. We apply the straight '16E multiple of 15.7x our US Utility operations '16E EPS of C\$0.77. For Caribbean operations we use the publically traded Caribbean Utilities Corporation '17 multiple of 15.7x based upon consensus estimates. We apply this to our Caribbean '16E EPS of C\$0.17. For unregulated generation we use a '17 power multiple of 17.2x our '17E EPS of C\$0.10. For corporate and other, we use the straight '17E US regulated utility multiple of 15.7x our (C\$0.26) EPS for the segment. To this we add a valuation for the upside related to LNG opportunities of C\$0.23 in 2018 discounted to 2017 at a 10% discount rate and applying a 15.7x multiple and a 50% probability of completion.

**Risks which May Impede the Achievement of the Barclays Research Price Target:** Regulatory environments in several Canadian provinces including British Columbia, Alberta, Newfoundland & Labrador, Ontario, and Prince Edward Island. Overall economic and sales growth through the company's various service territories. Execution of large scale capital projects on time and on budget. Real estate valuations, especially in the Atlantic Provinces of Canada.

## DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This material has been issued and approved for distribution in the UK and European Economic Area ("EEA") by Barclays Bank PLC. It is being made available primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC ([www.iiroc.ca](http://www.iiroc.ca)).

Subject to the conditions of this publication as set out above, the Corporate & Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of the Corporate & Investment Banking Division of Absa Bank Limited in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Bank Limited is a member of the Barclays group.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinshō) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE) | Corporate Identification Number: U67120MH2006PTC161063 | Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays

Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2015). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.







# FORTIS INC.

## Reports 11<sup>th</sup> Consecutive Record Annual Earnings

### Highlights

- Fortis reported record annual earnings of \$285 million, or \$1.65 per common share, for the year ended December 31, 2010, compared to \$262 million, or \$1.54 per share, in 2009. The 8.8% y/y growth in earnings was boosted by the strong performance of the regulated electric utilities in Canada, and the Company's non-regulated hydroelectric generation segment.
- The Canadian Regulated Electric Utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) delivered \$164 million of the year's overall earnings, a year-over-year improvement of more than 10%. The strong results in that segment were helped by an increase in electrical infrastructure investment and the increase in allowable ROE at FortisBC effective January 1, 2010.
- We are confident the Company's management remains disciplined and patient in its pursuit of an accretive acquisition opportunity to add a regulated utility, in the United States or Canada, to its portfolio.
- We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.6x 2011E EPS and 10.2x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 4% over the next year, which justifies our HOLD rating. The shares currently yield 3.3%.

### FTS-TSX

February 11, 2011

Stock Rating: **HOLD (unchanged)**  
Target Price: **\$34.00 (unchanged)**  
Closing Price (10/02/11): **\$33.81**  
52 Week Range: **\$21.60-35.45**

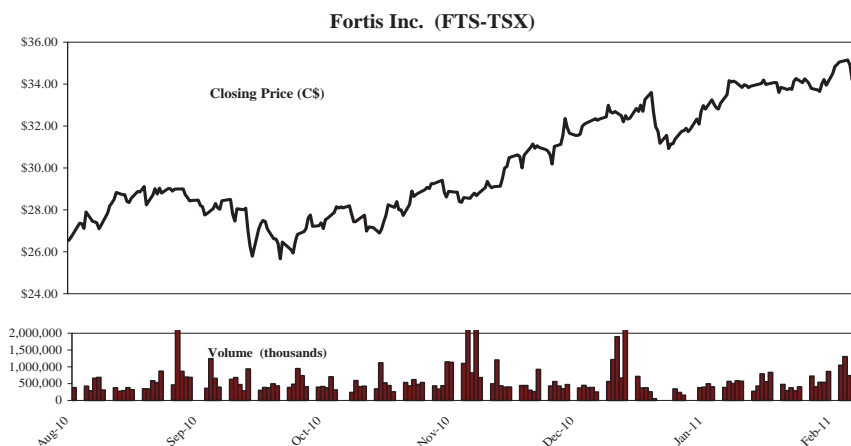
Fortis Inc.	2009A	2010A	2011E
EBITDA	\$1,071.0	\$1,150.0	\$1,190.9
EPS (basic)	\$1.54	\$1.65	\$1.74
EPS (fd)	\$1.51	\$1.62	\$1.68
P/E (Basic)	22.0 x	20.5 x	19.5 x
EV/EBITDA	11.3 x	10.5 x	10.2 x
Shares O/S	172.9		
Mkt. Cap.	\$5,846		
Enterprise Value	\$12,118		
Net Debt/Total Cap.	63%		
BVPS (basic)	\$19.09		
Price/Book Value	1.8 x		
Dividend	\$1.12		
Dividend Yield	3.3%		

### Change in Basic EPS Forecasts

2011E: was \$1.79

### Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



\*Please view the disclaimer at the end of this report

## Financial Results

**Fortis Inc. reported a 4.9% y/y growth in Q4/10 consolidated net earnings attributable to common equity of \$85 million, or \$0.49 per share, compared to \$81 million, or \$0.48 per share in Q4/09**

- **Fortis Inc. reported record annual results for fiscal 2010 with consolidated net earnings attributable to common equity shareholders of \$285 million, or \$1.65 per share, compared to \$262 million, or \$1.54 per share, in 2009.** This represents the 11<sup>th</sup> consecutive year of record earnings for the Company. The 8.8% y/y growth in 2010 earnings was supported by strength in the Canadian Regulated Utilities and non-regulated hydroelectric generation segments, which more than offset pressures in the Caribbean Regulated Electric Utilities and higher corporate expenses. Fortis also delivered good Q4 results with a 4.9% y/y growth in earnings to reach \$85 million in the quarter. Below is a summary of the key drivers in each of the Company's businesses.

### Exhibit 1: Results Summary (in Canadian dollars)

	Q4 2010	Q4 2009	2010	2009
Net Earnings Applicable to Common Shares (\$M)	\$85	\$81	\$285	\$262
Reported Basic EPS	\$0.49	\$0.48	\$1.65	\$1.54
Reported Diluted EPS	\$0.47	\$0.46	\$1.62	\$1.51

Source: Company reports, Beacon Securities.

**The Canadian Regulated Electric Utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) delivered \$164 million of the year's overall earnings, a year-over-year improvement of more than 10%**

- The **Terasen Gas** companies reported an 11% y/y growth in earnings to reach \$130 million for the year. However, almost \$9 million of the \$13 million in earnings growth was attributed to a reversal of a provision taken in Q4/09 for project cost overruns. The reversal was approved by the regulator. The Company also saw a boost to earnings due to an increase to the allowable ROE at Terasen Gas effective July 1, 2009 and an increase in the common equity thickness effective January 1, 2010.
- The Canadian Regulated Electric Utilities (primarily FortisAlberta, FortisBC and Newfoundland Power) delivered \$164 million of the year's overall earnings, a year-over-year improvement of more than 10%. The strong results in that segment were helped by an increase in electrical infrastructure investment and the increase in allowable ROE at FortisBC effective January 1, 2010.
- **FortisAlberta** reported 2010 earnings of \$68 million, almost 13% higher than last year's \$60 million. The improved results at the Western Canada utility were primarily driven by higher allowed ROE, higher energy deliveries and an increase in customers. These were partially offset by slightly lower than average consumption in the residential customer base.
- **FortisBC** improved its earnings by 14% y/y to reach \$42 million for the year compared to \$37 million in 2009. The

increase was primarily due to a 6% increase in customer electricity rates, effective January 1, 2010, reflecting increased allowed ROE of 9.90% for 2010, compared to 8.87% in 2009. This was slightly offset by a 3.5% decrease in annual electricity sales.

- **Newfoundland Power** also improved its earnings by more than 9% to reach \$35 million for the year, compared to \$32 million in 2009. Customer growth drove the improved results, however lower average consumption due to milder temperatures and lower activity in the commercial sector offset some of that growth.
- **Regulated Electric Utilities-Caribbean** delivered weaker earnings of \$23 million for the year, compared to \$27 million in 2009. This segment was the key drag on overall results, primarily due to lower consumption driven by lower average temperatures experienced on Grand Cayman and Turks and Caicos Islands and Belize. This was offset slightly by some customer growth in Belize and Turks and Caicos Islands.
- Earnings from **Fortis Generation** were up 25% to reach \$20 million for the year, compared to \$16 million in 2009. The results were boosted by higher rainfall and the commissioning of Vaca hydroelectric generating facility in Belize in March 2010. Higher production in Upper New York State, Ontario and British Columbia was also experienced due to higher rainfall.
- **Fortis Properties** earnings came at \$26 million, compared to \$24 million in 2009. The results were primarily due to higher revenue from hotel properties in Atlantic Canada and offset by slightly lower occupancy rates in the Real Estate division.
- **Corporate and other expenses** came in at \$78 million for the year, compared to \$71 million in 2009. The increase in dividends associated with the First Preference Shares, Series H issued in January 2010 was partially offset by lower finance charges.

**Exhibit 2:** Segmented Results (in Canadian dollars)

	Q4 2010	Q4 2009	2010	2009
Terasen Gas Companies	\$45	\$48	\$130	\$117
FortisAlberta	\$17	\$15	\$68	\$60
FortisBC	\$10	\$8	\$42	\$37
Newfoundland Power	\$9	\$8	\$35	\$32
Other Canadian Electric Utils	\$5	\$7	\$19	\$20
Regulated Electric Utils - Caribbean	\$5	\$7	\$23	\$27
Non-Regulated - Fortis Generation	\$5	\$2	\$20	\$16
Non-Regulated - Fortis Properties	\$7	\$5	\$26	\$24
Corporate and Other	-\$18	-\$19	-\$78	-\$71
<b>Total</b>	<b>\$85</b>	<b>\$81</b>	<b>\$285</b>	<b>\$262</b>

Source: Company reports, Beacon Securities.

- Cash flow from operations grew almost 23% y/y to reach \$783 million in 2010, largely driven by the strong earnings, increased amortization costs and improved working capital management. Gross capital expenditures reached almost \$1.1 billion in 2010 as the Company continues to aggressively invest in its infrastructure assets.

### **Outlook and Financial Forecast**

We have updated our model to better reflect results from FortisAlberta, FortisBC and Newfoundland Power. We have tempered our expectation for the Caribbean utilities slightly and increase our estimates for Fortis Generation and maintained our forecasts for Fortis Properties. Exhibit 3 shows our updated forecast for overall EBITDA, net income and EPS.

**Exhibit 3:** Beacon Securities' Updated Forecast (in Canadian dollars)

	2010A	2011E - New	2011E - Old
EBITDA (\$M)	\$1,150	\$1,191	\$1,233
<b>Net Income (\$M)</b>	<b>\$285</b>	<b>\$302</b>	<b>\$311</b>
EPS ( <i>basic</i> )	\$1.65	\$1.74	\$1.80
<b>EPS (<i>diluted</i>)</b>	<b>\$1.62</b>	<b>\$1.68</b>	<b>\$1.79</b>

Source: Company reports, Beacon Securities.

Long-term debt increased slightly to end 2010 at \$5.6 billion, compared to \$5.3 billion at the end of 2009. Fortis continues to have strong access to capital markets, to finance its future capital programs. We expect the Company to continue to invest in infrastructure and estimated gross capital expenditures for 2011 to reach nearly \$1.2 billion. Management also plans to spend almost \$5.5 billion on further capex projects over the next five years, including the work related to the Waneta Expansion Project.

### **Valuation and Recommendation**

***We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name***

**We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.6x 2011E EPS and 10.2x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 4% over the next year, which justifies our HOLD rating. The dividend currently yields 3.3%.

We are confident the Company's management remains disciplined and patient in its pursuit of an accretive acquisition opportunity to add a regulated utility, in the United States or Canada, to its portfolio. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.

**Key Risks**

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

## Disclaimer

### Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? ☐ Yes ☒ No

Does the analyst who prepared this research report hold any of the issuer's securities? ☐ Yes ☒ No

Does Beacon Securities beneficially own more than 1% of equity securities of the issuer? ☐ Yes ☒ No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months? ☐ Yes ☒ No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? ☒ Yes ☐ No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department? ☐ Yes ☒ No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer? ☐ Yes ☒ No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? ☐ Yes ☒ No

Is Beacon Securities a market maker in the equity of the issuer? ☐ Yes ☒ No

Has the analyst visited the head office of the issuer and viewed its operations in a limited context? ☒ Yes ☐ No

Did the issuer pay for or reimburse the analyst for the travel expenses? ☐ Yes ☒ No

Beacon analysts are not permitted to own the securities they cover, but may own securities covered by other members of the research team, subject to blackout conditions.

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the IIROC. All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

Ending Q4 2010	# Stocks	Distribution		
<b>BUY</b>	10	55.6%	BUY	Total 12-month return expected to be >15%
<b>Spec. Buy</b>	3	16.7%		Potential total 12-month return is high (>15%), but given
<b>HOLD</b>	6	27.8%	SPECULATIVE BUY	elevated risk, investment could result in a material loss
<b>SELL</b>	0	0.0%		Total 12-month return expected to be between 0% and 15%
<b>Restricted</b>	0	0.0%	HOLD	
<b>Total</b>	19	100.0%	SELL	Total 12-month return expected to be negative

\*as of quarter end

### Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.beaconsecurities.ca](http://www.beaconsecurities.ca) via login and password.

### Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.





# FORTIS INC.

## Healthy Economic Activity in Western Canada Driving Fortis' Performance

### Highlights

- **Fortis reported strong Q1/2011 earnings of \$117 million, or \$0.65 per common share, compared to \$100 million, or \$0.58 per share, in Q1/2010.** The 17.0% y/y growth in earnings was driven by the Company's regulated utilities in Western Canada.
- **FortisAlberta grew its quarterly earnings by 50% y/y.** Results were primarily driven by customer electricity rate growth and growth in electricity sales. FortisBC also delivered strong quarterly earnings which grew 34% y/y largely due to increased electricity rates and continued investment in utility infrastructure. **The Company also maintained its expectation to invest \$5.5 billion on capex initiatives over the next five years.**
- We believe the Company's management remains disciplined and patient in its pursuit of an accretive regulated utility acquisition, in the United States or Canada. We believe current valuations dictate additional patience in order to prevent overpayment for desired targets. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.
- **We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.4x 2011E EPS and 10.3x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 8.7% over the next year, which justifies our HOLD rating. The shares currently yield 3.6%.

### FTS-TSX

May 5, 2011

**Stock Rating: HOLD (unchanged)**  
**Target Price: \$34.00 (unchanged)**  
**Closing Price (04/05/11): \$32.35**  
**52 Week Range: \$21.60-35.45**

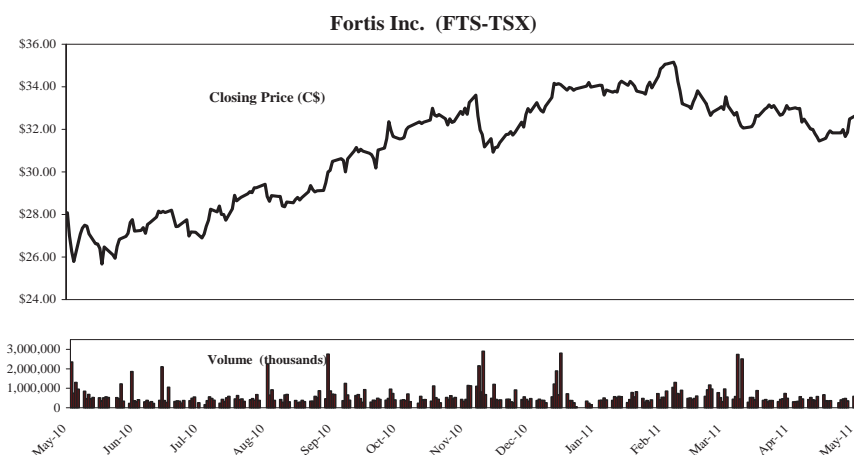
Fortis Inc.	2010A	2011E	2012E
EBITDA	\$1,150.0	\$1,172.5	\$1,251.0
EPS (basic)	\$1.65	\$1.75	\$1.83
EPS (fd)	\$1.62	\$1.70	\$1.78
P/E (Basic)	19.6 x	18.5 x	17.7 x
EV/EBITDA	10.5 x	10.3 x	9.7 x
Shares O/S	175.0		
Mkt. Cap.	\$5,661		
Enterprise Value	\$12,104		
Net Debt/Total Cap.	59%		
BVPS (basic)	\$19.38		
Price/Book Value	1.7 x		
Dividend	\$1.16		
Dividend Yield	3.6%		

### Change in Basic EPS Forecasts

2011E: was \$1.74  
2012E: new

### Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.



\*Please view the disclaimer at the end of this report



## Financial Results

*Fortis Inc. reported a 17.0% y/y growth in Q1/2011 consolidated net earnings attributable to common equity of \$117 million, or \$0.67 per share, compared to \$100 million, or \$0.58 per share in Q1/2010*

- Fortis Inc. reported strong Q1/2011 results with consolidated net earnings attributable to common equity shareholders of \$117 million, or \$0.67 per common share, compared to \$100 million, or \$0.58 per share, in Q1/2010. The 17.0% y/y growth in Q1 earnings was largely driven by strength in the Company's regulated utilities in western Canada. Below is a summary of the contribution from each of the Company's business segments in the quarter compared to the same period last year.

### Exhibit 1: Consolidated net earnings summary

(in millions of Canadian dollars, except per share data)	Q1 2011	Q1 2010
<b>Net Earnings Applicable to Common Shares (\$M)</b>	<b>\$117</b>	<b>\$100</b>
<b>Reported Basic EPS</b>	<b>\$0.67</b>	<b>\$0.58</b>
<b>Reported Diluted EPS</b>	<b>\$0.65</b>	<b>\$0.56</b>

Source: Company reports, Beacon Securities.

*Effective March 1, 2011, the Company's Canadian Regulated Gas Utilities, the Terasen Gas companies, were renamed FortisBC Energy Inc.*

- Effective March 1, 2011, the Company's Canadian Regulated Gas Utilities, the **Terasen Gas** companies, were renamed **FortisBC Energy Inc.** These Gas Utilities grew earnings by 4.1% y/y to reach \$76 million in the first quarter. The strength was driven by growth in utility infrastructure investment, reduced amortization costs and higher capitalized finance charges. This was partially offset by an increase in operating expenses. Management also commented positively on the heightened focus on natural gas and its potential use for transportation in North America. Key contributors to FortisBC Energy's strong performance in the quarter were higher average consumption by residential and commercial customers driven by cooler weather, and higher transportation volumes driven by increased economic activity, especially in the forestry sector.

*FortisBC Energy's strong performance in the quarter was supported by higher transportation volumes driven by increased economic activity, especially in the forestry sector*

### Exhibit 2: Segmented net earnings

(in millions of Canadian dollars)	Q1 2011	Q1 2010
<b>FortisBC Energy Inc. (formerly Terasen Gas)</b>	<b>\$76</b>	<b>\$73</b>
<b>FortisAlberta</b>	<b>\$21</b>	<b>\$14</b>
<b>FortisBC Electric</b>	<b>\$19</b>	<b>\$14</b>
<b>Newfoundland Power</b>	<b>\$7</b>	<b>\$7</b>
<b>Other Canadian Electric Utils</b>	<b>\$6</b>	<b>\$5</b>
<b>Electric Caribbean</b>	<b>\$4</b>	<b>\$4</b>
<b>Non-Regulated - Fortis Generation</b>	<b>\$3</b>	<b>\$2</b>
<b>Non-Regulated - Fortis Properties</b>	<b>\$1</b>	<b>\$2</b>
<b>Corporate and Other</b>	<b>-\$20</b>	<b>-\$21</b>
<b>Total</b>	<b>\$117</b>	<b>\$100</b>

Source: Company reports, Beacon Securities.

- The Canadian Regulated Electric Utilities delivered 32% y/y growth in earnings, to reach \$53 million (primarily driven by FortisAlberta, and FortisBC Electric.)

***FortisAlberta's performance was largely supported by a 4.7% increase in base customer electricity distribution rates over final approved 2010 rates, growth in customer base and higher energy deliveries***

- **FortisAlberta's** quarterly earnings grew by 50% y/y, to reach \$21 million. The improvements were largely supported by a 4.7% increase in base customer electricity distribution rates over final approved 2010 rates, growth in customer base and higher energy deliveries. The segment's results were also boosted by a \$1 million gain from the sale of property.
- **FortisBC Electric** quarterly earnings grew 36% y/y, to reach \$19 million. The improvements were largely supported by a 6.6% increase in customer electricity rates and a 10.4% increase in electricity sales as well as continued investment in utility infrastructure. This was slightly offset by lower pole attachment revenue and an increase in incentive adjustments owed to customers.
- **Newfoundland Power** delivered flat y/y growth with quarterly earnings of \$7 million. The growth in the number of customers and higher average consumption were offset by the decrease in allowed ROE and higher maintenance costs and higher labour costs in the quarter.
- **Regulated Electric Utilities-Caribbean** quarterly earnings of \$4 million were also flat on a year-over-year basis. Key contributors to the segment's performance were increased electricity sales in Grand Cayman and lower maintenance costs at Caribbean Utilities in the quarter. These were offset by higher provisions for bad debt at Belize Electricity and higher finance charges at that same utility, due to interest expense on regulatory liabilities.

***Fortis Generation grew to \$3 million in the quarter, compared to \$2 million in Q1/2010, mainly due to higher production in Belize and higher average energy sales rates in Ontario.***

- Earnings from **Fortis Generation** grew to \$3 million in the quarter, compared to \$2 million in Q1/2010, mainly due to higher production in Belize and higher average energy sales rates in Ontario. Higher finance charges dampened earnings slightly.
- **Fortis Properties** earned \$1 million in the quarter, compared to \$2 million in Q1/2010, primarily due to the negative impact of economy on hotel operations and higher amortization costs driven by capital investments in Hospitality and Real Estate divisions. The segment benefited, however, from a gain on the sale of the Viking Mall.
- **Corporate and other expenses** came in at \$20 million for the quarter, compared to \$21 million in Q1/2010. The increase in dividends associated with the First Preference Shares, Series H issued in January 2010 and lower corporate tax recovery in the quarter, was partially offset by reduced operating expenses, lower finance charges and lower amortization costs.
- Cash flow from operations, before changes in non-cash operating working capital, also grew nearly 19% y/y to reach

**The Company is continuing work on the \$126 million Automated Meter Project at FortisAlberta and the \$106 million Okanagan Transmission Reinforcement Project at FortisBC Electric**

**Fortis' \$900 million Waneta Expansion Project is expected to be completed in the spring of 2015**

\$242 million in Q1/2010 largely driven by strong net earnings. Gross capital expenditures reached almost \$233 million in Q1/2010 as the Company continues to aggressively invest in its infrastructure assets, including the construction of the \$214 million liquefied natural gas (LNG) storage facility on Vancouver Island, which is expected to be completed in the next several weeks. The Company is also continuing work on the \$126 million Automated Meter Project at FortisAlberta and the \$106 million Okanagan Transmission Reinforcement Project at FortisBC Electric. Work is also continuing on the \$900 million Waneta Expansion Project which is expected to be completed in the spring of 2015.

### **Outlook and Financial Forecast**

We have updated our model to reflect the strong Q1/2010 performance. We expect the Company's operation in western Canada, namely its regulated utilities FortisAlberta, and FortisBC Electric to continue to benefit from the region's healthy economic activity. We have tempered our expectation for the Caribbean utilities slightly and increase our estimates for Fortis Generation but maintained our forecasts for Fortis Properties. Exhibit 3 shows our updated forecast for overall EBITDA, net income and EPS.

**Exhibit 3: Beacon Securities' Updated Forecast (in Canadian dollars)**

	2010A	2011E - New	2011E - Old	2012E - New
EBITDA (\$M)	\$1,150	\$1,172	\$1,191	\$1,251
<b>Net Income (\$M)</b>	<b>\$285</b>	<b>\$307</b>	<b>\$302</b>	<b>\$320</b>
EPS (basic)	\$1.65	\$1.75	\$1.74	\$1.83
<b>EPS (diluted)</b>	<b>\$1.62</b>	<b>\$1.70</b>	<b>\$1.68</b>	<b>\$1.78</b>

Source: Company reports, Beacon Securities.

Long-term debt remained flat q/q at \$5.6 billion, but increase from \$5.1 billion at the end of Q1/2010. We believe Fortis continues to have strong access to capital markets, to finance its future capital programs. The Company maintained its expectation to continue to invest in its infrastructure and reiterated its \$5.5 billion estimate of gross capital expenditures on various projects over the next five years, including the work related to the Waneta Expansion Project.

### **Valuation and Recommendation**

***We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name***

**We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.4x 2011E EPS and 10.3x 2011E EV/EBITDA. Including dividends, there is a potential return of approximately 8.7% over the next year, which justifies our HOLD rating. The shares currently yield 3.6%.

We believe the Company's management remains disciplined and patient in its pursuit of an accretive regulated utility acquisition, in the United States or Canada. We believe current valuations dictate additional patience in order to prevent overpayment for desired targets. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.

### **Key Risks**

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

## Disclaimer

### Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? ☐ Yes ☒ No

Does the analyst who prepared this research report hold any of the issuer's securities? ☐ Yes ☒ No

Does Beacon Securities beneficially own more than 1% of equity securities of the issuer? ☐ Yes ☒ No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months? ☐ Yes ☒ No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? ☒ Yes ☐ No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department? ☐ Yes ☒ No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer? ☐ Yes ☒ No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? ☐ Yes ☒ No

Is Beacon Securities a market maker in the equity of the issuer? ☐ Yes ☒ No

Has the analyst visited the head office of the issuer and viewed its operations in a limited context? ☒ Yes ☐ No

Did the issuer pay for or reimburse the analyst for the travel expenses? ☐ Yes ☒ No

Beacon analysts are not permitted to own the securities they cover, but may own securities covered by other members of the research team, subject to blackout conditions.

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the IIROC. All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

Ending Q1 2011	# Stocks	Distribution
BUY	11	55.6%
Spec. Buy	3	16.7%
HOLD	4	27.8%
SELL	0	0.0%
Restricted	0	0.0%
Total	18	100.0%

\*as of quarter end

BUY

SPECULATIVE BUY

HOLD

SELL

Total 12-month return expected to be >15%

Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss

Total 12-month return expected to be between 0% and 15%

Total 12-month return expected to be negative

### Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.beaconsecurities.ca](http://www.beaconsecurities.ca) via login and password.

### Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.





# FORTIS INC.

## Infrastructure Investments Keep Performance Strong in Q2/2011

### Highlights

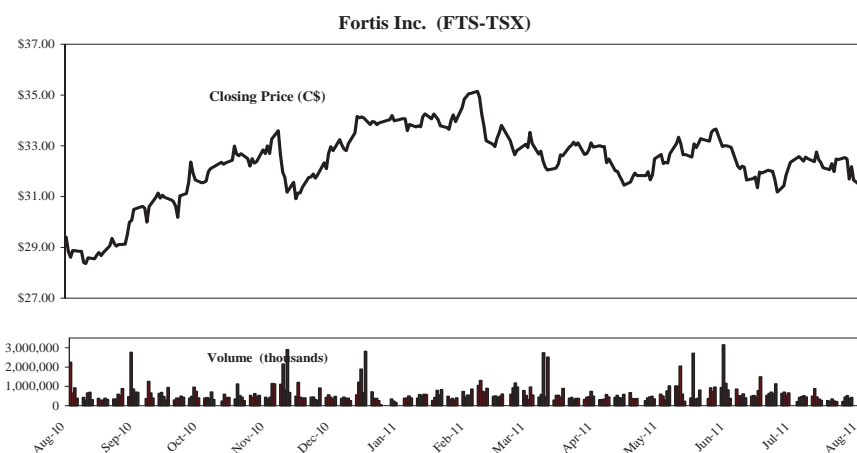
- Fortis Inc. reported another strong quarter with the release of its Q2/2011 results today. Consolidated net earnings attributable to common equity shareholders were \$58 million, or \$0.33 per common share, compared to \$55 million, or \$0.32 per share, in Q2/2010. Overall EBITDA margins also improved to 32.8%, up 90 bps from the same quarter, a year ago. **Fortis also generated impressive cash flow from operations in the first half of 2011, reaching \$527 million, up \$122 million or 30% from the first half of 2010.**
- We continue to expect the Company's operation in western Canada, namely its regulated utilities FortisBC Electric and FortisAlberta to continue to benefit from the region's sound fundamentals and healthy customer demand.
- Capital expenditures totaled \$519 million in first half of 2011 as the Company continues to aggressively invest in its infrastructure assets. **The Company is on track to invest over \$1.2 billion in 2011.** By the end of 2015, we expect the Company to have invested close to \$5.7 billion on its capex program.
- We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.1x 2012E EPS and 9.8x 2012E EV/EBITDA. Including dividends, there is a potential return of approximately 14% over the next year, which justifies our HOLD rating. The shares currently yield 3.8%.

### FTS-TSX

August 4, 2011

**Stock Rating: HOLD (unchanged)**  
**Target Price: \$34.00 (unchanged)**  
**Closing Price (03/08/11): \$30.87**  
**52 Week Range: \$28.25-35.45**

Fortis Inc.	2010A	2011E	2012E
EBITDA	\$1,150.0	\$1,170.2	\$1,248.6
EPS (basic)	\$1.65	\$1.69	\$1.78
EPS (fd)	\$1.62	\$1.67	\$1.76
P/E (Basic)	18.5 x	18.1 x	17.2 x
EV/EBITDA	10.6 x	10.4 x	9.8 x
Shares O/S	177.1		
Mkt. Cap.	\$5,414		
Enterprise Value	\$12,175		
Net Debt/Total Cap.	59%		
BVPS (basic)	\$19.15		
Price/Book Value	1.6 x		
Dividend	\$1.16		
Dividend Yield	3.8%		



### Change in Basic EPS Forecasts

2011E: was \$1.70  
2012E: was \$1.78

### Company Description

Fortis Inc. is Canada's largest investor-owned distribution utility, with more than two million gas and electricity customers. The Company is headquartered in St. John's, NL. Its main focus is the ownership and operation of regulated utilities, with operations in five provinces and three Caribbean countries. Fortis also owns and operates non-regulated generation assets and commercial real estate and hotel assets.

\*Please view the disclaimer at the end of this report

## Financial Results

*Fortis Inc. reported another strong quarter with the release of its Q2/2011 results today. Consolidated net earnings attributable to common equity shareholders were \$58 million, or \$0.33 per common share, compared to \$55 million, or \$0.32 per share, in Q2/2010*

- **Fortis Inc. reported another strong quarter with the release of its Q2/2011 results today. Consolidated net earnings attributable to common equity shareholders were \$58 million, or \$0.33 per common share, compared to \$55 million, or \$0.32 per share, in Q2/2010, and slightly below our \$0.36 EPS estimate.** Net earnings growth in the quarter was primarily driven by 1) the strong results in the Company's regulated utilities in western Canada, primarily related to overall growth in the utility infrastructure investments, 2) lower market-priced purchased power costs at FortisBC, and 3) additional return earned on FortisAlberta's investment in automated meters. Overall EBITDA margins also improved to 32.8%, up 90 bps from the same quarter a year ago. Fortis also generated impressive cash flow from operations in the first half of 2011, reaching \$527 million, up \$122 million or 30% from the first half of 2010. In addition to higher earnings, the growth in cash flows was largely driven by the collection from customers of higher amortization costs and favourable changes in working capital and regulatory deferral accounts. Exhibit 1 shows a summary of Fortis' consolidated net earnings for the quarter.

### Exhibit 1: Consolidated net earnings summary

(in millions of Canadian dollars, except per share data)	Q2 2011	Q2 2010
<b>Net Earnings Applicable to Common Shares (\$M)</b>	<b>\$58</b>	<b>\$55</b>
<b>Reported Basic EPS</b>	<b>\$0.33</b>	<b>\$0.32</b>
<b>Reported Diluted EPS</b>	<b>\$0.33</b>	<b>\$0.32</b>

Source: Company reports, Beacon Securities.

*FortisBC Energy Inc. results were slightly negatively impacted by lower natural gas volumes under fixed contracts, mainly due to higher precipitation and lower natural gas pricing charged to customers*

Below is a summary of the contribution from each of the Company's business segments in the quarter compared to the same period last year.

- **FortisBC Energy Inc.** results were slightly negatively impacted by lower natural gas volumes under fixed contracts, mainly due to higher precipitation and lower natural gas pricing charged to customers. Revenues and net earnings in the segment were \$320 million and \$15 million, respectively, in Q2/2011, compared to revenues of \$336 million and net earnings of \$17 million in Q2/2010.
- The Company's Canadian Regulated Electric Utilities delivered 12.5% y/y growth in earnings, to reach \$45 million, again driven by FortisAlberta, and FortisBC Electric, similar to Q1/2011.
- **FortisAlberta's** quarterly earnings grew to reach \$19 million in Q2/2011, compared to \$17 million in Q2/2011. The

**FortisAlberta's quarterly earnings grew to reach \$19 million in Q2/2011, compared to \$17 million in Q2/2010. Meanwhile, FortisBC Electric quarterly earnings grew 12.5% y/y, to reach \$9 million**

improvements in the quarter were largely due to growth in the number of total customers by approximately 9,400 over the same quarter last year.

- **FortisBC Electric** quarterly earnings grew 12.5% y/y, to reach \$9 million. The improvements were largely supported by the 6.6% increase in customer electricity rates and a 1.4% increase in electricity sales in the quarter. This was slightly offset by lower pole attachment revenue and an increase in incentive adjustments owed to customers.
- **Newfoundland Power** delivered flat y/y growth with quarterly earnings of \$11 million. The growth in the number of customers and higher average consumption were offset by the decrease in allowed ROE and wage increases.
- **Other Canadian Electric Utilities** grew quarterly earnings to reach \$6 million in Q2/2011, compared to \$4 million in Q2/2010. The growth was driven primarily by an average 3.8% increase in customer electricity rates, and higher allowed ROE at Algoma Power.

#### Exhibit 2: Segmented net earnings

(in millions of Canadian dollars)	Q2 2011	Q2 2010
<b>FortisBC Energy Inc.</b> (formerly Terasen Gas)	\$15	\$17
<b>FortisAlberta</b>	\$19	\$17
<b>FortisBC Electric</b>	\$9	\$8
<b>Newfoundland Power</b>	\$11	\$11
<b>Other Canadian Electric Utils</b>	\$6	\$4
<b>Electric Caribbean</b>	\$7	\$7
<b>Non-Regulated - Fortis Generation</b>	\$2	\$3
<b>Non-Regulated - Fortis Properties</b>	\$7	\$8
<b>Corporate and Other</b>	-\$18	-\$20
<b>Total</b>	<b>\$58</b>	<b>\$55</b>

Source: Company reports, Beacon Securities.

**Fortis Properties earned \$7 million in the quarter, compared to \$8 million in Q2/2010, primarily due to a 2.2% decrease in hotel occupancy, mainly in Western Canada**

- **Regulated Electric Utilities-Caribbean** quarterly earnings of \$7 million were flat on a year-over-year basis. This was primarily driven by lower electricity sales in Grand Cayman, and the discontinuance of consolidation method accounting for financial results of Belize Electricity, effective June 20, 2011. These were offset by lower corporate taxes at Belize Electricity and a commercial customer billing adjustment at Caribbean Utilities.
- Earnings from **Fortis Generation** declined to \$2 million in the quarter, compared to \$3 million in Q2/2010, mainly due to decreased production in Belize and higher finance charges in the quarter.
- **Fortis Properties** earned \$7 million in the quarter, compared to \$8 million in Q2/2010, primarily due to a 2.2% decrease in hotel occupancy, mainly in Western Canada. This was slightly



offset by an overall 2.0% increase in the average daily room rate. The Real Estate division's occupancy rate decreased to 93.4% as at June 30, 2011, from 94.8% at the end of the same period last year.

**FortisBC Energy**  
substantially completed  
the construction of its  
\$214 million liquefied  
natural gas (LNG)  
storage facility on  
Vancouver Island

**FortisAlberta**  
substantially completed  
its \$126 million  
Automated Meter  
Project, including the  
replacement of 466,000  
conventional meters

**Fortis' \$900 million  
Waneta Expansion  
Project is expected to be  
completed in the spring  
of 2015**

- **Corporate and other expenses** came in at \$18 million for the quarter, compared to \$20 million in Q2/2010. Last year, the Company incurred higher business development costs in Q2. In the quarter, the Company also incurred lower finance charges, largely due to the redemption of the \$125 million 8% Capital Securities in April 2010 and a favourable foreign exchange impact, which were slightly offset by lower corporate tax recoveries.
- Gross capital expenditures totaled \$519 million in first half of 2011 as the Company continues to aggressively invest in its infrastructure assets. In the quarter, FortisBC Energy substantially completed the construction of its \$214 million liquefied natural gas (LNG) storage facility on Vancouver Island. At the same time, FortisAlberta substantially completed its \$126 million Automated Meter Project, including the replacement of 466,000 conventional meters. In the meantime, work continues to progress on the \$900 million Waneta Expansion Project, which is expected to be completed in the spring of 2015.
- The Company's merger agreement with Central Vermont Public Service Corporation (CVPS) was terminated in July, subsequent to quarter end. According to the terms of the agreement, CVPS paid Fortis a US\$17.5 million termination fee plus US\$2 million for expenses.

### **Outlook and Financial Forecast**

We believe Fortis Inc. is on track to complete \$1.2 billion in capital expenditures in 2011, primarily in infrastructure projects across its Western Canada businesses. By the end of 2015, we expect the Company to have invested close to \$5.7 billion on its capex program. We continue to expect the Company's operation in western Canada, namely its regulated FortisBC Electric and FortisAlberta utilities to continue to benefit from the region's sound fundamentals and healthy customer demand. Our updated model reflects the latest Q2/2011 results. Exhibit 3 shows our updated forecast for overall EBITDA, net income and EPS.

**Exhibit 3:** Beacon Securities' Updated Forecast (in Canadian dollars)

	2011E - New	2011E - Old	2012E - New	2012E - Old
EBITDA (\$M)	\$1,170	\$1,172	\$1,249	\$1,251
Net Income (\$M)	\$298	\$307	\$314	\$320
EPS (basic)	\$1.69	\$1.75	\$1.78	\$1.83
EPS (diluted)	\$1.67	\$1.70	\$1.76	\$1.78

Source: Company reports, Beacon Securities.

### **Valuation and Recommendation**

***We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name***

**We are maintaining our 12-month target price of \$34.00 and our HOLD rating on the name.** Our valuation is based on analysis of P/E and EV/EBITDA multiples and our dividend discount model. Our target equates to 19.1x 2012E EPS and 9.8x 2012E EV/EBITDA. Including dividends, there is a potential return of approximately 14% over the next year, which justifies our HOLD rating. The shares currently yield 3.8%.

The Company continues to remain disciplined and patient in its pursuit of an accretive regulated utility acquisition, in the United States or Canada. Current valuations seem to be making it difficult to not overpay for desired targets. We have not included any acquisitions in our numbers, primarily due to the uncertainty on the timing of such an acquisition.

### **Key Risks**

- **Interest Rate Risk** – The capital requirements outlined by the Company will likely require additional debt financing.
- **International Risk** – With operations in Belize, the Cayman Islands, and the Turks and Caicos, Fortis is subject to currency risk, sovereign risk, and the risk of hurricanes.
- **Regulatory Risk** – Regulated assets consist of 92% of Fortis' total assets, with each of the regulated utilities subject to some form of regulation which can impact future revenue and earnings. Each operating utility must ensure compliance with current regulations and proactive measures towards regulatory issues.
- **Risk of Fluctuating Bond Yields** – The share price of Fortis is inversely related to bond yields. Furthermore, lower bond yields may result in Fortis having to lower the rates for certain subsidiaries, thereby hampering earnings.

## Disclaimer

### Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? ☐ Yes ☒ No

Does the analyst who prepared this research report hold any of the issuer's securities? ☐ Yes ☒ No

Does Beacon Securities beneficially own more than 1% of equity securities of the issuer? ☐ Yes ☒ No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months? ☐ Yes ☒ No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? ☒ Yes ☐ No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department? ☐ Yes ☒ No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer? ☐ Yes ☒ No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? ☐ Yes ☒ No

Is Beacon Securities a market maker in the equity of the issuer? ☐ Yes ☒ No

Has the analyst visited the head office of the issuer and viewed its operations in a limited context? ☒ Yes ☐ No

Did the issuer pay for or reimburse the analyst for the travel expenses? ☐ Yes ☒ No

Beacon analysts are not permitted to own the securities they cover, but may own securities covered by other members of the research team, subject to blackout conditions.

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the IIROC. All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

Ending Q2 2011	# Stocks	Distribution		
BUY	8	55.6%	BUY	Total 12-month return expected to be >15%
Spec. Buy	3	16.7%		Potential total 12-month return is high (>15%), but given
HOLD	6	27.8%	SPECULATIVE BUY	elevated risk, investment could result in a material loss
SELL	0	0.0%		Total 12-month return expected to be between 0% and 15%
Restricted	0	0.0%	HOLD	Total 12-month return expected to be negative
Total	17	100.0%	SELL	

\*as of quarter end

### Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.beaconsecurities.ca](http://www.beaconsecurities.ca) via login and password.

### Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

**February 10, 2011**  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

## Q4/10 Below Slightly Below Expectations; Long-Term Growth Profile Remains Intact

### Event

Fortis reported Q4/10 EPS of \$0.49, which was slightly below our estimate of \$0.53 and the First Call Mean estimate of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at FortisAlberta, Terasen Gas and FortisCaribbean, partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis is forecasting capital expenditures of \$1.2 billion and expects to invest \$5.5 billion in capital projects over the next five years.

### Impact

Neutral. Overall, this appeared to be a very clean quarter. Although Q4/10 results were slightly lower than expected, full-year adjusted 2010 earnings of \$281 million increased by 7.3% compared to adjusted earnings of \$262 million in 2009. This represents fairly significant earnings growth for a company whose primary business is the ownership and operation of regulated utilities.

### Forecasts

We have updated our model to reflect Q4/10 results. Our diluted EPS estimates of \$1.77 in 2011E and \$1.84 in 2012E are unchanged.

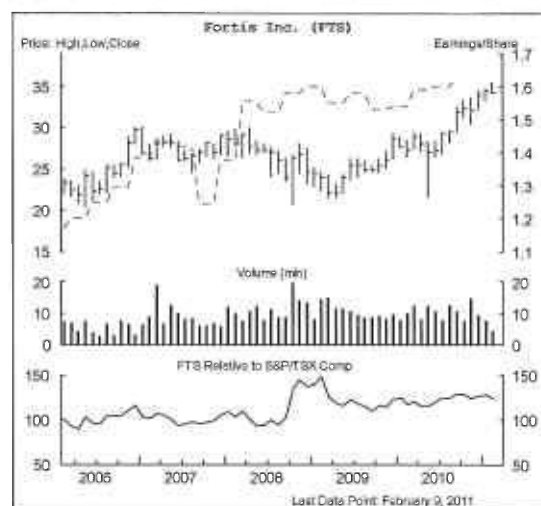
### Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.86 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

### Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

**Price (10-Feb)** \$33.81      **52-Week High** \$35.45  
**Target Price** \$35.50      **52-Week Low** \$21.60



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.77	\$1.84
P/E			19.1x	18.4x
CFPS	\$3.74	\$4.51	\$4.71↑	\$4.81↑
P/CFPS			7.2x	7.0x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,894	\$13,469	\$13,900
EBITDA (\$mm)	\$1,063.0	\$1,271.0	\$1,351.7	\$1,404.2
EV/EBITDA	10.3x	10.1x	10.0x	9.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.62	\$0.35	\$0.25	\$0.58
Dividend	\$1.16	Yield		3.4%
Book Value	\$19.00	Price/Book		1.8x
Shares O/S (mm)	173.6	Mkt. Cap (mm)		\$5,869
Float O/S (mm)	171.7	Float Cap (mm)		\$5,805
Wkly Vol (000s)	2,304	Wkly \$ Vol (mm)		\$69.0
Net Debt (\$mm)	\$6,023	Next Rep. Date		04-May (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2010E: \$1.65; 2011E: \$1.77; 2012E: \$1.84



## Q4/10 Results Below Expectations; Long-Term Growth Profile Remains Intact

Fortis reported Q4/10 EPS of \$0.49, which was slightly below our estimate of \$0.53 and the First Call Mean estimate of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at FortisAlberta, Terasen Gas and FortisCaribbean, partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis is forecasting capital expenditures of \$1.2 billion and the company expects to invest \$5.5 billion in capital projects over the next five years.

Although Q4/10 results were slightly lower than expected, full-year adjusted 2010 earnings of \$281 million increased by 7.3% compared to adjusted earnings of \$262 million in 2009. This represents fairly significant earnings growth for a company whose primary business is the ownership and operation of regulated utilities.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.82 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

Although Fortis' shares have appreciated recently, we believe that the company remains a compelling long-term investment. Fortis has shown an ability to consistently deliver relatively low-risk earnings and dividend growth. While the company's organic growth prospects are relatively well known, there are a number of potential catalysts that could positively impact Fortis' shares, including: (1) the potential acquisition of additional regulated utilities, either in the U.S. or Canada; and (2) the prospect of developing regulated transmission assets in Ontario. Accordingly, we are maintaining our Outperform rating.

## Where Do We Go From Here?

Fortis historically has grown through acquisition and its last major transaction was the acquisition of the Terasen Gas utilities, which was completed in May 2007. We expect Fortis to continue to review potential acquisition candidates, with the most likely targets regulated utilities operating in the U.S. Absent an acquisition, we believe that Fortis will continue to advance its capital expenditure program and seek out accretive greenfield/brownfield development opportunities. The company's announcement in late August that it had acquired a 51% interest in the partnership responsible for constructing the 335 MW Wanteta Dam expansion in Trail, B.C., is a good example of Fortis developing projects that complement its regulated utility operations.

Another potential area of growth is transmission investment in Ontario. In coming years, the transmission grid in Ontario will likely need reinforcement and require additional capacity in certain areas as additional renewable energy facilities are added to the grid. At the present time most transmission capacity in Ontario is owned by Hydro One (100% Government of Ontario); however, in August, the Ontario Energy Board issued the Framework for Transmission Project Development Plans (EB-2010-059), which sought to establish a competitive process for developing new transmission assets in Ontario. In advance of the possibility of large-scale

transmission development in Ontario being put out for tender, Fortis has entered into a joint venture with the First Nations' Lake Huron Anishinabek Transmission Company Inc. ("LHATC") to pursue the development of transmission assets in Ontario. Fortis will hold a minimum 51% interest in the joint venture and LHATC will have the opportunity to acquire up to a 49% interest in the joint venture. We expect the joint venture will bid on the following projects, should tenders be solicited: (1) a new 500 kV line that would run from Algoma/Sault Ste. Marie to Sudbury; and (2) reinforcement of the 500 kV line that runs from Sudbury to Barrie. While it remains to be seen whether Fortis will be successful in its quest to build out transmission in Ontario, we believe that the announcement of the joint venture is a positive development for the company.

## Revised Capital Expenditure Budget

Consistent with prior years, Fortis' fourth-quarter results contained a capital expenditure forecast. In 2011, Fortis expects to invest \$1.2 billion, with the majority of spending occurring at its regulated electric utilities. A comparison of forecast capital expenditures in 2011 and historical capital spending is set out in Table 1.

**Table 1: Capital Expenditure Forecast (\$mm)**

	2009A	2010A	2011E
<b>Regulated Gas Utilities - Canadian</b>			
Terasen Gas Companies	246	253	281
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	407	379	420
FortisBC	115	139	99
Newfoundland Power	74	78	73
Other Canadian	46	48	46
<b>Regulated Electric Utilities - Caribbean</b>	92	72	83
<b>Non-Regulated - Fortis Generation &amp; Corporate</b>	18	85	183
<b>Non-Regulated - Fortis Properties</b>	26	19	27
<b>Total</b>	<b>1,024</b>	<b>1,073</b>	<b>1,212</b>

Source: Company Reports

Fortis maintained capital expenditure guidance of \$5.5 billion over the next five years. The breakdown of this anticipated spending is as follows: 63% is expected to be spent at the regulated electric utilities, driven by FortisAlberta and Fortis BC; approximately 20% is expected to be spent by the Terasen entities; and 17% is expected to be incurred at the non-regulated entities.

## Regulatory Update

After a lull in 2010, we expect regulatory activity to increase in 2011. The Alberta Utilities Commission will hold two separate proceedings: (1) a generic cost of capital proceeding, including a full review of cost of capital and deemed capital structure; and (2) a review process designed to determine whether Alberta will adopt performance-based regulation. The 2011

Generic Cost of Capital Hearing is scheduled to begin on May 30, 2011. Utilities have been asked to file submissions regarding the potential implementation of Performance Based Regulation by March 31, 2011. A review process related to PBR is expected to begin after the submissions have been received by individual utilities.

In addition to the formal regulatory proceedings outlined above, a number of Fortis' utilities are expected to make rate or other filings in 2011:

- The Terasen entities are expected to pursue an amalgamation
- The Terasen entities may file a rate application for the years 2012–2013
- FortisAlberta is expected to submit a cost of service application for the years 2012–2013 by the end of Q1/2011
- Newfoundland Power may file an application to increase customer rates, effective for 2012.

## Q4/10 Results

As set out in Table 2, on a comparable basis, net income increased by 2.4% in Q4/10 versus Q4/09. In order to present results on a comparable basis, Q4/09 GAAP income was adjusted to reverse a \$5 million expense recorded regarding the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane. Terasen subsequently recovered \$4 million of this amount in Q3/10. Q4/09 GAAP earnings were also adjusted for a \$3 million non-recurring tax benefit recorded at the Other Canadian segment related to a future income tax recovery at FortisOntario.

**Table 2: Historical Q4 Income by Business Segment**

	Q4/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/10 Adjusted Earnings (\$mm)	Q4/09 GAAP	Adj. (\$mm)	Q4/09 Adjusted Earnings (\$mm)	Variance Q4/10 Adj vs. Q4/09 Adj	Variance %
<b>Regulated Gas Utilities - Canadian</b>								
Terasen Gas Companies	45.0	0.0	45.0	48.0	5.0	53.0	(8.0)	-15.1%
<b>Regulated Electric Utilities - Canadian</b>								
FortisAlberta	17.0	-	17.0	15.0	-	15.0	2.0	13.3%
FortisBC	10.0	-	10.0	8.0	-	8.0	2.0	25.0%
Newfoundland Power	9.0	-	9.0	8.0	-	8.0	1.0	12.5%
Other Canadian	5.0	0.0	5.0	6.0	(3.0)	3.0	2.0	66.7%
	41.0	0.0	41.0	37.0	(3.0)	34.0	7.0	20.6%
<b>Regulated Electric Utilities - Caribbean</b>	5.0	-	5.0	7.0	-	7.0	(2.0)	-28.6%
<b>Non-Regulated - Fortis Generation</b>	5.0	-	5.0	3.0	-	3.0	2.0	66.7%
<b>Non-Regulated - Fortis Properties</b>	7.0	-	7.0	5.0	-	5.0	2.0	40.0%
<b>Corporate and Other</b>	(18.0)	-	(18.0)	(19.0)	-	(19.0)	1.0	-5.3%
<b>Net Earnings Applicable to Common Shares</b>	<b>85.0</b>	<b>0.0</b>	<b>85.0</b>	<b>81.0</b>	<b>2.0</b>	<b>83.0</b>	<b>4.0</b>	<b>2.4%</b>

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

## Regulated Gas Utilities – Terasen Gas Companies

Q4/10 net income of \$45 million was less than our estimate of \$50.9 million and Q4/09 adjusted net income of \$53 million. We attribute the majority of the variance to seasonality, as timing differences resulted in a higher proportion of expenses recorded in Q4/10 compared to

Q4/09. On an annual basis, adjusted net income increased by 3.3% to \$126 million in 2010 from \$122 million in 2009.

### **Regulated Electric Utilities – FortisAlberta**

Q4/10 net income of \$17 million was lower than our estimate of \$19.3 million but greater than Q4/09 net income of \$15 million.

Earnings in Q4/10 benefitted from an increase in customer distribution rates arising from the 2009 Alberta Utilities Commission (AUC) Generic Cost of Capital Hearing, which increased FortisAlberta's allowed ROE to 9% from 8.51% and increased the company's deemed equity thickness to 41% from 37%.

On an annual basis, net income increased by 13.3% to \$68 million in 2010 from \$60 million in 2009.

### **Regulated Electric Utilities – FortisBC**

Q4/10 net income of \$10 million was greater than Q4/09 net income of \$8 million but consistent with our estimate of \$9.9 million. The increase in earnings was largely driven by an increase in FortisBC's allowed ROE to 9.9% in 2010 from 8.87% in 2009 and additional performance-based rate setting adjustments recorded in 2010 compared to 2009.

On an annual basis, net income increased by 13.5% in 2010 to \$42 million from \$37 million in 2009.

### **Regulated Electric Utilities – Newfoundland Power**

Q4/10 net income of \$9 million was consistent with our estimate of \$8.8 million and slightly greater than Q4/09 net income of \$8 million. The increase in earnings was largely the result of a 3.5% increase in electricity rates and lower effective corporate tax rates.

On an annual basis, net income increased by 9.4% to \$35 million in 2010 from \$32 million in 2009.

### **Regulated Electric Utilities – Other Canadian**

Q4/10 net income of \$5 million was consistent with our estimate of \$4.5 million and greater than Q4/09 adjusted net income of net income of \$3 million. The increase in earnings was partially driven by lower financing charges at Maritime Electric, and a 3.8% rate increase at Algoma Power that became effective on December 1, 2010.

On an annual basis, adjusted net income increased by 11.8% to \$19 million in 2010 from \$17 million in 2009.



## Regulated Electric Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$5 million in Q4/10 versus our estimate of \$8.5 million and Q4/09 net income of \$7 million. The decrease in Q4/10 earnings reflects higher administrative expenses regarding the ongoing legal dispute between Belize Electricity and its regulator. Q4/09 results also benefitted from a change in amortization estimates, which increased earnings at Fortis Turks and Caicos by \$1.5 million.

On an annual basis, adjusted net income decreased by 8% to \$23 million in 2010 from \$25 million in 2009. During 2010, Belize Electricity contributed only \$1.5 million to consolidated earnings. Fortis believes that in the normal course of business, Belize Electricity's annual earnings contribution should be closer to \$10 million.

## Unregulated – Fortis Generation

Fortis Generation reported net income of \$5 million, which was consistent with our estimate of \$5.1 million and greater than Q4/09 net income of \$3 million. The difference between actual and expected results was due to a combination of increased production and higher average realized power prices during the quarter.

On an annual basis, adjusted net income increased by 25% to \$20 million in 2010 from \$16 million in 2009.

## Unregulated – Fortis Properties

Fortis properties reported net income of \$7 million, which exceeded both our estimate of \$5.2 million and Q4/09 net income of \$5 million. Rent increases and lower effective corporate income taxes drove the increase. Occupancy decreased to 94.5% at the end of the quarter versus 96.2% at the end of Q4/09. Revenue per available room increased to \$70.76 during Q4/10 versus \$68.87 during Q4/09.

On an annual basis, adjusted net income increased by 8.3% to \$26 million in 2010 from \$24 million in 2009.

## Other Items

### Fortis Now Likely to Adopt U.S. GAAP in 2012 Instead of IFRS

Disclosure in the release stated that due to the uncertainty surrounding the treatment of regulatory assets and liabilities under IFRS, Fortis is planning to adopt U.S. GAAP, effective January 1, 2012. Fortis will continue to report under Canadian GAAP in 2011, pursuant to an exception granted by the Accounting and Standards Board, which allowed qualifying entities with rate regulated operations to defer the adoption of IFRS until reporting periods beginning on or after January 1, 2012.

## **Support Structure Agreement Between Bell Aliant and Newfoundland Power**

In December 2010, Newfoundland Power and Bell Aliant announced a new Support Structure Agreement. Pursuant to this agreement, Bell Aliant will acquire 40% of all shared-use poles and related infrastructure for approximately \$46 million. The acquisition will reduce Newfoundland Power's rate base by approximately 5%, and Newfoundland Power is expected to use a portion of the proceeds to repay debt. As a result of the reduction in rate base, recurring earnings from Newfoundland Power are expected to decline by approximately \$1 million.

## **Estimates**

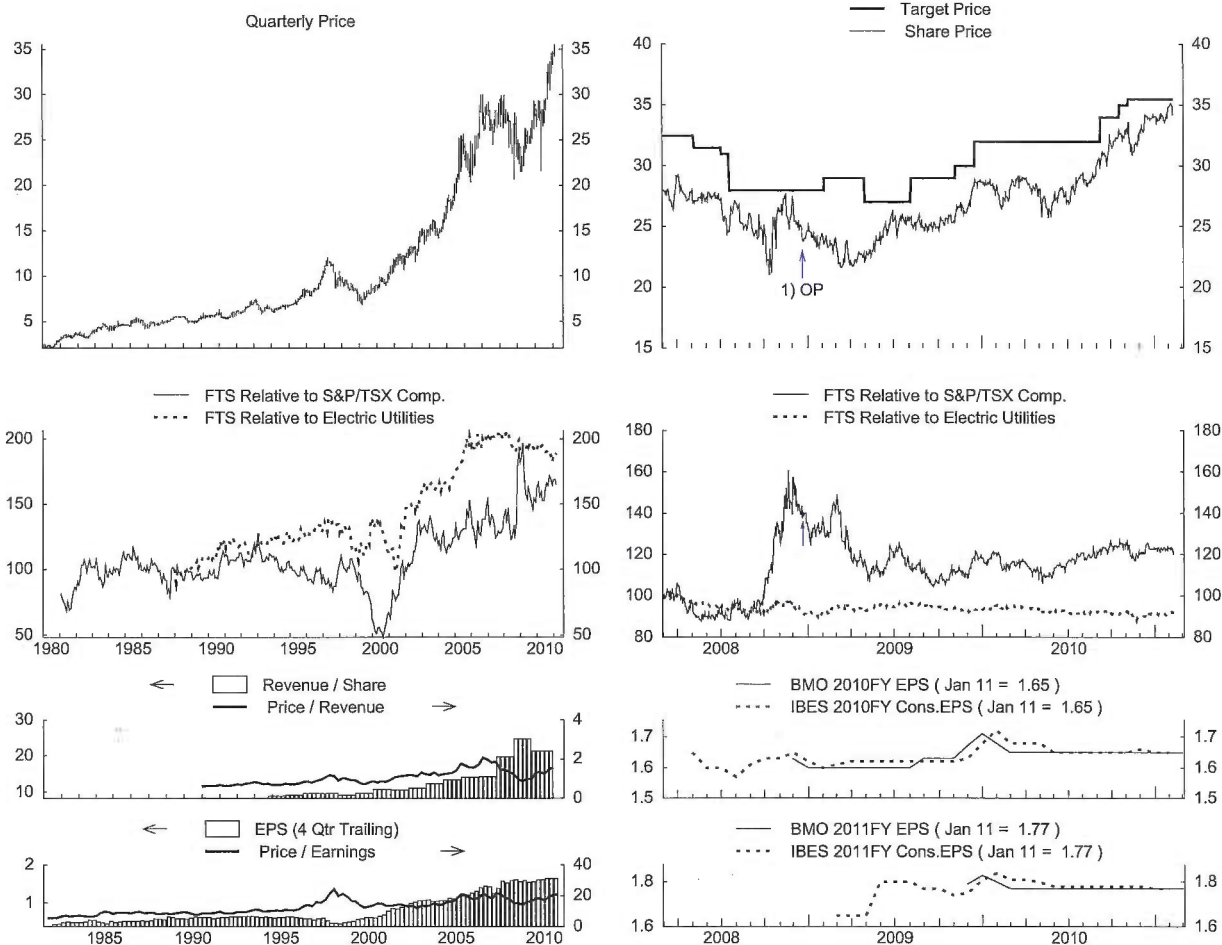
We have updated our model to reflect Q4/10 results. Our diluted EPS estimates of \$1.77 in 2011E and \$1.84 in 2012E are unchanged.

Table 3: Consolidated Summary

10-Feb-11													Michael McGowan
Current Price:													BMO Capital Markets
12-Month Target Price:													
ROR:		8.4%											
		Recommendation:											Outperform
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.05	\$1.17	\$1.38	\$1.35	\$1.50	\$1.54	\$1.52	\$1.80	\$1.67	
Total Diluted Earnings Per Share		\$0.90	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.46	\$1.51	\$1.59	\$1.77	\$1.64	
Segmented EPS													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.20	\$0.19	
Other Canadian		\$0.24	\$0.30	\$0.15	\$0.12	\$0.11	\$0.11	\$0.10	\$0.10	\$0.10	\$0.11	\$0.12	
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.16	\$0.16	\$0.14	\$0.15	\$0.15	\$0.16	
Fortis Generation		\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.13	\$0.12	\$0.12	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.12	\$0.15	\$0.13	\$0.17	\$0.17	
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.38	\$0.29	\$0.35	\$0.39	\$0.43	\$0.44	
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.29	\$0.22	\$0.22	\$0.24	\$0.27	\$0.29	
Tennessee Int.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.78	\$0.79	
Other/Corporate		(\$0.05)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.31)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.43)	(\$0.42)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.69	\$1.01	\$1.04	\$1.12	\$1.15	\$1.22	
Payout Ratio		49.9%	48.5%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	64.4%	69.3%	
Average Shares (mm)		65.1	65.2	64.7	101.8	103.6	137.5	157.4	170.2	173.9	173.7	175.1	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.25	\$15.72	\$18.00	\$18.64	\$19.04	\$19.70	\$20.85	
Market Valuation													
Price: High		\$13.28	\$18.24	\$17.75	\$25.54	\$30.00	\$30.00	\$29.94	\$39.85	\$34.20	-	-	
Price: Low		\$10.76	\$11.63	\$14.29	\$17.00	\$20.35	\$24.50	\$20.70	\$21.68	\$25.67	-	-	
Price: Current		-	-	-	-	-	-	-	-	-	\$33.81	-	
P/E Ratio: High		15.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	21.3	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	16.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	18.8	18.1	
Price/Book Value: High		1.5	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.7	1.6	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	
Yield: Low Price		4.5%	4.5%	3.8%	3.6%	3.3%	3.7%	5.0%	4.9%	4.4%	-	-	
Yield: Current		-	-	-	-	-	-	-	-	-	3.4%	3.6%	
Balance Sheet (\$mm)													
Debt (S-T)		181.6	142.6	229.1	80.3	182.5	911.0	590.0	635.0	414.0	327.5	489.3	
Debt (L-T)		926.5	1,006.9	1,661.6	2,183.8	2,494.5	4,576.0	4,840.0	5,237.0	5,569.0	5,799.0	5,925.7	
Minority Interest		40.0	35.8	37.5	39.5	120.0	115.0	145.0	123.0	162.0	162.0	162.0	
Preferred Shares		0.0	129.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	
Convertible Debentures		14.4	24.9	22.9	23.3	53.5	45.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		584.5	614.7	1,000.1	1,213.4	1,275.7	2,690.7	3,048.7	3,192.7	3,376.0	3,426.3	3,802.0	
		1,745.9	1,850.4	3,492.7	3,808.9	4,888.1	8,091.7	9,391.7	9,902.7	10,407.0	10,675.8	11,319.9	
Balance Sheet (%)													
Debt (S-T)		10.4%	7.7%	6.6%	2.1%	4.0%	10.9%	6.3%	6.4%	4.0%	3.1%	4.1%	
Debt (L-T)		53.0%	54.6%	63.3%	21.3%	36.7%	56.5%	51.6%	52.9%	39.6%	30.7%	43.3%	
Minority Interest		2.3%	1.9%	1.1%	1.0%	2.9%	1.3%	1.5%	1.2%	1.5%	1.5%	1.4%	
Preferred Shares		0.0%	6.9%	9.2%	8.4%	9.5%	5.1%	7.1%	6.5%	8.8%	8.5%	8.1%	
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.2%	33.2%	28.6%	31.6%	27.8%	32.9%	32.4%	31.7%	31.5%	32.1%	33.2%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.6	89.1	119.2	143.2	187.4	242.5	262.0	281.0	312.8	333.0	
Cash Flow from Operations		124.4	150.7	289.7	320.0	279.9	373.0	563.0	637.0	783.0	817.9	857.2	

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.63	21	1.12	3.2	69	18.75	1.8	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.9		11.8			9.8		
10 Year:	10.6		9.3			10.4		
20 Year:	5.0		5.7			7.2		

\* Current EPS is the 4 Quarter Trailing to Q3/2010.

FTS - Rating as of 29-Feb-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: February 9, 2011

## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

### Distribution of Ratings (December 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.



**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée/Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

Stock Rating: Outperform  
Stock Price: \$34.24  
Target Price: \$35.50

Member of: Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

February 10, 2011  
Brief Research Note  
Gas & Electric Utilities

Michael McGowan, CA, CFA  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA

## Q4/10 Results Slightly Below Expectations

---

### Impact

Neutral

---

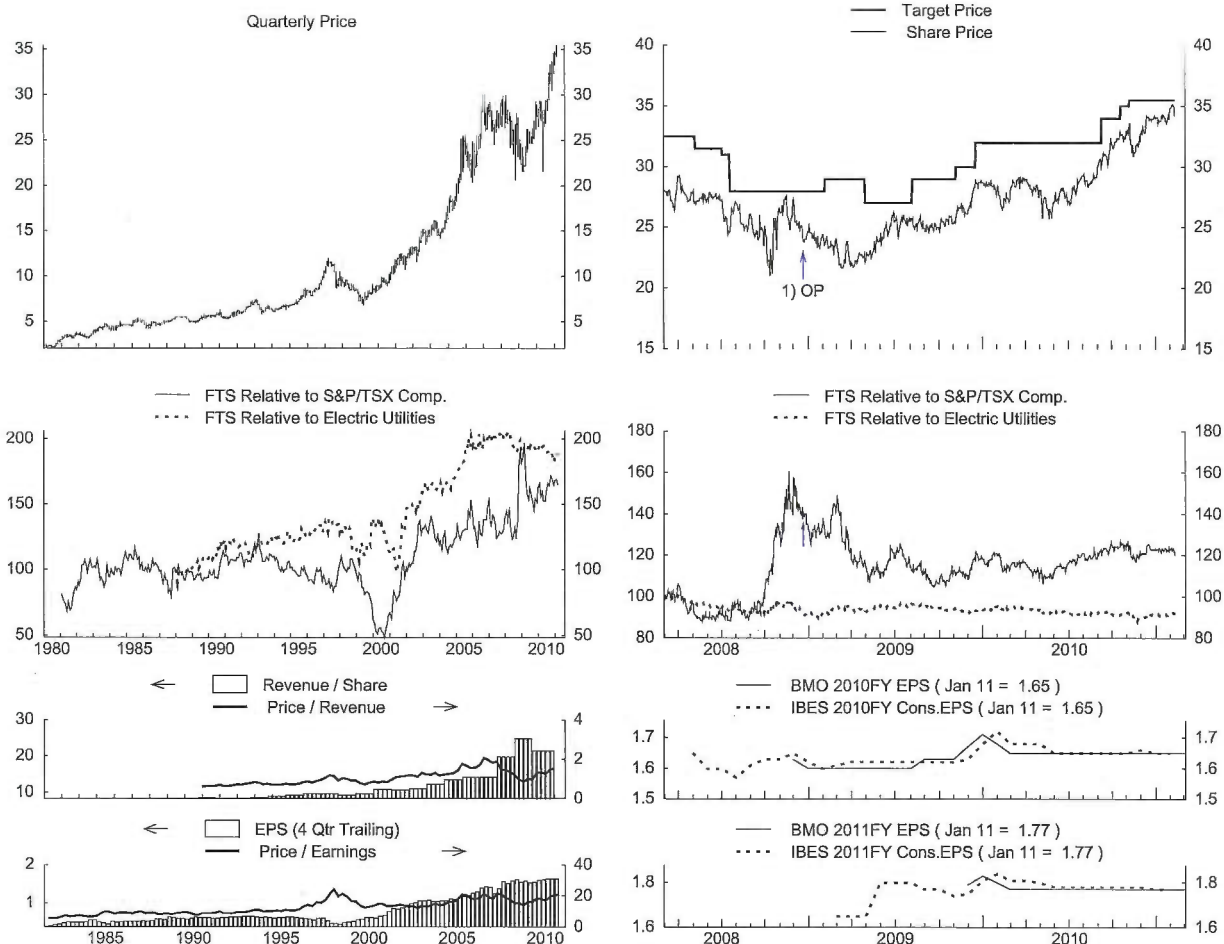
### Details & Analysis

Fortis reported Q4/10 EPS of \$0.49, which was slightly below our estimate of \$0.53 and the First Call Mean estimate of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at Fortis Alberta, Terasen Gas, and FortisCaribbean, partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis is forecasting capital expenditures of \$1.2 billion and the company expects to invest \$5.5 billion in capital projects over the next five years. Disclosure in the release stated that due to the uncertainty surrounding the treatment of regulatory assets and liabilities under IFRS, Fortis is planning to adopt U.S. GAAP in 2012. Overall, this appeared to be a very clean quarter. Although Q4/10 results were slightly lower than expected, full-year adjusted 2010 earnings of \$281 million increased by 7.3% compared to adjusted earnings of \$262 million in 2009. This represents fairly significant earnings growth for a company whose primary business is the ownership and operation of regulated utilities.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
Current*	1.63	21	1.12	3.2	69	18.75	1.8	9
Average:		14		4.8	64		1.4	10.7
Growth(%):								
5 Year:	6.9		11.8			9.8		
10 Year:	10.6		9.3			10.4		
20 Year:	5.0		5.7			7.2		

\* Current EPS is the 4 Quarter Trailing to Q3/2010.

FTS - Rating as of 29-Feb-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: February 9, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 31, 2010)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp. are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or



other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée/Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

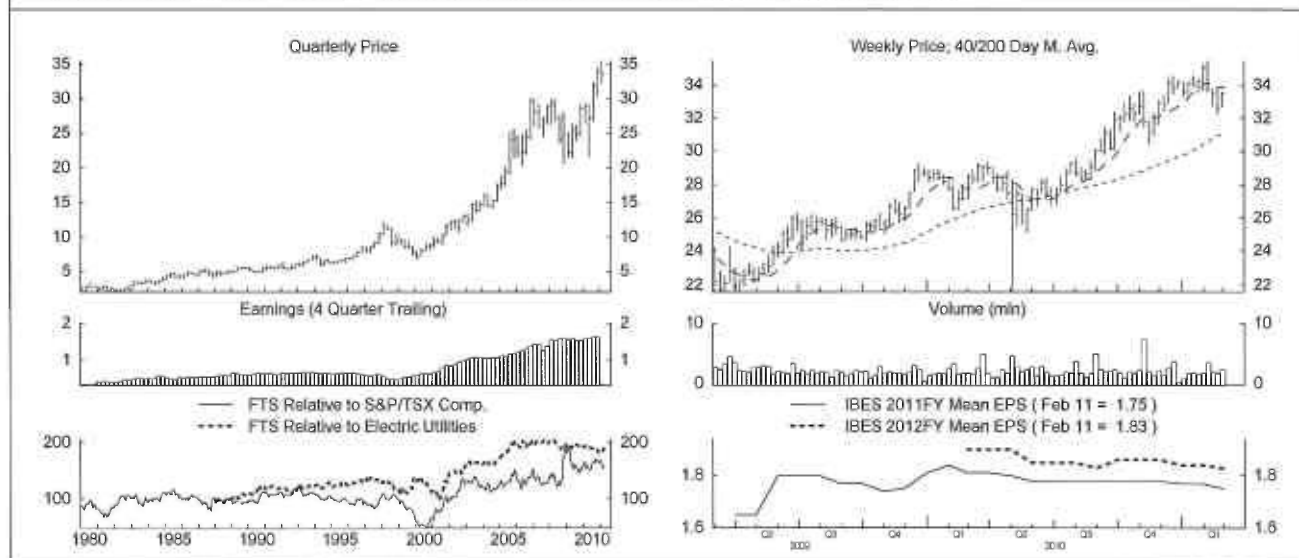
**March 3, 2011**  
Research Fact Sheet  
Gas & Electric Utilities

**Michael McGowan, CA, CFA**  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA

Price (3-Mar)	\$33.53	52-Week High	\$35.45	
Target Price	\$35.50	52-Week Low	\$21.60	
Dividend	\$1.16	Book Value	\$19.00	
Yield	3.5%	Price/Book	1.8x	
Shares O/S (mm)	173.6	Mkt. Cap (\$mm)	\$5,820	
Float O/S (mm)	171.7	Float Cap (\$mm)	\$5,757	
Wkly Vol (000s)	2,313	Wkly \$ Vol (mm)	\$70.2	
Net Debt (\$mm)	\$6,023	Next Rep. Date 04-May (E)		
<b>Quarterly EPS</b>				
	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.62	\$0.35	\$0.25	\$0.58

(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.77	\$1.84
P/E			18.9x	18.2x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			7.1x	7.0x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$13,002	\$13,415
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,353.7	\$1,407.6
EV/EBITDA	10.3x	10.6x	9.6x	9.5x
ROE (%)	8.2%	8.5%	9.1%	8.8%
Book Value (\$)	\$18.64	\$19.04	\$19.70	\$20.85
D/Tot. Cap. (%)	61.0%	59.4%	59.3%	58.3%
Reg. ROE (%)	na	na	na	na

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Belize Electricity (70.1%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the Terasen Gas Companies (100%, British Columbia).  
*Website: fortisinc.com*

**Recent Results** – Fortis reported Q4/10 GAAP EPS of \$0.49, slightly below our estimate of \$0.53 and the First Call Mean of \$0.51. The difference between actual and expected results largely stemmed from lower-than-expected earnings at FortisAlberta, Terasen Gas and FortisCaribbean,

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 5.

partially offset by lower-than-expected corporate costs. Capital spending for 2010 of \$1.1 billion was in line with our forecast. For 2011, Fortis forecasts capital expenditures of \$1.2 billion and expects to invest \$5.5 billion in capital projects over the next five years.

**Corporate Developments** – Disclosure in the Q4/10 release stated that due to the uncertainty surrounding the treatment of regulatory assets and liabilities under IFRS, Fortis is planning to adopt U.S. GAAP, effective January 1, 2012. Fortis will continue to report under Canadian GAAP in 2011, pursuant to an exception granted by the Accounting Standards Board, which allowed qualifying entities with rate regulated operations to defer the adoption of IFRS until reporting periods beginning on or after January 1, 2012.

On February 2, 2011, FortisOntario (100% Fortis Inc.) announced that it and the First Nations' Lake Huron Anishinabek Transmission Company Inc. ("LHATC") have entered into a memorandum of understanding to create a joint venture to pursue the development of regulated

transmission projects in Ontario. FortisOntario will hold a minimum 51% interest in the joint venture and LHATC will have the opportunity to acquire up to a 49% interest in the joint venture.

On December 14, 2010, Fortis announced a 3.6% increase in its annual dividend to \$1.16/share from \$1.12/share.

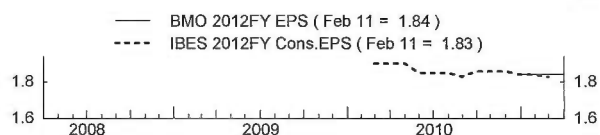
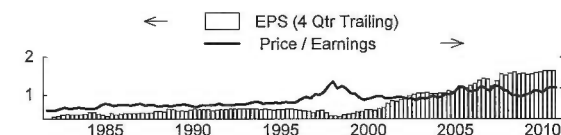
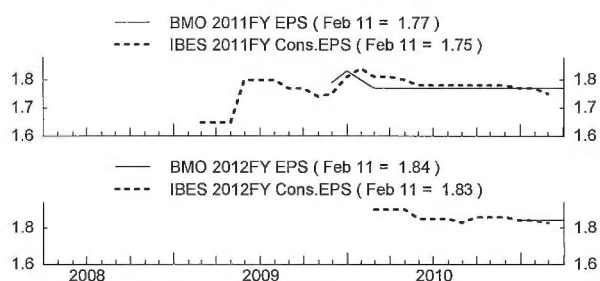
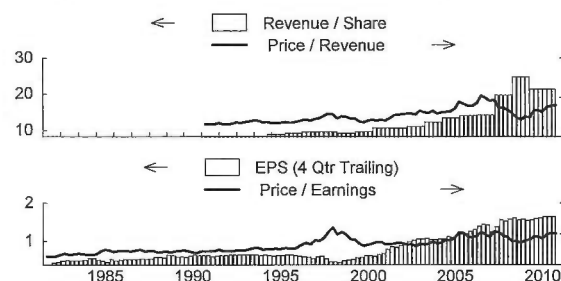
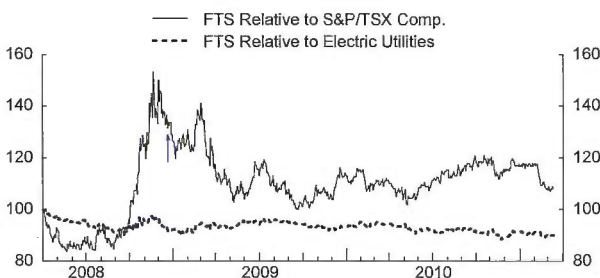
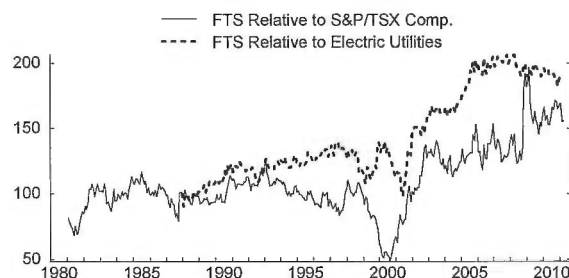
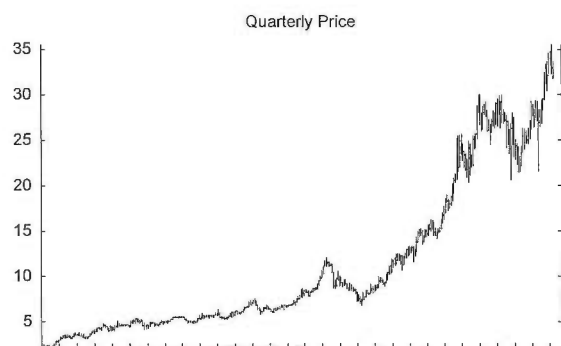
**Forecasts** – Our diluted EPS estimates are \$1.77 in 2011 and \$1.84 in 2012.

**Valuation** – Our target price of \$35.50 is based on a weighted valuation approach: 18x diluted 2012E EPS of \$1.84 (12.5%); 1.75x 2012E BVPS of \$20.86 (12.5%); and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

**Recommendation** – We believe that Fortis' shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform. Member of Top 15 Income and Large Cap stock selections.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.5	55	11.74	2.1	10
2006	1.33	22	0.76	2.5	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.89	1.7	9
2008	1.58	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	18.65	1.8	9
Current*	1.63	20	1.16	3.5	71	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.9		12.6			10.1		
10 Year:	10.6		9.7			10.5		
20 Year:	5.0		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q4/2010.

FTS - Rating as of 1-Apr-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: March 11, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Distribution of Ratings (December 31, 2010)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.



**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée/Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

May 4, 2011  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc. Mark Laing, CA, CFA

## A Strong Start to the Year: Q1/11 Results Exceed Expectations

### Event

Fortis reported Q1/11 EPS of \$0.67 versus our estimate of \$0.62 and the First Call Mean estimate of \$0.62 (range \$0.61-0.63). The difference between actual and estimated earnings was primarily the result of strong results at the western utilities: FortisAlberta, FortisBC and FortisBC Energy Inc. (formerly Terasen Gas).

### Impact

Slightly Positive. While we attribute the majority of the variance between actual and estimated results to seasonality (energy sales at the western utilities increased anywhere from 8% to 25%), we nonetheless believe that Q1/11 earnings represent a strong start to 2011.

### Forecasts

There are no changes to our annual EPS estimates; however, we have adjusted our quarterly estimates to reflect Q1/11 results.

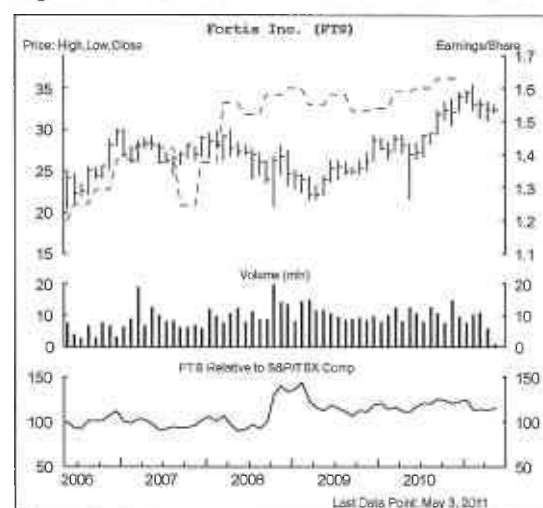
### Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.85 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

### Recommendation

At current levels, we believe the shares are attractively valued. Our rating is Outperform.

Price (3-May) \$32.30 52-Week High \$35.45  
 Target Price \$35.50 52-Week Low \$21.60



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.77	\$1.84
P/E			18.2x	17.6x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			6.9x	6.7x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,896	\$13,306
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,353.7	\$1,407.6
EV/EBITDA	10.3x	10.6x	9.5x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.35	\$0.26†	\$0.52↓
Dividend	\$1.16	Yield		3.6%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	175.4	Mkt. Cap (mm)		\$5,665
Float O/S (mm)	174.0	Float Cap (mm)		\$5,620
Wkly Vol (000s)	2,248	Wkly \$ Vol (mm)		\$69.6
Net Debt (\$mm)	\$5,915	Next Rep. Date		15-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.75; 2012E: \$1.83

### Changes

Quarterly EPS  
 Q3/11E \$0.25 to \$0.26  
 Q4/11E \$0.58 to \$0.52



## A Strong Start to the Year: Q1/11 Results Exceed Expectations

Fortis reported Q1/11 EPS of \$0.67 versus our estimate of \$0.62 and the First Call Mean estimate of \$0.62 (range \$0.61–0.63). The difference between actual and estimated earnings was primarily the result of strong earnings at the western utilities: FortisAlberta, FortisBC and FortisBC Energy Inc. (formerly Terasen Gas).

While we attribute the majority of the variance between actual and estimated results to seasonality (energy sales at the western utilities increased anywhere from 8% to 25%), we nonetheless believe that Q1/11 results represent a strong start to 2011.

With respect to growth, we expect Fortis to continue to evaluate the potential acquisition of regulated natural gas or electric utilities in the U.S. Regardless of whether an acquisition occurs, Fortis will continue to advance its capital expenditure program (which calls for investment of \$5.5 billion over the next five years) in order to drive organic growth. Fortis also continues to evaluate a number of other opportunities to grow rate base, such as investments in new natural gas infrastructure. For example, the company is considering seeking regulatory approval to invest in fuelling stations that would be used by large industrial/commercial vehicles that rely on natural gas as fuel, as opposed to more traditional fuels such as diesel or gasoline. We understand that Fortis also continues to pursue the development of large-scale transmission infrastructure in Ontario, although the company acknowledges that this may be a longer-term initiative.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.84 (12.5%), 1.75x 2012E BVPS of \$20.85 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

We are maintaining our Outperform rating, as we believe the company's shares are attractively valued, especially in light of its relatively low-risk business model.

## Regulatory Update

After a lull in 2010, we expect 2011 to be relatively busy from a regulatory perspective. The Alberta Utilities Commission (AUC) is currently moving forward with a Generic Cost of Capital proceeding. The formal hearing is scheduled to begin on May 30, 2011, and the AUC is expected to issue a cost of capital decision by the end of the year. The AUC is also exploring the implementation of Performance Based Regulation; however, we understand that a final decision on PBR is not expected until mid-2012.

In addition to the broad regulatory initiatives outlined above, a number of Fortis' utilities are expected to make rate or other filings in 2011:

- The FortisBC Energy utilities (formerly the Terasen companies) are expected to pursue an amalgamation;
- The FortisBC Energy utilities may file a rate application for the years 2012–2013;

- FortisAlberta has filed cost-of-service application for the years 2012–2013, in which it is seeking a return on estimated mid-year net rate bases of \$1,760 million in 2011E, \$2,013 million in 2012E and \$2,224 million in 2013E; and
- Newfoundland Power may file an application to increase customer rates, effective for 2012.

## Q1/11 Results

Fortis reported Q1/11 GAAP net income of \$117 million, which was \$10.1 million greater than our estimate of \$106.9 million and \$17 million greater than Q1/10 GAAP net income of \$100 million. A comparison of Q1/11 and Q1/10 results by business segment is set out in Table 1.

**Table 1: Historical Q1 Income by Business Segment**

	Q1/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q1/11 Adjusted Earnings (\$mm)	Q1/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q1/10 Adjusted Earnings (\$mm)	Variance Q1/11 Adj. vs. Q1/10 Adj.	Variance %
<b>Regulated Gas Utilities - Canadian</b>								
Fortis BC Energy Companies	76.0	-	76.0	73.0	-	73.0	3.0	4.1%
<b>Regulated Electric Utilities - Canadian</b>								
FortisAlberta	21.0	-	21.0	14.0	-	14.0	7.0	50.0%
FortisBC	19.0	-	19.0	14.0	-	14.0	5.0	35.7%
Newfoundland Power	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
Other Canadian	6.0	-	6.0	5.0	-	5.0	1.0	20.0%
	53.0	-	53.0	40.0	-	40.0	13.0	32.5%
<b>Regulated Electric Utilities - Caribbean</b>	4.0	-	4.0	4.0	-	4.0	0.0	0.0%
<b>Non-Regulated - Fortis Generation</b>	3.0	-	3.0	2.0	-	2.0	1.0	50.0%
<b>Non-Regulated - Fortis Properties</b>	1.0	-	1.0	2.0	-	2.0	(1.0)	-50.0%
<b>Corporate and Other</b>	(20.0)	-	(20.0)	(21.0)	-	(21.0)	1.0	-4.8%
<b>Net Earnings Applicable to Common Shares</b>	<b>117.0</b>	<b>0.0</b>	<b>117.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>	<b>(17.0)</b>	<b>17.0%</b>

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

### Regulated Gas Utilities – Fortis BC Energy Companies

Q1/11 net income of \$76 million from FortisBC Energy exceeded our estimate of \$72.2 million and Q1/10 net income of \$73 million. We attribute the majority of the variance to seasonality, as cooler weather during the quarter and improved economic conditions in the forest sector led to much higher sales volumes (52,336 GJ in Q1/11 vs. 42,106 GJ in Q1/10).

### Regulated Electric Utilities – FortisAlberta

Q1/11 net income of \$21 million was significantly greater than our estimate of \$14.8 million and Q1/10 net income of \$14 million. The increase in earnings in Q1/11 versus Q1/10 was primarily due to higher energy deliveries (4,402 GWh in Q1/11 vs. 4,109 GWh in Q1/10) and timing with respect to the recording in 2010 of the cumulative impact of the 2010–2011 regulatory rate decision. During Q3/10, Fortis recorded a revenue accrual of \$22 million (with \$14 million of the total relating to H1/10) to reflect higher approved rates. In addition, Q1/11 results benefitted from a \$1 million gain on the sale of property.

### **Regulated Electric Utilities – FortisBC**

Q1/11 net income of \$19 million was greater than Q1/10 net income of \$14 million and our estimate of \$16.2 million. The increase in earnings was largely driven by higher electricity sales during the quarter (905 GWh in Q1/11 vs. 820 GWh in Q1/10) and rate base growth, due to infrastructure investments.

### **Regulated Electric Utilities – Newfoundland Power**

Q1/11 net income of \$7 million was generally consistent with our estimate of \$6.6 million and Q1/10 net income of \$7 million.

### **Regulated Electric Utilities – Caribbean**

The earnings contribution from the Caribbean business segment was \$4 million in Q1/11 versus our estimate of \$4.2 million and Q1/10 net income of \$4 million.

### **Unregulated – Fortis Generation**

Fortis Generation reported Q1/11 net income of \$3 million, lower than our estimate of \$5 million and \$1 million greater than Q1/10 net income of \$2 million. The variance between Q1/11 and Q1/10 results was largely due to a combination of increased production and higher average realized power prices.

### **Unregulated – Fortis Properties**

Fortis Properties reported net income of \$1 million, which was lower than our estimate of \$2.3 million and Q1/10 net income of \$2 million. Lower performance at the hotel operations, primarily due to the continued unfavourable impact of the economic downturn, caused the decrease. Occupancy at the real estate division decreased to 94.3% at the end of the quarter versus 95.8% at the end of Q1/10. At the hospitality division, revenue per available room increased slightly to \$63.29 during Q1/11 versus \$62.93 during Q1/10.

### **Estimates**

There are no changes to our annual EPS estimates; however, we have adjusted our quarterly estimates to reflect Q1/11 results.

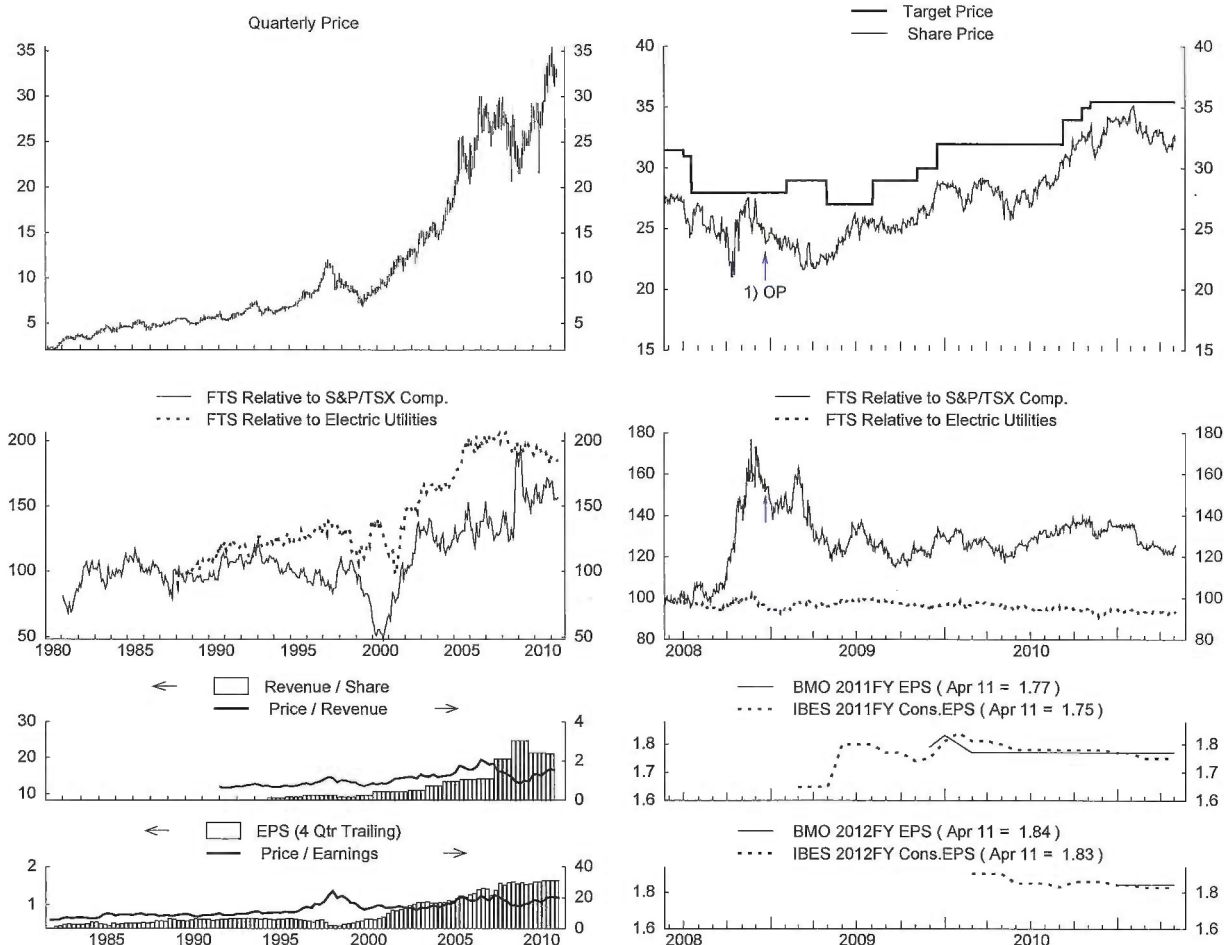
Table 2: Consolidated Summary

04-May-11												Michael McGowan	
Current Price:		\$32.35										BMO Capital Markets	
12-Month Target Price:		\$35.50											
ROR:		13.3%											
		Recommendation:										Outperform	
		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.08	\$1.17	\$1.38	\$1.36	\$1.50	\$1.54	\$1.62	\$1.60	\$1.67	
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.55	\$1.62	\$1.77	\$1.84	
Segmented EPS:													
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.39	\$0.29	\$0.22	\$0.30	\$0.19	\$0.20	\$0.20	\$0.19	
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.12	
Fortis Properties		\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15	
Fortis Generation		\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.12	\$0.12	
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.15	\$0.15	\$0.15	
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.43	\$0.44	
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.27	\$0.29	
Taranaki Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.79	\$0.79	
Other/Corporate		(\$0.01)	(\$0.12)	(\$0.25)	(\$0.30)	(\$0.39)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.42)	(\$0.41)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.62	\$1.09	\$1.04	\$1.12	\$1.15	\$1.22	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	50.2%	64.2%	67.6%	69.3%	69.5%	68.3%	
Average Shares (mm)		66.1	66.2	64.1	101.8	109.6	137.5	157.4	170.2	173.9	173.1	178.1	
Net Book Value		\$8.50	\$8.64	\$10.47	\$11.75	\$12.25	\$16.12	\$18.00	\$18.64	\$19.04	\$19.70	\$20.98	
Market Valuation													
Price: High		\$15.28	\$15.24	\$17.75	\$25.54	\$30.00	\$30.00	\$29.94	\$28.85	\$34.20	-	-	
Price: Low		\$10.75	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.52	\$25.67	-	-	
Price: Current		-	-	-	-	-	-	-	-	-	\$32.35	-	
P/E Ratio: High		13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	18.0	17.3	
Price/Book Value: High		1.5	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-	
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.6	1.6	
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.5%	3.3%	-	-	
Yield: Low Price		4.5%	4.3%	3.8%	3.6%	3.3%	3.3%	5.0%	4.9%	4.4%	-	-	
Yield: Current		-	-	-	-	-	-	-	-	-	3.5%	3.8%	
Balance Sheet (\$mm)													
Debt (\$-T)		181.6	140.8	229.1	80.3	189.8	911.0	890.0	639.0	414.0	328.7	471.4	
Debt (\$-LT)		925.5	1,006.9	1,881.5	2,133.8	2,404.8	4,578.0	4,840.0	5,237.0	5,565.0	5,799.0	5,925.7	
Minority Interest		40.0	36.8	37.5	34.6	30.0	115.0	145.0	123.0	152.0	162.0	162.0	
Preferred Shares		0.0	125.0	321.5	316.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	
Convertible Debentures		14.4	24.5	22.2	22.3	63.5	48.0	44.0	44.0	44.0	44.0	44.0	
Shareholders' Equity		369.5	514.7	1,000.1	1,212.9	1,275.7	2,600.7	3,045.7	3,198.7	3,325.0	3,325.0	3,501.5	
		1,745.9	1,980.4	3,492.7	3,808.8	4,588.1	8,591.7	9,361.7	9,902.7	10,407.0	10,675.7	11,321.5	
Balance Sheet (%)													
Debt (\$-T)		10.4%	7.3%	6.9%	2.1%	4.0%	10.6%	6.0%	6.0%	4.0%	3.1%	4.2%	
Debt (\$-LT)		53.0%	51.0%	53.9%	55.0%	54.4%	52.1%	51.5%	52.9%	53.5%	54.3%	53.2%	
Minority Interest		2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	
Preferred Shares		0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	6.8%	6.6%	6.1%	
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	
Shareholders' Equity		33.5%	21.5%	28.6%	31.2%	27.8%	28.9%	32.2%	32.7%	31.8%	32.1%	33.6%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement													
Net Profit to Common		63.3	73.6	82.1	110.2	143.3	157.4	242.8	262.0	261.0	212.8	332.8	
Cash Flow from Operations		134.4	150.7	283.7	330.0	279.8	373.0	629.0	537.0	783.0	815.8	865.2	

Source: BMO Capital Markets



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.80	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.63	20	1.16	3.6	71	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.3		12.6			10.1		
10 Year:	9.8		9.7			10.5		
20 Year:	5.0		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q4/2010.

FTS - Rating as of 22-May-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: May 3, 2011



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée./Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

Stock Rating: Outperform  
Stock Price: \$32.30  
Target Price: \$35.50

Member of: Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

**May 4, 2011**

Brief Research Note  
Gas & Electric Utilities

**Michael McGowan, CA, CFA**  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA

## Q1/11 Results: A Strong Start to the Year

---

### Impact

Slightly Positive

---

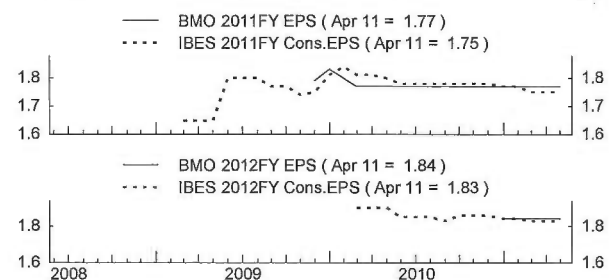
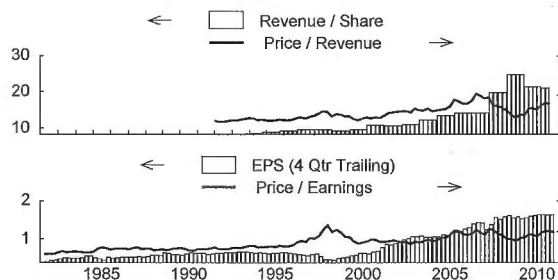
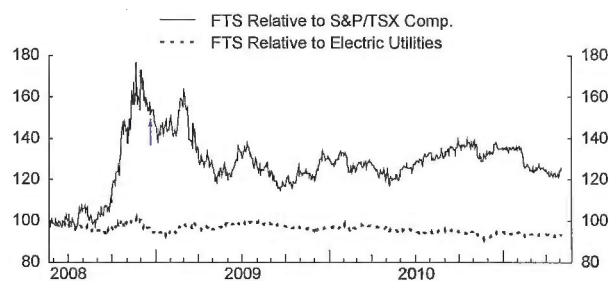
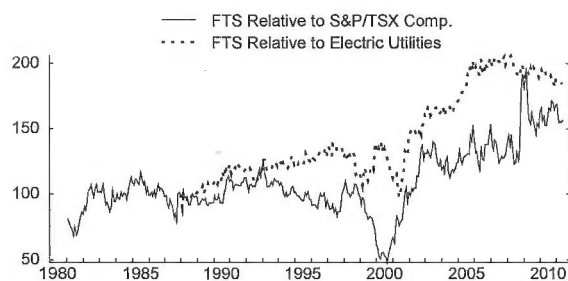
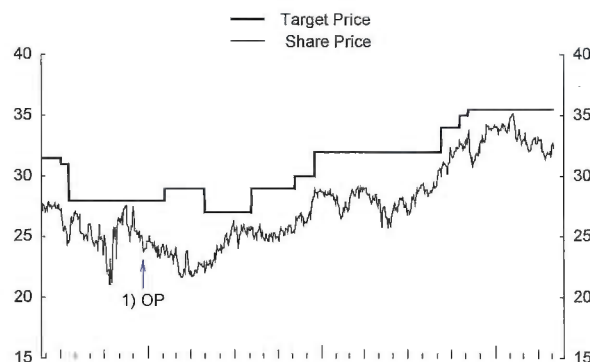
### Details & Analysis

Fortis reported Q1/11 EPS of \$0.67 vs. our estimate of \$0.62 and the First Call Mean of \$0.62 (range \$0.61-0.63). The difference between actual and expected earnings was primarily the result of strong earnings at the western utilities: FortisAlberta, FortisBC, and FortisBC Energy Inc. (formerly Terasen Gas). As energy sales at the western utilities (both electricity and natural gas) appear to have increased significantly during Q1/11 vs. Q1/10, we attribute the majority of the earnings increase to seasonality. There was no change to the company's capital budget guidance. Fortis continues to expect to invest \$5.5 billion in its business segments over the next five years. Overall, this appeared to be fairly clean quarter and we would characterize it as a strong start to the year.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.6	60	5.28	1.2	12
1993	0.64	11	0.40	6.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.63	20	1.16	3.6	71	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.3		12.6			10.1		
10 Year:	9.8		9.7			10.5		
20 Year:	5.0		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q4/2010.

FTS - Rating as of 22-May-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91

Last Daily Data Point: May 3, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starline Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only



be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée/Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

## Resuming Coverage After \$300 Million Equity Issuance; Proposed CVPS Acquisition

### Event

We are resuming coverage of Fortis following the completion of an offering of 9.1 million common shares for gross proceeds of \$300 million that was announced on May 30, 2011. Concurrently, Fortis announced that it had agreed to acquire Central Vermont Public Service Corporation (CVPS) for US\$700 million, including the assumption of US\$230 million of debt.

### Impact

Slightly Positive. We had expected Fortis to issue equity by late 2011 in order to finance its ongoing capital expenditure program, although the amount of the issuance (\$300 million) was slightly greater than what we had forecast (\$260 million) and occurred earlier than expected. With respect to the acquisition of CVPS, Fortis has long stated that it intended to expand through the acquisition of a U.S.-based utility. At a multiple of approximately 1.49x anticipated regulatory rate base, the acquisition is not cheap; however, CVPS's rate base is expected to grow by an annual CAGR of 9% during the next five years.

### Forecasts

We have updated our estimates to reflect: (1) the \$300 million equity issuance; (2) the CVPS acquisition; and (3) a reduction in earnings from the Caribbean business segment to be consistent with net income reported in 2010.

### Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.86 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

### Recommendation

At current levels, we believe that Fortis's shares are attractively valued. Our rating is Outperform.

June 15, 2011

Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**

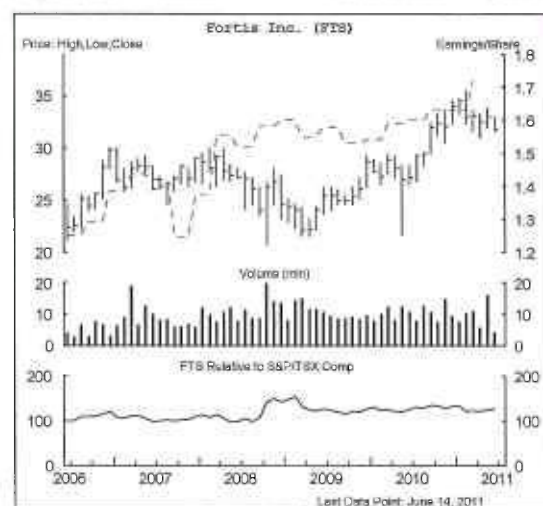
BMO Nesbitt Burns Inc.

(416) 359-5807

Michael.McGowan@bmo.com

Assoc: Mark Laing, CA, CFA

Price (15-Jun) \$31.35 52-Week High \$35.45  
 Target Price \$35.50 52-Week Low \$26.80



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.71↓	\$1.86↑
P/E			18.3x	16.9x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			6.7x	6.5x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,696	\$13,102
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,354.8	\$1,407.5
EV/EBITDA	10.3x	10.6x	9.4x	9.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.35	\$0.24↓	\$0.47↓
Dividend	\$1.16	Yield		3.7%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	184.5	Mkt. Cap (mm)		\$5,784
Float O/S (mm)	183.0	Float Cap (mm)		\$5,737
Wkly Vol (000s)	2,302	Wkly \$ Vol (mm)		\$73.3
Net Debt (\$mm)	\$5,915	Next Rep. Date		15-Aug (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2011E: \$1.75; 2012E: \$1.84

Changes	Annual EPS
	2011E \$1.77 to \$1.71
	2012E \$1.84 to \$1.86

Quarterly EPS
Q3/11E \$0.26 to \$0.24
Q4/11E \$0.52 to \$0.47



## **Resuming Coverage After \$300 Million Equity Issuance; Proposed Acquisition of Central Vermont Public Service Co.**

We are resuming coverage of Fortis following the completion of an offering of 9.1 million common shares for gross proceeds of \$300 million that was announced on May 30, 2011. Concurrently, Fortis announced that it had agreed to acquire Central Vermont Public Service Corporation (CVPS) for US\$700 million, including the assumption of US\$230 million of debt.

With respect to the equity issuance, we expected Fortis to issue common shares by late 2011 in order to finance its ongoing capital expenditure program, although the amount of the issuance (\$300 million) was slightly greater than what we had forecast (\$260 million) and occurred earlier than expected.

With respect to the acquisition of CVPS, Fortis has long stated that it intended to expand into the U.S. through the acquisition of a U.S.-based utility. At a multiple of approximately 1.49x anticipated regulatory rate base, the acquisition is not cheap, and we estimate that CVPS will only be approximately \$0.05/share accretive to EPS in the first full year of ownership. The acquisition is, however, consistent with a strategy that Fortis has successfully employed in the past. CVPS is expected to grow its rate base by a CAGR of 9% per year, and this growth rate should translate into additional earnings accretion over time.

CVPS may also present Fortis with incidental acquisition opportunities. CVPS holds a 41% ownership interest in Vermont Transco, LLC, the entity that owns and operates the high-voltage transmission system in Vermont. It is possible that as the demand for green energy in the U.S. increases, the capacity of the transmission line owned by Vermont Transco could be expanded in order to accommodate additional imports of electricity from Quebec.

Although we view the acquisition positively, we are maintaining our \$35.50 price target, based on the relatively limited amount of accretion initially expected from the acquisition.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.86 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

## About Central Vermont Public Service Corp.

Fortis has agreed to acquire all of the issued and outstanding common shares of Central Vermont Public Service Corp. ("CVPS"), a regulated integrated electric utility located in Vermont, for US\$35.10/share, resulting in aggregate purchase price of US\$700 million, including the assumption of US\$230 million of debt.

CVPS is the largest electric utility in Vermont, and is principally engaged in the purchase, production, transmission, distribution and sale of electricity.

CVPS serves nearly 160,000 customers in about two-thirds of the cities and towns throughout the state of Vermont. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. In addition, CVPS holds a 41% ownership interest in Vermont Transco, LLC, the entity that owns and operates the high-voltage transmission system in Vermont. Additional details about CVPS are set out below:

- The \$35.10/share offer represented a premium of 44.3% to CVPS's closing price of \$24.32, the day before the transaction was announced. The implied acquisition P/E multiplies based on 2011E guidance provided by CVPS are 21.9–20.0x 2011E earnings.
- Fortis has stated that in 2010, total assets and rate base assets of CVPS were approximately US\$711 million and US\$426 million, respectively.
- 2011E rate base has been forecast at US\$471 million. CVPS expects rate base to reach approximately US\$650 million by 2015, representing a compound average annual growth rate of approximately 9% from 2010 to 2015. A breakdown of historical and projected rate base for CVPS is provided in Table 1.

**Table 1: Historical and Projected Rate Base (US\$mm)**

	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Rate Base	236	236	302	344	385	426	471	518	574	602	646

Source: Company Reports, BMO Capital Markets

- CVPS's allowed rate of return on common equity for 2011 has been set at 9.45% with a deemed equity thickness of 57%. Although CVPS's deemed ROE is similar to that earned by Canadian-domiciled utilities, the equity thickness of 57% is very high by Canadian standards (most regulated utilities in Canada do not have equity thicknesses that exceed 40%).

We believe that the discrepancy between CVPS's capital structure (57% equity) and Fortis's capital structure (approximately 32% common equity, 9% preferred equity) is one of the reasons why the CVPS acquisition is accretive.

- CVPS operates principally under cost-of-service regulation. The regulatory framework at CVPS enables the company to recover fuel, purchased power and transmission costs, along with capital program costs with minimal lag.
- Consistent with Fortis's other subsidiaries, CVPS will continue to operate as a separate company with its own board of directors and local management team. In addition, Fortis

will provide approximately \$21 million for the benefit of CVPS customers, in a manner to be determined through the regulatory approval process.

- If the acquisition does not proceed, Fortis is entitled to a termination fee of US\$17.5 million, along with the reimbursement of up to US\$2 million for prudently incurred expenses.
- Regulatory approvals are expected within 6–12 months.

## **An Update on Belize Electricity Limited**

On June 13, Fortis issued a press release to communicate that the Government of Belize issued a media release on Friday, June 10, announcing that the government desired to purchase a majority interest in Belize Electricity Limited (“BEL”; 70% Fortis) in order to assume control of the company. Fortis has indicated that it has not yet received a proposal from the Government of Belize.

The government’s announcement is the latest development in the acrimonious relationship between BEL and the Government of Belize, which began in May 2008, when the Belize Public Utilities Commission (“PUC”) issued a preliminary decision on BEL’s 2008 rate application. At that time, the PUC denied BEL’s request to increase rates in response to rising commodity prices. Fortis subsequently commenced a legal challenge against the PUC’s decision. On March 15, 2011 the Supreme Court of Belize upheld the PUC’s jurisdiction to set rates, and noted in its ruling that “Good Utility Practice as defined by [the Independent Expert appointed by the Court] in his Report is not applicable to Belize.”

Unsurprisingly, Fortis has not been able to earn a fair return from its investment in BEL in over three years. In 2010, the earnings contribution from BEL was only \$1.5 million, whereas in previous years, it had been as high as \$10 million.

During follow-up conversations, Fortis management stated that while it would be willing to divest its investment in BEL, any sale would have to be completed at a reasonable price and Fortis would not be willing to sell anything less than its entire investment in BEL. At the time of writing, BEL had a book value of \$125 million (\$0.68/share). Fortis is also exposed to Belize through its investment in BECOL (a company that owns unregulated power generation in Belize), which has a current book value of approximately \$160 million (\$0.88/share).

We expect continued uncertainty with respect to Fortis’s Belizean investments in the coming months. In our view, we believe a best-case scenario would involve Fortis divesting both BEL and BECOL for cash proceeds at prices that exceed book value. A worst-case scenario would involve some sort of expropriation of these assets by the Government of Belize.

Although we believe the uncertainty with respect to Fortis’s Belizean operations is negative, we note that these assets represent a relatively small proportion of the company’s consolidated operations. We estimate that income from both BEL and BECOL represent approximately 6% of our 2012E EPS estimate.

## Estimates

We have updated our estimates to reflect: (1) the \$300 million equity issuance; (2) the CVPS acquisition; and (3) a reduction in earnings from the Caribbean business segment to be consistent with net income reported in 2010.

Our 2011E diluted EPS estimate declines to \$1.71 from \$1.77 due to a combination of dilution from the \$300 million common share issuance, and reduced net income expectations from Fortis's Caribbean investments.

Our 2012E diluted EPS estimate increases slightly to \$1.86 from \$1.84, as expected accretion from the CVPS estimate is partially offset by a reduction in earnings from the Caribbean segment.

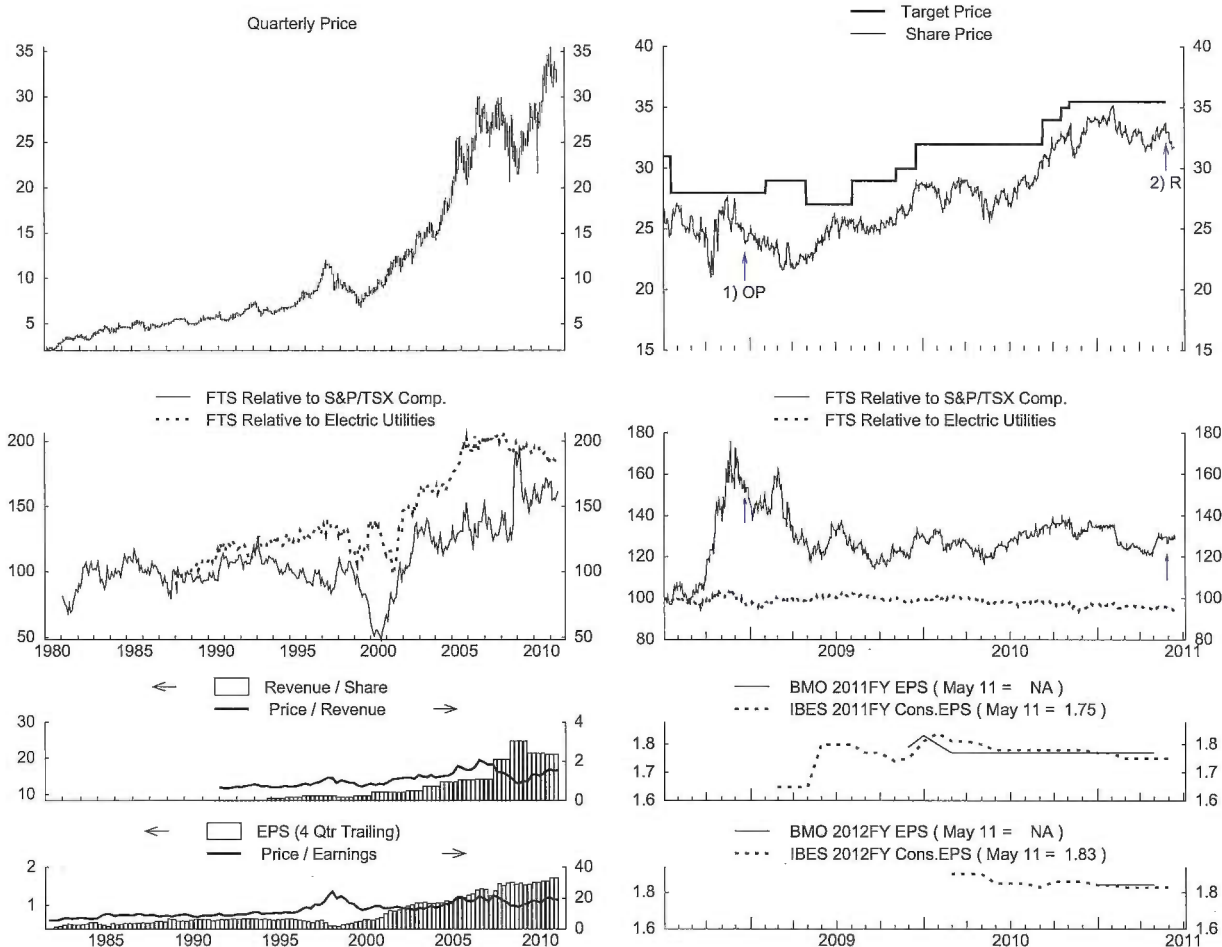


Table 2: Consolidated Summary

15-Jun-11												Michael McGowan
Current Price:		\$31.35										BMO Capital Markets
12-Month Target Price:		\$35.50										
ROR:		16.9%										
		Recommendation:										Outperform
		Year Ending December 31										
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.05	\$1.17	\$1.36	\$1.35	\$1.50	\$1.54	\$1.55	\$1.73	\$1.89
Total Diluted Earnings Per Share		\$0.90	\$1.03	\$0.99	\$1.10	\$1.38	\$1.29	\$1.55	\$1.51	\$1.59	\$1.71	\$1.85
Segmented EPS												
Newfoundland Power		\$0.44	\$0.45	\$0.37	\$0.29	\$0.30	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.15	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15
Fortis Generation		\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.11	\$0.11
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.13	\$0.13
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.25	\$0.25
Telcel Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.75
Other/Corporate		(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.40)	(\$0.42)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22
Payout Ratio		49.9%	48.5%	51.4%	52.5%	48.4%	60.2%	64.2%	67.6%	69.3%	68.9%	65.4%
Average Shares (mm)		65.1	69.2	64.7	101.8	103.5	137.5	137.4	110.2	113.9	113.9	114.4
Net Book Value		\$8.50	\$8.54	\$10.47	\$11.76	\$12.25	\$15.72	\$18.00	\$18.54	\$19.04	\$20.11	\$20.80
Market Valuation												
Price: High		\$13.35	\$15.24	\$17.75	\$25.54	\$30.00	\$30.00	\$29.54	\$28.55	\$34.20	-	-
Price: Low		\$10.75	\$11.53	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.52	\$25.57	-	-
Price: Current		-	-	-	-	-	-	-	-	-	\$31.35	-
P/E Ratio: High		13.7	14.3	15.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	15.0	12.9	14.0	15.9	-	-
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	18.1	15.6
Price/Book Value: High		1.5	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.6	1.5
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.0%	3.3%	-	-
Yield: Low Price		4.0%	4.5%	3.8%	3.5%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-
Yield: Current		-	-	-	-	-	-	-	-	-	3.7%	3.9%
Balance Sheet (\$mm)												
Debt (S-T)		181.5	142.5	229.1	80.3	182.5	911.0	550.0	632.0	414.0	48.2	213.5
Debt (L-T)		925.8	1,006.9	1,881.6	2,133.8	2,454.8	4,576.0	4,840.0	5,337.0	5,555.0	5,799.0	6,637.2
Minority Interest		40.0	35.8	37.5	39.5	130.0	115.0	145.0	133.0	162.0	153.0	152.0
Preferred Shares		0.0	125.0	321.5	312.5	443.0	442.0	567.0	557.0	917.0	917.0	917.0
Convertible Debentures		14.4	34.0	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity		\$59.5	\$16.7	1,000.1	1,213.4	1,275.7	2,500.7	3,045.7	3,152.7	3,309.0	3,705.0	3,840.2
		1,745.9	1,950.4	3,452.7	3,806.8	4,988.1	8,591.7	9,391.7	9,902.7	10,407.0	10,576.3	11,814.1
Balance Sheet (%)												
Debt (S-T)		10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	5.9%	6.5%	4.0%	0.5%	1.8%
Debt (L-T)		53.0%	51.6%	55.9%	55.0%	54.4%	52.7%	51.5%	52.9%	53.3%	54.3%	55.2%
Minority Interest		2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.5%	1.5%	1.4%
Preferred Shares		0.0%	0.6%	9.2%	8.4%	9.0%	5.1%	7.1%	5.7%	8.8%	8.6%	7.8%
Convertible Debentures		0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity		33.8%	21.5%	28.5%	31.9%	27.2%	29.0%	32.4%	32.2%	31.8%	34.7%	32.6%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement												
Net Profit to Common		53.3	73.6	69.1	119.2	143.2	157.4	252.5	252.0	291.0	310.3	349.3
Cash Flow from Operations		134.4	150.7	283.7	320.0	279.8	373.0	658.0	637.0	753.0	814.8	850.2

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	7.5		12.6			10.1		
10 Year:	10.3		9.5			10.5		
20 Year:	5.3		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 3-Jul-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97

Last Daily Data Point: June 14, 2011

## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

### Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.



**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée./Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

## Government of Belize Expropriates Fortis's 70% Ownership Interest in Belize Electricity Ltd.

### Event

Fortis has announced that on Monday, June 20, the Government of Belize passed legislation and issued an order to expropriate Fortis's 70% interest in Belize Electricity Limited ("BEL") and dismiss BEL's board of directors.

### Impact

Negative. In our research comment dated June 15 ([link](#)), we provided an update regarding BEL, specifically concerning comments made by the Government of Belize regarding its desire to acquire a majority interest in BEL and highlighted the possibility of government expropriation. Fortis is also exposed to Belize through its investment in BECOL, which owns unregulated power generation in the country. Although the government has not passed legislation to expropriate BECOL, BECOL may now experience difficulty collecting amounts billed to BEL for energy sales. We understand that BEL has a book value of \$125 million (\$0.68/share) and BECOL has a book value of \$160 million (\$0.88/share). Given this development, we believe Fortis may be required to record an impairment charge against its Belizean investments; however, its exposure to the country is relatively limited as BEL and BECOL represent less than 3% of total assets.

### Forecasts

We removed the earnings contribution from BEL from our model on June 15. In order to be conservative, for periods after Q1/11 we have now eliminated all earnings contributions from BECOL.

### Valuation

Our \$35 price target is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.86 (12.5%), 1.75x 2012E BVPS of \$20.92 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

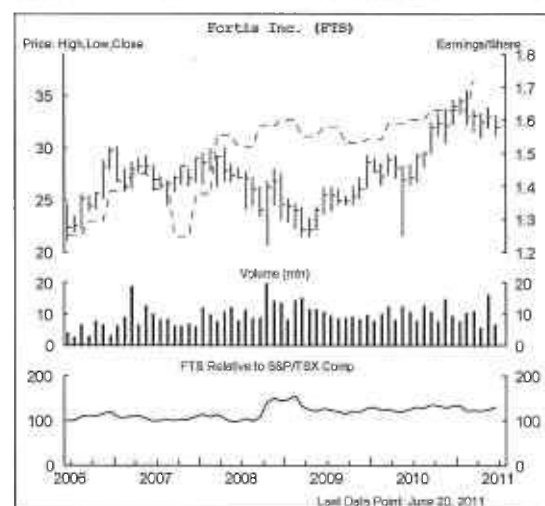
### Recommendation

While this development is unfortunate, we continue to believe that Fortis represents a compelling long-term investment. Our rating is Outperform.

June 21, 2011  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

Price (20-Jun) \$32.04 52-Week High \$35.45  
 Target Price \$35.00↓ 52-Week Low \$26.80



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.64↓	\$1.78↓
P/E			19.5x	18.0x
CFPS	\$3.74	\$4.51	\$4.71	\$4.81
P/CFPS			6.8x	6.7x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,703	\$13,883
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,352.1	\$1,458.4
EV/EBITDA	10.3x	10.6x	9.4x	9.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.34↓	\$0.22↓	\$0.44↓
Dividend	\$1.16	Yield		3.6%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	184.5	Mkt. Cap (mm)		\$5,911
Float O/S (mm)	183.0	Float Cap (mm)		\$5,863
Wkly Vol (000s)	2,283	Wkly \$ Vol (mm)		\$72.9
Net Debt (\$mm)	\$5,915	Next Rep. Date		15-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.73; 2012E: \$1.85

#### Changes

**Annual EPS**  
 2011E \$1.71 to \$1.64  
 2012E \$1.86 to \$1.78

#### Quarterly EPS

Q2/11E \$0.35 to \$0.34  
 Q3/11E \$0.24 to \$0.22  
 Q4/11E \$0.47 to \$0.44

#### Target

\$35.50 to \$35.00

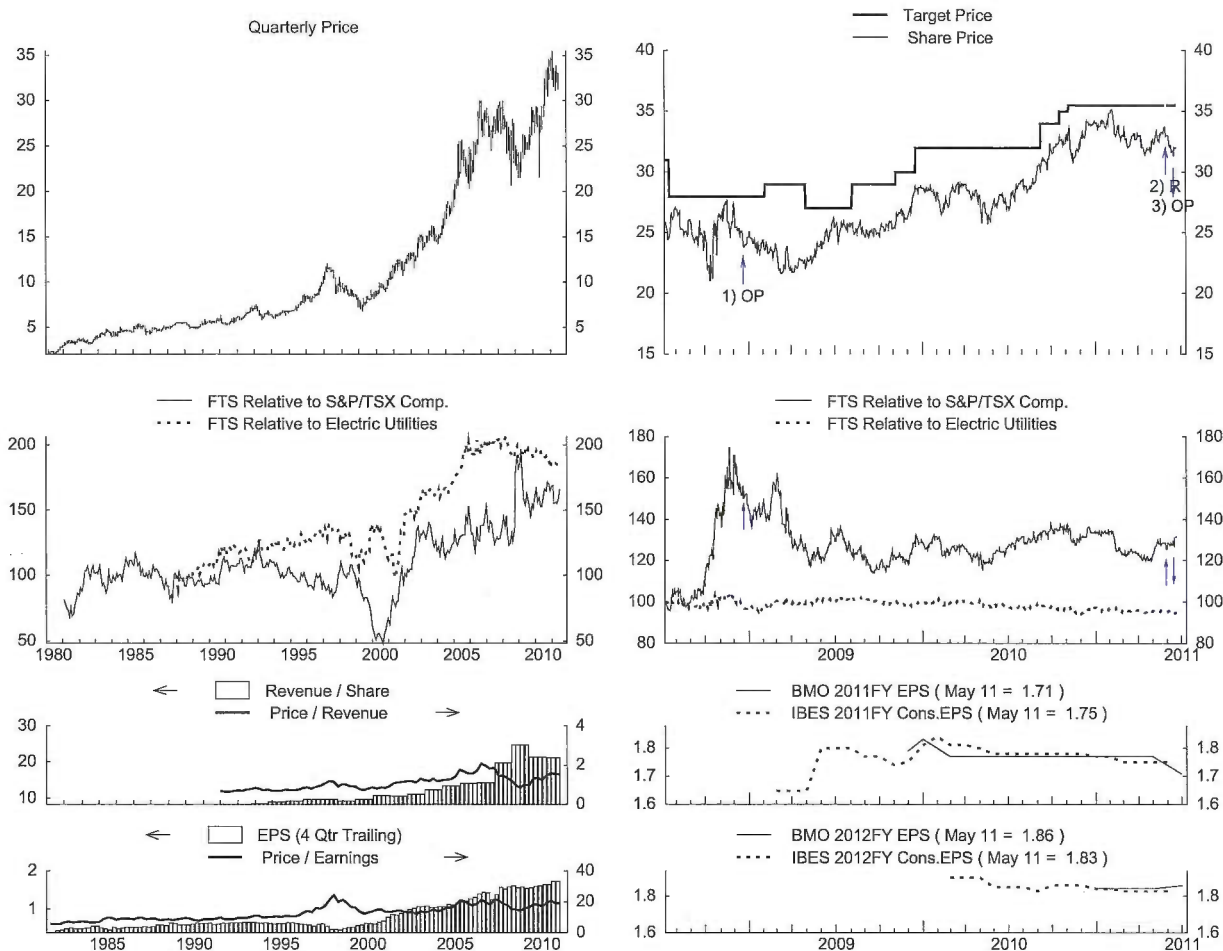
Table 1: Consolidated Summary

21-Jun-11												Michael McGowan
Current Price:		\$32.01										BMO Capital Markets
12-Month Target Price:		\$35.00										
ROR:		13.0%										
		Recommendation:										Outperform
		Year Ending December 31										
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.62	\$1.66	\$1.61
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.32	\$1.29	\$1.55	\$1.51	\$1.59	\$1.64	\$1.78
Segmented EPS												
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.39	\$0.39	\$0.22	\$0.30	\$0.19	\$0.20	\$0.19	\$0.19
Other Canadian		\$0.24	\$0.20	\$0.15	\$0.12	\$0.15	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15
Fortis Generation		\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.04	\$0.04
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.15	\$0.25	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12
Fortis Alberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.45
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.25	\$0.25
Teresen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.75
Other/Corporate		(\$0.02)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.32)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.40)	(\$0.44)
Dividends		\$0.42	\$0.52	\$0.54	\$0.61	\$0.67	\$0.50	\$1.03	\$1.04	\$1.12	\$1.15	\$1.22
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	50.2%	64.2%	67.5%	69.3%	70.0%	67.5%
Average Shares (mm)		65.1	69.2	64.7	101.8	103.6	137.5	157.4	170.2	179.9	178.9	184.4
Net Book Value		\$9.50	\$8.84	\$10.47	\$11.75	\$12.25	\$15.72	\$16.00	\$16.64	\$19.04	\$20.04	\$20.64
Market Valuation												
Price: High		\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$24.04	\$26.55	\$34.20	-	-
Price: Low		\$10.70	\$11.63	\$14.23	\$17.00	\$20.35	\$24.80	\$20.70	\$21.02	\$25.67	-	-
Price: Current		-	-	-	-	-	-	-	-	-	\$32.01	-
P/E Ratio: High		13.7	14.3	15.9	21.9	21.7	22.0	15.7	18.7	21.2	-	-
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	19.3	17.7
Price/Book Value: High		1.5	1.7	1.7	2.3	2.4	1.8	1.7	1.5	1.8	-	-
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.3	-	-
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.5	1.5
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.0%	3.3%	-	-
Yield: Low Price		4.5%	4.5%	3.5%	3.5%	3.3%	3.3%	3.0%	4.5%	4.6%	-	-
Yield: Current		-	-	-	-	-	-	-	-	-	3.5%	3.5%
Balance Sheet (\$mm)												
Debt (S-T)		181.5	142.5	229.1	80.3	152.5	911.0	680.0	639.0	414.0	52.1	243.8
Debt (L-T)		925.5	1,005.9	1,681.5	2,133.5	2,494.0	4,075.0	4,840.0	5,237.0	5,565.0	5,799.0	6,597.2
Minority Interest		40.0	36.8	37.5	39.5	130.0	115.0	148.0	129.0	162.0	153.0	153.0
Preferred Shares		0.0	125.0	221.5	319.5	443.0	442.0	657.0	667.0	217.0	217.0	217.0
Convertible Debenture		14.4	24.5	22.9	22.3	83.5	45.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity		584.5	616.1	1,000.1	1,318.4	1,275.1	2,500.7	3,028.7	3,192.7	3,305.0	3,562.2	3,810.1
		1,745.9	1,950.4	3,462.7	3,806.8	4,956.1	6,691.7	9,391.7	9,203.7	10,407.0	10,575.3	11,514.1
Balance Sheet (%)												
Debt (S-T)		10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	5.9%	5.9%	4.0%	0.5%	2.1%
Debt (L-T)		53.0%	51.6%	53.0%	50.0%	54.4%	62.7%	51.5%	52.2%	55.9%	54.3%	56.3%
Minority Interest		2.3%	1.9%	1.1%	1.0%	3.5%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%
Preferred Shares		0.0%	6.4%	9.2%	8.4%	9.0%	5.1%	7.1%	6.7%	6.6%	6.5%	7.5%
Convertible Debenture		0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity		33.3%	31.5%	25.2%	31.2%	27.5%	29.5%	32.6%	32.2%	31.8%	34.2%	32.3%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement												
Net Profit to Common		53.3	73.5	89.1	119.2	143.2	167.4	252.5	262.0	281.0	255.5	323.0
Cash Flow from Operations		134.4	150.7	263.7	320.0	279.5	373.0	553.0	537.0	781.0	801.0	835.9

Source: BMO Capital Markets



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	7.5		12.8			10.1		
10 Year:	10.3		9.5			10.5		
20 Year:	5.3		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 9-Jul-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: June 20, 2011

## IMPORTANT DISCLOSURES

## Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

## Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

## Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

## Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

## Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

## Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, retail clients are served through Harris N.A. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and BMO Ireland Plc, and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member CIPF) in Canada, Europe and Asia, BMO Nesbitt Burns Securities Limited (U.S. registered and member of FINRA), and BMO Nesbitt Burns Ltée./Ltd. (Member CIPF) in Canada, and BMO Capital Markets Limited in Europe and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP.

A member of BMO  Financial Group



# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

July 13, 2011  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

## Updating Model to Reflect Termination of CVPS Merger Agreement and Overallotment Option

### Event

We are updating our estimates to reflect: (1) Fortis's decision to terminate the Central Vermont Public Service Corp. (CVPS) merger agreement; and (2) the issuance of an additional 1.24 million common shares priced at \$33/share pursuant to the exercise of an overallotment option that was granted to underwriters on May 30, when the company announced it was issuing \$300.3 million of equity.

### Impact

Slightly negative. The additional share issuance and decision to terminate the CVPS merger agreement has led to a reduction in our 2011E and 2012E EPS estimates. Somewhat positively, Fortis will receive a termination fee of US\$17.5 million from CVPS and a reimbursement of US\$2 million for expenses related to the proposed transaction.

### Forecasts

Our EPS estimates decline to \$1.63 from \$1.64 in 2011E and to \$1.70 from \$1.78 in 2012E. We have not included the merger termination fee in our 2011E estimates as it represents a non-recurring gain.

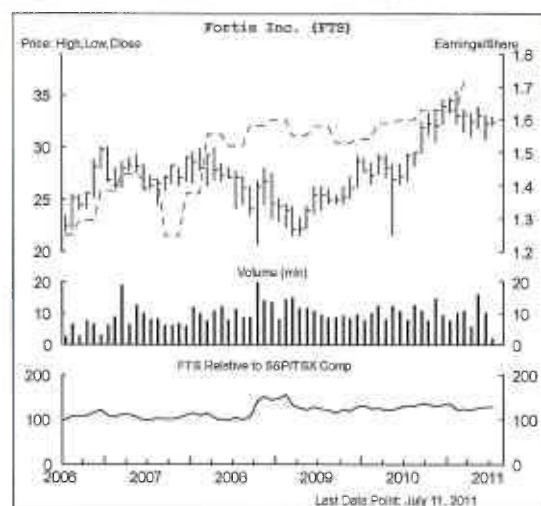
### Valuation

Our \$35 price target is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.70 (12.5%); 1.75x 2012E BVPS of \$20.66 (12.5%); and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

### Recommendation

At current levels, we believe the shares are attractively valued. Our rating is Outperform.

Price (12-Jul) \$32.76 52-Week High \$35.45  
 Target Price \$35.00 52-Week Low \$27.65



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63↓	\$1.70↓
P/E			20.1x	19.3x
CFPS	\$3.74	\$4.51	\$4.44	\$4.54
P/CFPS			7.0x	6.8x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,812	\$14,011
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,335.0	\$1,437.9
EV/EBITDA	10.3x	10.6x	9.6x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.34	\$0.22	\$0.44
Dividend	\$1.16	Yield		3.5%
Book Value	\$19.00	Price/Book		1.7x
Shares O/S (mm)	184.5	Mkt. Cap (mm)		\$6,044
Float O/S (mm)	183.0	Float Cap (mm)		\$5,995
Wkly Vol (000s)	2,306	Wkly \$ Vol (mm)		\$74.0
Net Debt (\$mm)	\$5,915	Next Rep. Date		03-Aug (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.72; 2012E: \$1.85

Changes	Annual EPS
	2011E \$1.64 to \$1.63
	2012E \$1.78 to \$1.70

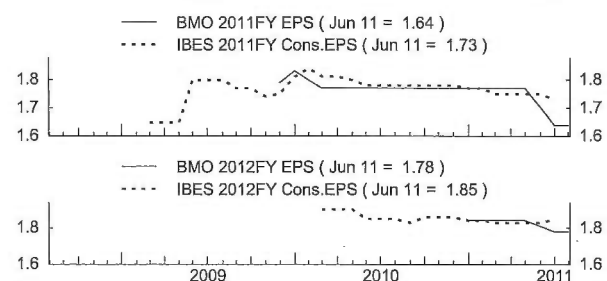
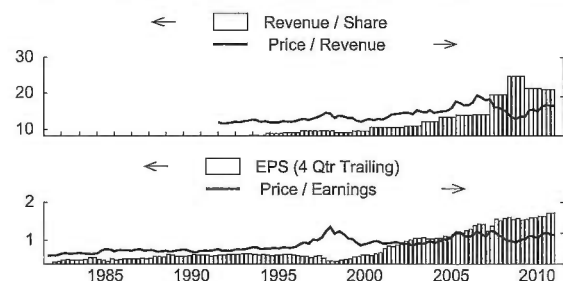
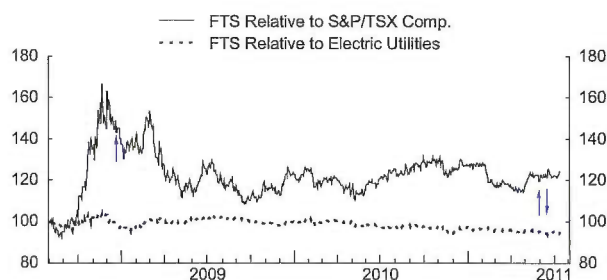
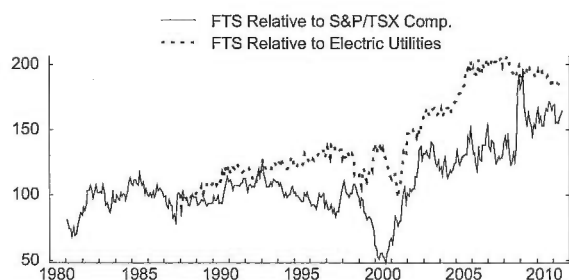
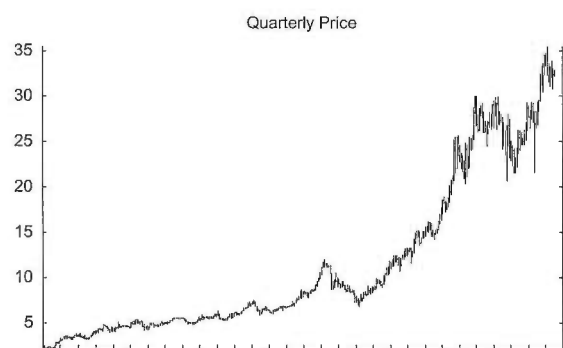


Table 1: Consolidated Summary

13-Jul-11												Michael McGowan
Current Price:		\$32.48										BMO Capital Markets
12-Month Target Price:		\$35.00										
RCR:		11.4%										
		Recommendation:										Outperform
		Year Ending December 31										
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Total Basic Earnings Per Share		\$0.97	\$1.05	\$1.05	\$1.17	\$1.38	\$1.35	\$1.50	\$1.54	\$1.62	\$1.65	\$1.72
Total Diluted Earnings Per Share		\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.45	\$1.51	\$1.59	\$1.63	\$1.70
Segmented EPS												
Newfoundland Power		\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19
Other Canadian		\$0.34	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Fortis Properties		\$0.14	\$0.15	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.15	\$0.15
Fortis Generation		\$0.07	\$0.15	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.04	\$0.04
Fortis Caribbean		\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12
FortisAlberta		\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.38	\$0.39	\$0.38	\$0.34	\$0.41	\$0.43
FortisBC		\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.25	\$0.29
Teresen Inc.		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.73	\$0.72	\$0.75	\$0.76
Other/Corporate		(\$0.03)	(\$0.12)	(\$0.25)	(\$0.30)	(\$0.32)	(\$0.41)	(\$0.48)	(\$0.42)	(\$0.45)	(\$0.39)	(\$0.37)
Dividends		\$0.49	\$0.57	\$0.54	\$0.61	\$0.67	\$0.62	\$1.03	\$1.04	\$1.12	\$1.15	\$1.22
Payout Ratio		49.5%	48.5%	51.4%	52.9%	48.4%	50.2%	64.2%	67.5%	69.2%	70.4%	70.9%
Average Shares (mm)		65.1	69.2	84.7	101.5	103.5	137.6	137.4	170.2	173.9	180.5	186.7
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.25	\$10.72	\$18.00	\$18.04	\$18.95	\$20.10	\$20.65
Market Valuation												
Price: High		\$13.38	\$15.34	\$17.75	\$25.64	\$30.00	\$30.00	\$24.94	\$28.85	\$34.20	-	-
Price: Low		\$10.76	\$11.63	\$14.33	\$17.00	\$20.36	\$24.80	\$30.70	\$21.62	\$25.67	-	-
Price: Current		-	-	-	-	-	-	-	-	-	\$32.48	-
P/E Ratio: High		15.7	14.3	15.9	21.9	21.7	22.0	15.7	18.7	21.2	-	-
P/E Ratio: Low		11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-
P/E Ratio: Current		-	-	-	-	-	-	-	-	-	19.7	18.9
Price/Book Value: High		1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-
Price/Book Value: Low		1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-
Price/Book Value: Current		-	-	-	-	-	-	-	-	-	1.8	1.5
Yield: High Price		3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-
Yield: Low Price		4.5%	4.5%	3.8%	3.6%	3.2%	3.3%	5.0%	4.8%	4.4%	-	-
Yield: Current		-	-	-	-	-	-	-	-	-	3.0%	3.8%
Balance Sheet (\$mm)												
Debt (\$-T)		191.5	542.5	229.1	80.3	182.5	911.0	680.0	599.0	414.0	16.0	(2.5)
Debt (\$-T)		526.5	1,005.9	1,881.6	3,133.8	2,404.5	4,578.0	4,840.0	3,237.0	3,365.0	5,792.0	6,345.7
Minority Interest		40.0	35.8	37.5	34.8	130.0	115.0	148.0	123.0	162.0	162.0	162.0
Preferred Shares		0.0	125.0	201.5	312.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0
Convertible Debentures		14.4	24.8	22.9	22.3	23.5	45.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity		584.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,025.7	3,192.7	3,305.0	3,744.7	3,837.5
		1,740.9	1,980.4	3,492.7	3,808.8	4,388.1	8,091.7	9,361.7	9,902.7	10,607.0	10,688.8	11,203.7
Balance Sheet (%)												
Debt (\$-T)		10.4%	7.3%	5.9%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	0.1%	0.0%
Debt (\$-T)		33.0%	31.5%	33.4%	36.0%	34.4%	32.7%	31.6%	32.9%	33.3%	34.4%	34.1%
Minority Interest		2.3%	1.8%	1.1%	1.0%	2.9%	1.3%	1.6%	1.2%	1.7%	1.5%	1.2%
Preferred Shares		0.0%	6.4%	0.2%	8.4%	0.6%	5.1%	3.1%	6.7%	8.5%	8.6%	8.1%
Convertible Debentures		0.8%	1.3%	0.7%	0.5%	1.4%	0.3%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity		33.3%	31.5%	35.6%	31.2%	27.8%	29.5%	32.4%	32.2%	31.6%	35.1%	33.9%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement												
Net Profit to Common		63.3	73.6	89.1	119.2	149.2	187.4	252.5	262.0	281.0	297.5	319.4
Cash Flow from Operations		134.4	160.7	293.7	320.0	279.8	373.0	563.0	617.0	783.0	802.0	842.8

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.6	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			10.1		
10 Year:	9.8		9.5			10.5		
20 Year:	5.3		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 31-Jul-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: July 12, 2011

## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

### Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.



**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A, BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

August 3, 2011  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

## Q2/11 Slightly Below Expectations; Outperform Rating Maintained

### Event

Fortis reported Q2/11 EPS of \$0.33. After adjusting for \$2 million in revenue related to the implementation of a smart meter program at FortisAlberta in 2010, we believe recurring EPS were \$0.32 or slightly lower than our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36).

### Impact

Neutral. We view the Q2/11 results as neutral to our outlook. Although reported EPS was slightly below our estimate and consensus, due to the nature of Fortis's business we attribute the majority of the variance to seasonality. For example, Q1/11 results exceeded consensus by \$0.05/share, while Q2/11 earnings were approximately \$0.02/share below consensus.

### Forecasts

We have updated our model to reflect Q2/11 results and the estimated rate base balances set out in the revenue requirement applications for the FortisBC Energy and FortisBC Electricity companies. There is no change to our 2011E EPS estimate and our 2012E EPS estimate increases to \$1.71 from \$1.70.

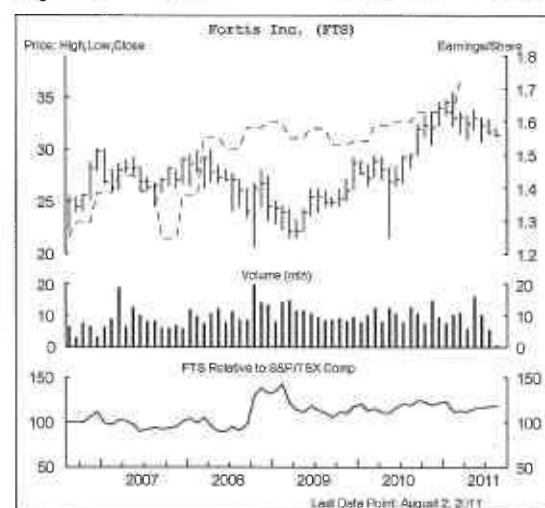
### Valuation

Our \$35 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.71 (12.5%), 1.75x 2012E BVPS of \$20.61 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

### Recommendation

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure plan, we continue to believe that Fortis represents a good long-term investment, especially at current valuation levels. Our rating is Outperform.

**Price (2-Aug)** \$31.37      **52-Week High** \$35.45  
**Target Price** \$35.00      **52-Week Low** \$28.25



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63	\$1.71↑
P/E			19.2x	18.3x
CFPS	\$3.74	\$4.51	\$4.45↑	\$4.55↑
P/CFPS			7.0x	6.9x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,622	\$13,335
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,335.0	\$1,385.6
EV/EBITDA	10.3x	10.6x	9.5x	9.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.22	\$0.45↑
Dividend	\$1.16	Yield		3.7%
Book Value	\$20.03	Price/Book		1.6x
Shares O/S (mm)	186.3	Mkt. Cap (mm)		\$5,844
Float O/S (mm)	184.9	Float Cap (mm)		\$5,800
Wkly Vol (000s)	2,268	Wkly \$ Vol (mm)		\$73.2
Net Debt (\$mm)	\$5,857	Next Rep. Date		03-Nov (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2011E: \$1.72; 2012E: \$1.82

### Changes

**Annual EPS**  
 2012E \$1.70 to \$1.71

**Annual CFPS**  
 2011E \$4.44 to \$4.45  
 2012E \$4.54 to \$4.55

**Quarterly EPS**  
 Q4/11E \$0.44 to \$0.45



## Q2/11 Slightly Below Expectations; Likely Due to Seasonality

Fortis reported Q2/11 EPS of \$0.33. After adjusting for \$2 million in revenue related to the implementation of a smart meter program at FortisAlberta in 2010, we believe recurring EPS were \$0.32 or slightly lower than our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36).

We view the Q2/11 results as neutral to our outlook. Although reported EPS was slightly below our estimate and consensus, due to the nature of Fortis's businesses, we attribute the majority of the variance to seasonality. For example, Q1/11 results exceeded consensus by \$0.05/share, while Q2/11 earnings were approximately \$0.02/share below consensus.

With respect to growth, we expect Fortis to continue to evaluate the potential acquisition of regulated natural gas or electric utilities in the U.S. Although Fortis was not successful in its attempt to acquire Central Vermont Public Service Corp. ("CVPS"), Fortis management believes that the proposed acquisition has raised the company's profile among U.S. utilities contemplating a transaction.

Notwithstanding acquisitions, Fortis will continue to advance its capital expenditure program in order to drive organic growth. The company has maintained 2011E capital expenditure guidance of \$1.2 billion; however, it has increased its five-year capital expenditure guidance to \$5.7 billion from \$5.5 billion. The majority of this spending is expected to occur at the company's regulated utilities. Fortis also continues to evaluate a number of other opportunities to grow rate base, such as investments in new natural gas infrastructure. For example, the company is considering seeking regulatory approval to invest in fuelling stations that would be used by large industrial/commercial vehicles that rely on natural gas as fuel, as opposed to more traditional fuels such as diesel or gasoline. We understand that Fortis also continues to pursue the development of large-scale transmission infrastructure in Ontario, although the company acknowledges that this may be a longer-term initiative.

Although the company has experienced two significant developments recently (the termination of the CVPS merger agreement, and the decision by the Government of Belize to expropriate Fortis's investment in Belize Electricity Limited), we believe that Fortis is ready to move forward. With respect to CVPS, pursuant to the terms of the merger agreement, Fortis received a break fee of \$17.5 million and will be reimbursed for \$2 million of expenses. In addition, when the expropriation of BEL was announced, we removed all contributions from Belize Electricity Limited and BECOL from our estimates. In our view, any incremental earnings combined with subsequent collection of accounts receivable related to unregulated generation at BECOL should be viewed positively.

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure plan, we continue to believe that Fortis represents a good long-term investment, especially at current valuation levels. Our \$35 price target is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.71 (12.5%), 1.75x 2012E BVPS of \$20.61 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.22 (75%).

At current levels, we believe the company's shares are attractively valued. Our rating is Outperform.

## Q2/11 Results

As set out in Table 1, on a comparable basis, net income increased by 1.8% in Q2/11 versus Q2/10. In order to present results on a comparable basis, Q2/11 GAAP income was adjusted for the recognition of \$2 million of accrued revenue, which relates to the implementation of a smart metering program at FortisAlberta in 2010.

**Table 1: Historical Q2 Income by Business Segment**

	Q2/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/11 Adjusted Earnings (\$mm)	Q2/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q2/10 Adjusted Earnings (\$mm)	Variance Q2/11 Adj. vs. Q2/10 Adj.	Variance %
<b>Regulated Gas Utilities - Canadian</b>								
Fortis BC Energy Companies	15.0	-	15.0	17.0	-	17.0	(2.0)	-11.8%
<b>Regulated Electric Utilities - Canadian</b>								
FortisAlberta	19.0	(2.0)	17.0	17.0	-	17.0	0.0	0.0%
FortisBC	9.0	-	9.0	8.0	-	8.0	1.0	12.5%
Newfoundland Power	11.0	-	11.0	11.0	-	11.0	0.0	0.0%
Other Canadian	8.0	-	8.0	4.0	-	4.0	2.0	50.0%
	45.0	(2.0)	43.0	40.0	-	40.0	3.0	7.5%
<b>Regulated Electric Utilities - Caribbean</b>	7.0	-	7.0	7.0	-	7.0	0.0	0.0%
<b>Non-Regulated - Fortis Generation</b>	2.0	-	2.0	3.0	-	3.0	(1.0)	-33.3%
<b>Non-Regulated - Fortis Properties</b>	7.0	-	7.0	8.0	-	8.0	(1.0)	-12.5%
<b>Corporate and Other</b>	(18.0)	-	(18.0)	(20.0)	-	(20.0)	2.0	-10.0%
<b>Net Earnings Applicable to Common Shares</b>	<b>58.0</b>	<b>(2.0)</b>	<b>56.0</b>	<b>55.0</b>	<b>0.0</b>	<b>55.0</b>	<b>(1.0)</b>	<b>1.8%</b>

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

### Regulated Gas Utilities – FortisBC Energy Companies

Q2/11 net income of \$15 million from FortisBC Energy was less than our estimate of \$17 million and Q2/10 net income of \$17 million. We attribute the majority of the variance to seasonality, as timing differences resulted in a higher proportion of expenses recorded in Q2/11 compared to Q2/10.

### Regulated Electric Utilities – FortisAlberta

Adjusted Q2/11 net income of \$17 million was less than our estimate of \$18.6 million and consistent with Q2/10 net income of \$17 million.

### Regulated Electric Utilities – FortisBC

Q2/11 net income of \$9 million was consistent with our estimate of \$9 million and slightly greater than Q2/10 net income of \$8 million. The increase in earnings was largely driven by higher electricity sales during the quarter (682 GWh in Q2/11 vs. 671 GWh in Q2/10) and rate base growth, due to infrastructure investments.



### **Regulated Electric Utilities – Newfoundland Power**

Q2/11 net income of \$11 million was consistent with our estimate of \$10.9 million and Q2/10 net income of \$11 million.

### **Regulated Electric Utilities – Other Canadian**

Q2/11 net income of \$6 million was greater than our estimate of \$4.5 million and Q2/10 net income of \$4 million. The increase in earnings was primarily due to electricity sales growth (562 GWh in Q2/11 vs. 535 GWh in Q2/10), and a 3.8% rate increase at Algoma Power that became effective on December 1, 2010.

### **Regulated Utilities – Caribbean**

The earnings contribution from the Caribbean business segment was \$7 million in Q2/11 versus our estimate of \$6.8 million and Q2/10 net income of \$7 million.

### **Unregulated – Fortis Generation**

Fortis Generation reported Q2/11 net income of \$2 million, which was greater than our estimate of \$1.4 million and Q2/10 net income of \$3 million. The difference between Q2/11 and Q2/10 results was largely due to decreased production in Belize. In order to be conservative, we removed all earnings contribution from BECOL from our estimates after Q1/11, following the announcement on June 20 that the Government of Belize had expropriated Fortis's 70% interest in Belize Electricity Limited ("BEL"). As at July 31, BEL owed BECOL US\$6.5 million for overdue energy purchases. The last payment that BECOL received for overdue energy purchases was for US\$0.5 million on July 11. Disclosure in the earnings release suggests that the Government of Belize does not intend to expropriate BECOL, and that BECOL continues to deliver electricity to BEL and invoice BEL for deliveries. Due to our conservative outlook, our model does not anticipate earnings future earnings from BECOL; however, we believe that any incremental earnings, combined with subsequent collection of accounts receivable related to unregulated generation at BECOL should be viewed positively.

### **Unregulated – Fortis Properties**

Fortis Properties reported net income of \$7 million, which was lower than our estimate of \$9 million and Q2/10 net income of \$8 million. Decreased occupancy at hospitality properties in Western Canada was responsible for the decline. Occupancy at the real estate division decreased to 93.4% at the end of the quarter versus 94.8% at the end of Q2/10. At the hospitality division, revenue per available room decreased slightly to \$83.57 during Q2/11 versus \$83.77 during Q2/10.

## Revised Capital Expenditure Forecast

There was no change to the company's 2011E capital expenditure of \$1.2 billion; however, the company has increased its five-year capital expenditure estimate to \$5.7 billion from \$5.5 billion previously. Approximately 61% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 16% relates to Fortis's non-regulated businesses.

## Regulatory Update

After a lull in 2010, we expect 2011 to be relatively busy from a regulatory perspective. The Alberta Utilities Commission (AUC) is currently moving forward with a Generic Cost of Capital proceeding. The formal hearing began on June 20, 2011 and the AUC is expected to issue a cost of capital decision by the end of the year. The AUC is also exploring the implementation of Performance Based Regulation; however, we understand that a final decision on PBR is not expected until mid-2012.

In addition to the broad regulatory initiatives outlined above, a number of Fortis's utilities are expected to make rate or other filings in 2011:

- The FortisBC Energy utilities (formerly the Terasen companies) are expected to pursue an amalgamation during Q3/11;
- In May 2011, the FortisBC Energy utilities filed revenue requirements applications for 2012–2013. FortisBC Energy Inc. is seeking a return on estimated mid-year rate bases of \$2,737 million in 2012E and \$2,788 million in 2013E, and FortisBC Energy Inc. Vancouver Island is seeking a return on estimated mid-year rate bases of \$788 million in 2012E and \$814 million in 2013E;
- In June 2011, FortisBC Electric filed a Revenue Requirement Application and Integrated System Plan for 2012 – 2013, in which it is seeking a return on estimated mid-year net rate bases of \$1,145 million in 2012E, and \$1,212 million in 2013E;
- Effective September 2011, the interim Government of the Turks and Caicos Islands plans to implement a carbon tax, which will be applicable to Fortis Turks and Caicos. In the event that this tax is not permitted to be passed onto Fortis Turks and Caicos' customers, the potential impact to earnings would be approximately \$1 million in 2011 and \$2–3 million on an annual basis.

## Estimates

We have updated our model to reflect Q2/11 results and the estimated rate base balances set out in the revenue requirement applications for the FortisBC Energy and FortisBC Electricity companies. There is no change to our 2011E EPS estimate and our 2012E EPS estimate increases to \$1.71 from \$1.70.

Table 2: Consolidated Summary

03-Aug-11

Current Price: \$30.87  
 12-Month Target Price: \$35.00  
 ROR: 17.1%

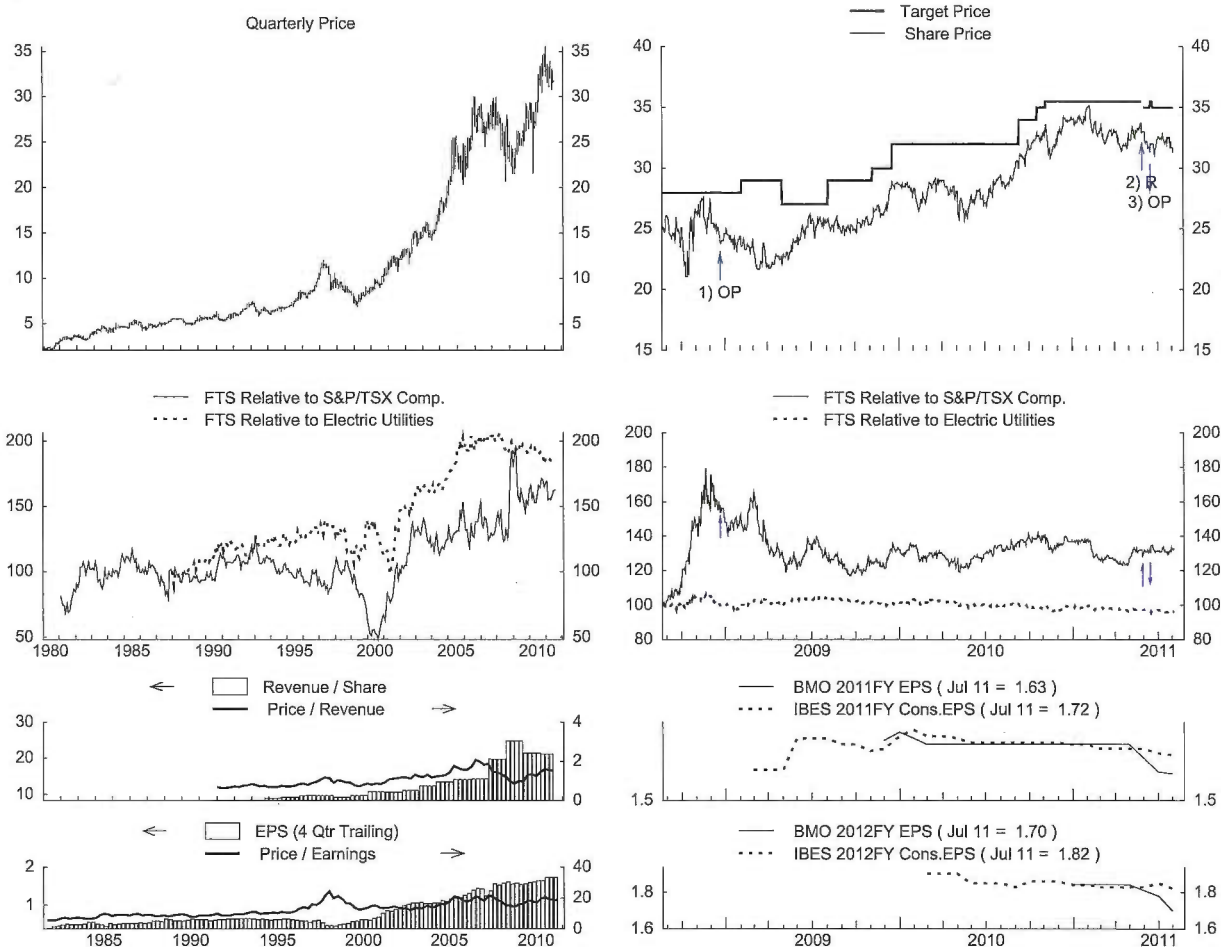
Michael McGowan  
 BMO Capital Markets

Recommendation: Outperform

	Year Ending December 31										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Total Basic Earnings Per Share	\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.62	\$1.65	\$1.73
Total Diluted Earnings Per Share	\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.63	\$1.71
<b>Segmented EPS</b>											
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18
Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16
Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.06	\$0.04
Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12
FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43
FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.29
Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78
OtherCorporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.39)	(\$0.38)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	70.2%	70.5%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	180.6	186.3
Net Book Value	\$8.60	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.10	\$20.61
<b>Market Valuation</b>											
Price: High	\$13.28	\$15.24	\$17.75	\$26.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	-	-
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	-	-
Price: Current	-	-	-	-	-	-	-	-	-	\$30.87	-
P/E Ratio: High	13.7	14.3	18.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	-	-	18.7	17.8
Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-
Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.5	1.5
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-
Yield: Current	-	-	-	-	-	-	-	-	-	3.8%	4.0%
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(9.2)	231.4
Debt (L-T)	926.5	1,008.9	1,881.6	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,665.0	5,799.0	6,345.7
Minority Interest	40.0	38.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0
Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0
Convertible Debentures	14.4	24.6	22.9	22.3	63.6	45.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity	584.6	514.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,745.9	3,841.0
	1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	8,691.7	9,321.7	9,902.7	10,407.0	10,858.8	11,541.1
<b>Balance Sheet (%)</b>											
Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	-0.1%	2.0%
Debt (L-T)	53.0%	51.6%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%
Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%
Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.6%	7.9%
Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity	33.5%	31.5%	28.5%	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.1%	33.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Income Statement</b>											
Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	298.7	322.4
Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	637.0	763.0	803.1	848.4

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	18	1.16	3.7	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			10.1		
10 Year:	9.8		9.5			10.5		
20 Year:	5.3		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 21-Aug-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: August 2, 2011



## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

### Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**August 3, 2011**Brief Research Note  
Gas & Electric Utilities**Stock Rating:** Outperform  
**Stock Price:** \$31.37  
**Target Price:** \$35.00**Michael McGowan, CA, CFA**  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA**Member of:** Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

## Q2/11 Earnings in Line

---

**Impact**

Neutral

---

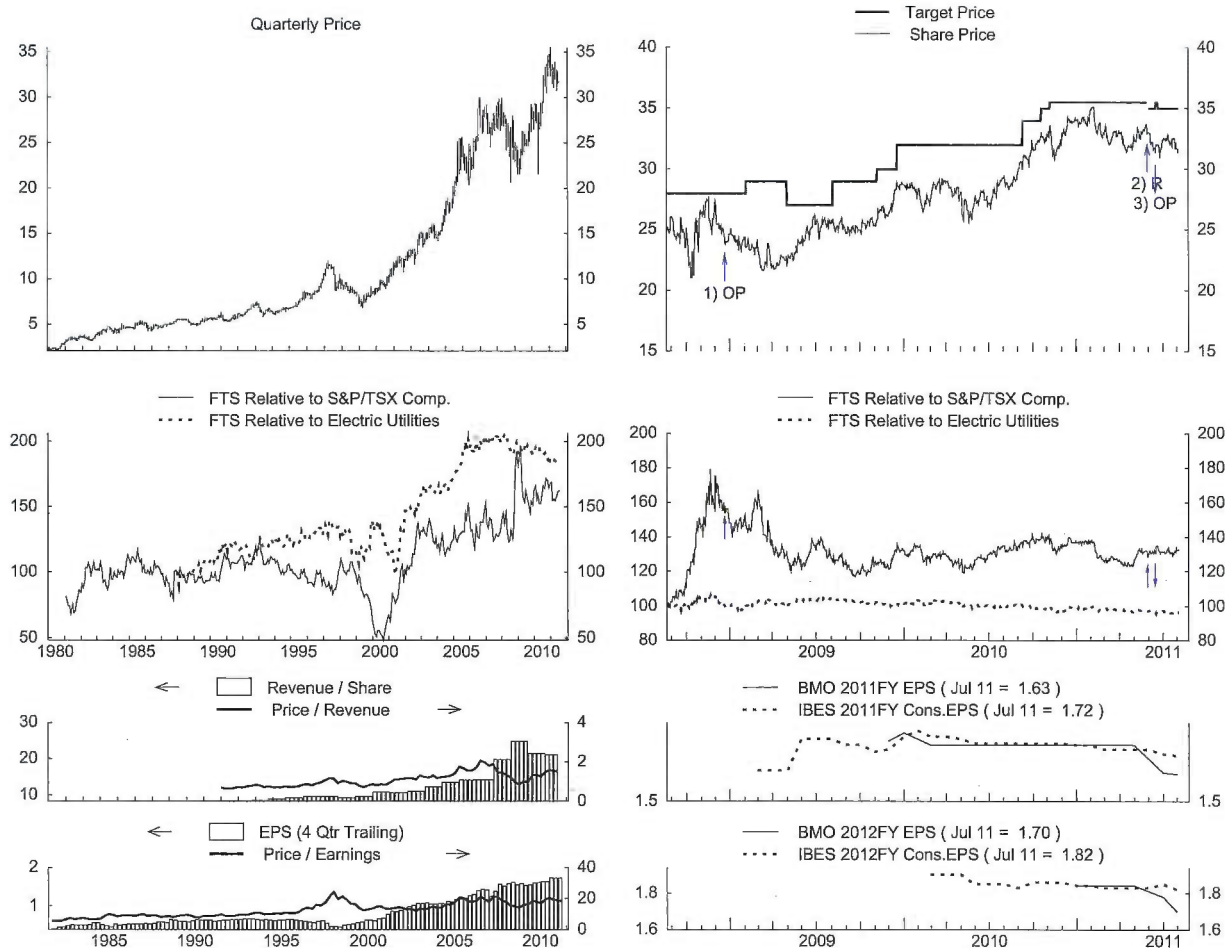
**Details & Analysis**

Fortis reported Q2/11 EPS of \$0.33, which was consistent with our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36). Earnings from the majority of the company's business segments were generally in line with our estimates, with slightly stronger-than-expected results at the "Other Canadian" utilities (FortisOntario and Maritime Electric) offsetting slightly weaker-than-expected results at the FortisBC Energy companies (formerly the Terasen Companies). Disclosure in the earnings release noted that Fortis's investment in BECOL, the non-regulated entity that sells electricity to Belize Electricity Limited, has not been affected by the Government of Belize's decision to expropriate the assets of Belize Electricity Limited at this time. There was no change to the company's 2011E capital expenditure estimate of \$1.2 billion; however, the company has increased its five-year capital expenditure estimate to \$5.7 billion from \$5.5 billion previously.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.82	9	0.37	6.8	60	4.71	1.1	13
1991	0.80	10	0.37	6.2	61	5.01	1.2	12
1992	0.84	10	0.38	6.2	60	5.28	1.2	12
1993	0.84	11	0.40	5.6	63	5.53	1.3	12
1994	0.82	10	0.42	6.5	68	5.82	1.1	11
1995	0.83	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	18	1.16	3.7	67	19.00	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			10.1		
10 Year:	9.8		9.5			10.5		
20 Year:	5.3		5.9			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2011.

FTS - Rating as of 21-Aug-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: August 2, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (June 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or



other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

Stock Rating: **Outperform**  
 Industry Rating: **Market Perform**

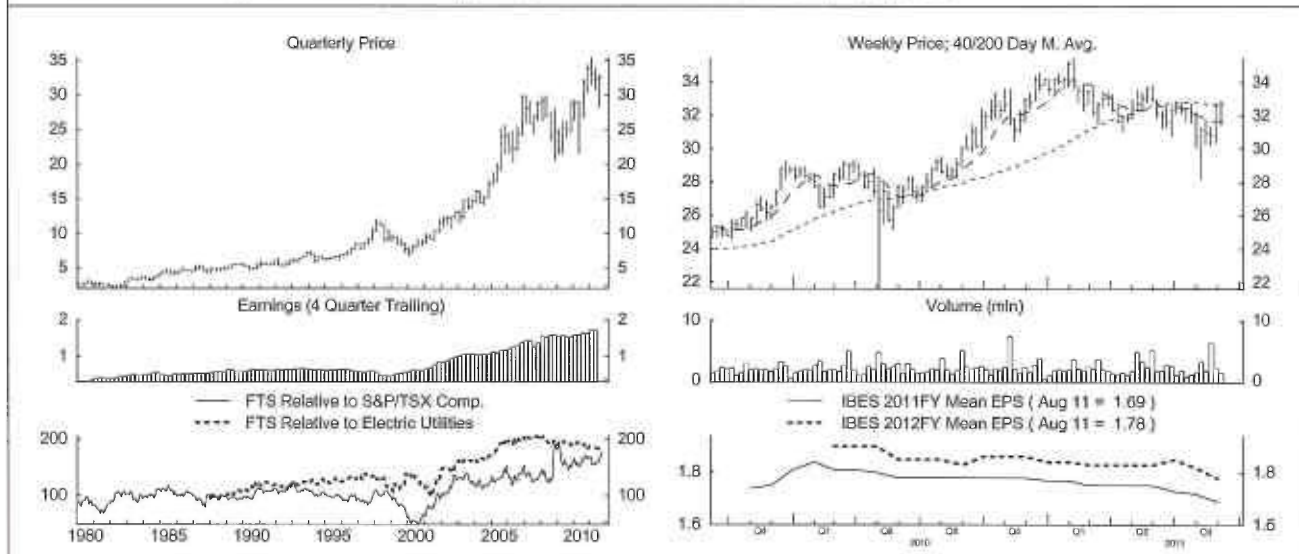
September 8, 2011  
 Research Fact Sheet  
 Gas & Electric Utilities

Michael McGowan, CA, CFA  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

Price (8-Sep)	\$32.72	52-Week High	\$35.45	
Target Price	\$35.50	52-Week Low	\$28.24	
Dividend	\$1.16	Book Value	\$20.03	
Yield	3.5%	Price/Book	1.6x	
Shares O/S (mm)	186.3	Mkt. Cap (\$mm)	\$6,096	
Float O/S (mm)	184.9	Float Cap (\$mm)	\$6,050	
Wkly Vol (000s)	2,293	Wkly \$ Vol (mm)	\$74.5	
Net Debt (\$mm)	\$5,857	Next Rep. Date	03-Nov (E)	
<b>Quarterly EPS</b>				
	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67 a	\$0.32 a	\$0.22	\$0.45

(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63	\$1.71
P/E			20.1x	19.1x
CFPS	\$3.74	\$4.51	\$4.45	\$4.55
P/CFPS			7.4x	7.2x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,732	\$13,703
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,286.0	\$1,364.4
EV/EBITDA	10.3x	10.6x	9.9x	10.0x
ROE (%)	8.2%	8.5%	8.0%	8.4%
Book Value (\$)	\$18.64	\$18.95	\$20.10	\$20.61
D/Tot. Cap. (%)	61.0%	59.4%	56.3%	58.8%
Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic Disclosures: 1, 2, 3, 4, 5, 6AC



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Belize Electricity (70.1%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the Terasen Gas Companies (100%, British Columbia).  
 Website: [fortisinc.com](http://fortisinc.com)

**Recent Results** – Fortis reported Q2/11 EPS of \$0.33. After adjusting for \$2 million in revenue related to the implementation of a smart meter program at FortisAlberta in 2010, we believe recurring EPS were \$0.32 or slightly lower

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 5.

than our estimate of \$0.34 and the First Call Mean estimate of \$0.35 (range \$0.34–0.36).

**Corporate Developments** – The company has maintained 2011E capital expenditure guidance of \$1.2 billion; however, it has increased its five-year capital expenditure guidance to \$5.7 billion from \$5.5 billion. Approximately 61% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 16% relates to Fortis' non-regulated businesses.

On July 12, 2011, Fortis announced its decision to terminate the Central Vermont Public Service Corp. (CVPS) merger following the determination by the board of directors that the unsolicited proposal received from Gaz Metro Limited Partnership was a "superior proposal." Fortis received a termination fee of US\$17.5 million from CVPS and a reimbursement of US\$2 million for expenses.

On June 20, 2011, the Government of Belize passed legislation and issued an order to expropriate Fortis's 70% interest in Belize Electricity Limited ("BEL") and dismiss BEL's board of directors.

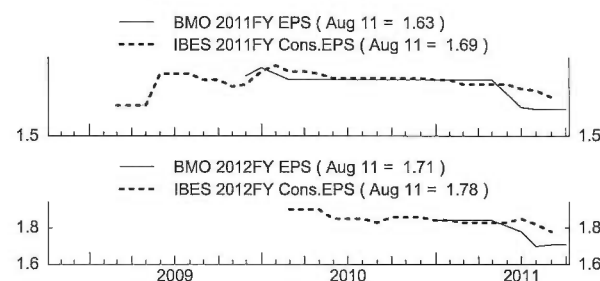
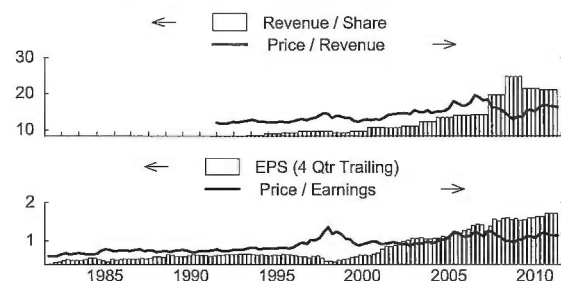
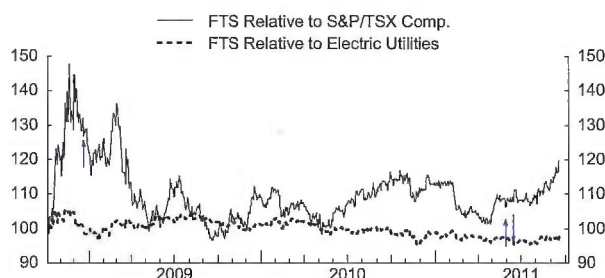
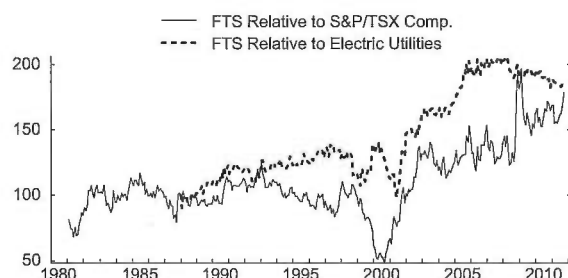
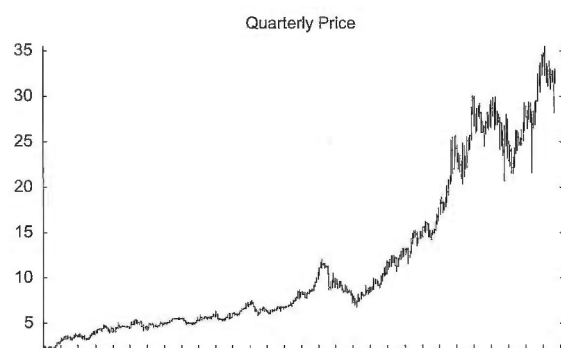
**Forecasts** – Our diluted EPS estimates are \$1.63 in 2011, \$1.71 in 2012 and \$1.78 in 2013.

**Valuation** – Our \$35.50 target price is based on a weighted valuation approach: 18x 2013E diluted EPS of \$1.78 (12.5%), 1.75x 2013E BVPS of \$21.59 (12.5%) and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26 (75%).

**Recommendation** – Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure plan, we continue to believe that Fortis represents a good long-term investment, especially at current valuation levels. Our rating is Outperform. Member of Top 15 Large Cap and Income stock selections.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.6	67	20.03	1.6	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			11.3		
10 Year:	9.8		9.5			11.1		
20 Year:	5.3		5.9			7.5		

\* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 7-Oct-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: September 16, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Distribution of Ratings (June 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starline Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---



# Fortis

(FTS-TSX)

Stock Rating: **Outperform**  
 Industry Rating: **Market Perform**

Member of: **Top 15 Large Cap Stock Selections**  
**Top 15 Income Stock Selections**

September 11, 2011

Research Comment  
 Toronto, Ontario

Michael McGowan, CA, CFA

BMO Nesbitt Burns Inc.

(416) 359-5807

Michael.McGowan@bmo.com

Assoc: Mark Laing, CA, CFA

## Introducing 2013E Estimates; Outperform Rating Maintained

### Event

We are introducing our 2013E estimates.

### Impact

Slightly Positive.

### Forecasts

We are introducing 2013E diluted EPS and DPS of \$1.78 and \$1.26 respectively. EPS and DPS growth is largely driven by Fortis's capital expenditure program, through which the company plans to invest \$5.7 billion in its business during the next five years. Our 2011E and 2012E diluted EPS and DPS estimates remain unchanged.

### Valuation

Our revised \$35.50 target price (previously \$35) is based on a weighted valuation approach: 18x 2013E EPS of \$1.78 (12.5%); 1.75x 2013E BVPS of \$21.59 (12.5%); and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26.

### Recommendation

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure program, we continue to believe Fortis represents a good long-term investment, especially at current valuation levels. Our rating is Outperform.

Price (7-Sep) \$32.70 52-Week High \$35.45  
 Target Price \$35.50↑ 52-Week Low \$28.24



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.63	\$1.71
P/E			20.1x	19.1x
CFPS	\$3.74	\$4.51	\$4.45	\$4.55
P/CFPS			7.3x	7.2x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$12,824	\$13,798
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,288.0	\$1,364.4
EV/EBITDA	10.3x	10.6x	10.0x	10.1x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.22	\$0.45
Dividend	\$1.16	Yield	3.5%	
Book Value	\$20.03	Price/Book	1.6x	
Shares O/S (mm)	186.3	Mkt. Cap (mm)	\$6,092	
Float O/S (mm)	184.9	Float Cap (mm)	\$6,046	
Wkly Vol (000s)	2,293	Wkly \$ Vol (mm)	\$74.5	
Net Debt (\$mm)	\$5,857	Next Rep. Date	03-Nov (E)	

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.69; 2012E: \$1.78

### Changes

Target  
 \$35.00 to \$35.50

Table 1: Consolidated Summary

09-Sep-11

Current Price:

\$32.21

12-Month Target Price:

\$35.50

ROR:

13.8%

Michael McGowan

BMO Capital Markets

Recommendation:

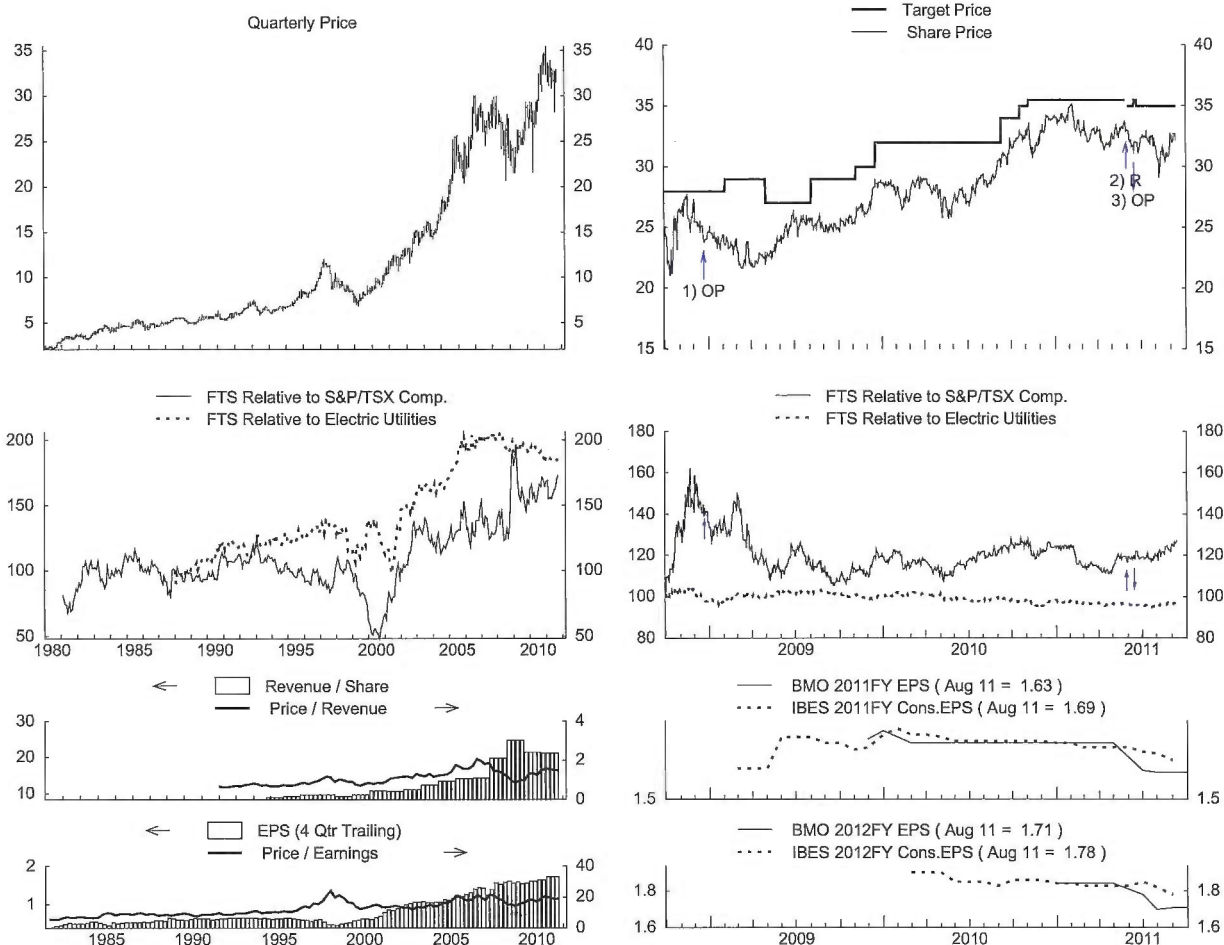
Outperform

	Year Ending December 31											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Total Basic Earnings Per Share	\$0.97	\$1.06	\$1.09	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.62	\$1.69	\$1.73	\$1.81
Total Diluted Earnings Per Share	\$0.95	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.63	\$1.71	\$1.78
Segmented EPS												
Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.19
Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	\$0.11
Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.15	\$0.17
Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.06	\$0.04	\$0.04
Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12	\$0.11
Fortis Alberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	\$0.45
FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.29	\$0.30
Tarascon Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78	\$0.80
Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.39)	(\$0.38)	(\$0.38)
Dividends	\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22	\$1.26
Payout Ratio	49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	70.3%	70.8%	69.8%
Average Shares (mm)	65.1	69.2	84.7	101.8	103.5	137.5	157.4	170.2	173.9	180.6	186.3	190.5
Net Book Value	\$8.50	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.10	\$20.61	\$21.59
Market Valuation												
Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.85	\$34.20	-	-	-
Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	\$25.67	-	-	-
Price: Current	-	-	-	-	-	-	-	-	-	\$32.21	-	-
P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	16.7	21.2	-	-	-
P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	-
P/E Ratio: Current	-	-	-	-	-	-	-	-	-	19.5	18.6	17.8
Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	-
Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	-
Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.5	1.6	1.5
Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	-
Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-	-
Yield: Current	-	-	-	-	-	-	-	-	-	3.6%	3.8%	3.9%
Balance Sheet (\$mm)												
Debt (S-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(8.4)	222.3	433.6
Debt (L-T)	925.5	1,005.9	1,881.6	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,555.0	5,799.0	6,345.7	6,348.8
Minority Interest	40.0	35.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0	162.0
Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0
Convertible Debentures	14.4	24.5	22.9	22.3	53.5	45.0	44.0	44.0	44.0	44.0	44.0	44.0
Shareholders' Equity	564.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,745.5	3,840.5	4,204.4
	1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,407.0	10,659.1	11,541.4	12,109.8
Balance Sheet (%)												
Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	-0.1%	2.0%	3.6%
Debt (L-T)	53.0%	51.6%	53.9%	55.0%	54.4%	52.7%	51.5%	52.9%	53.6%	54.4%	55.0%	52.4%
Minority Interest	2.3%	1.8%	1.1%	1.0%	2.6%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	1.3%
Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.6%	7.9%	7.6%
Convertible Debentures	0.8%	1.2%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
Shareholders' Equity	33.6%	31.5%	28.6%	31.9%	27.6%	29.2%	32.4%	32.2%	31.8%	35.1%	33.3%	34.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement												
Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	298.2	322.3	343.9
Cash Flow from Operations	134.4	150.7	283.7	320.0	279.8	373.0	563.0	637.0	783.0	802.4	848.3	885.4

Source: BMO Capital Markets



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	5.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.6	67	20.03	1.6	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	6.6		12.6			11.3		
10 Year:	9.8		9.5			11.1		
20 Year:	5.3		5.9			7.5		

\* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 30-Sep-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: September 9, 2011

## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

### Distribution of Ratings (June 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	11.9%	31.8%	40.7%	44.2%	55.9%
Hold	Market Perform	62.2%	14.7%	68.2%	56.2%	54.6%	39.3%
Sell	Underperform	2.0%	0.0%	0.0%	3.0%	1.3%	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group



# Fortis

(FTS-TSX)

Stock Rating: Outperform  
Industry Rating: Market Perform

Member of: Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

November 3, 2011

Research Comment  
Toronto, Ontario

Michael McGowan, CA, CFA

BMO Nesbitt Burns Inc.

(416) 359-5807

Michael.McGowan@bmo.com

Assoc: Mark Laing, CA, CFA

## Q3/11 Results Slightly Greater Than Expected; Outperform Rating Maintained

### Event

Fortis reported Q3/11 EPS of \$0.30. After adjusting for the receipt of an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's investment in Belize Electricity Limited, which was expropriated by the Government of Belize on June 20, 2011, we believe that recurring EPS were \$0.24. Recurring EPS were slightly greater than our estimate of \$0.22 and the First Call Mean estimate of \$0.23 (range \$0.22–0.24). The difference between actual and expected EPS was largely due to stronger-than-anticipated earnings at Fortis Generation. Earnings from the company's other business segments were generally consistent with our estimates.

### Impact

Neutral.

### Forecasts

We have updated our estimates to reflect Q3 results. Our 2011E EPS increases to \$1.65. There are no changes to our 2012E and 2013E EPS estimates.

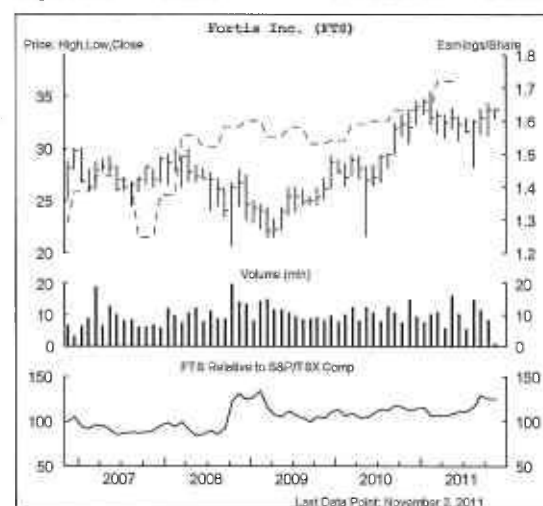
### Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2013E EPS of \$1.78 (12.5%); 1.75x 2013E BVPS of \$21.53 (12.5%); and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26 (75%).

### Recommendation

Due to its track record of earnings and dividend growth, combined with the company's large capital expenditure program, we continue to believe Fortis represents a good long-term investment. Our rating is Outperform.

Price (3-Nov) \$34.06 52-Week High \$35.45  
Target Price \$35.50 52-Week Low \$28.24



(FY-Dec.)	2009A	2010A	2011E	2012E
EPS	\$1.51	\$1.59	\$1.65↑	\$1.71
P/E			20.6x	19.9x
CFPS	\$3.74	\$4.50	\$4.45	\$4.55
P/CFPS			7.7x	7.5x
Div.	\$1.04	\$1.12	\$1.16	\$1.22
EV (\$mm)	\$10,908	\$12,221	\$13,019	\$13,999
EBITDA (\$mm)	\$1,063.0	\$1,150.0	\$1,288.0	\$1,364.4
EV/EBITDA	10.3x	10.6x	10.1x	10.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2009A	\$0.53	\$0.31	\$0.21	\$0.49
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.24a	\$0.45
Dividend	\$1.16	Yield		3.4%
Book Value	\$20.38	Price/Book		1.7x
Shares O/S (mm)	186.9	Mkt. Cap (mm)		\$6,367
Float O/S (mm)	185.5	Float Cap (mm)		\$6,318
Wkly Vol (000s)	2,329	Wkly \$ Vol (mm)		\$76.0
Net Debt (\$mm)	\$5,837	Next Rep. Date		10-Feb (E)

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INCORPORATED (C\$) 2011E: \$1.70; 2012E: \$1.78

Changes	Annual EPS
	2011E \$1.63 to \$1.65

## Q3/11 Results Slightly Greater Than Expected

Fortis reported Q3/11 EPS of \$0.30. After adjusting for the receipt of an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's investment in Belize Electricity Limited, which was expropriated by the Government of Belize on June 20, 2011, we believe that recurring EPS were \$0.24. Recurring EPS were slightly greater than our estimate of \$0.22 and the First Call Mean estimate of \$0.23 (range \$0.22–0.24). The difference between actual and expected EPS was largely due to stronger-than-anticipated earnings at Fortis Generation. Earnings from the company's other business segments were generally consistent with our estimates.

With respect to growth, we expect Fortis to continue to evaluate the potential acquisition of regulated natural gas or electric utilities in the U.S. Notwithstanding an acquisition, Fortis will continue to advance its capital expenditure program in order to drive organic growth. The company has maintained 2011E capital expenditure guidance of \$1.2 billion and five-year capital expenditure guidance of \$5.7 billion. The majority of this spending is expected to occur at the company's regulated utilities.

Our \$35.50 target price is based on a weighted valuation approach: 18x 2013E EPS of \$1.78 (12.5%); 1.75x 2013E BVPS of \$21.53 (12.5%); and a target yield of 3.50%, assuming 2013E dividends per share of \$1.26 (75%).

At current levels, we believe the company's shares are attractively valued. Our rating is Outperform.

## Q3/11 Results

As set out in Table 1, on a comparable basis, net income increased by 8.5% in Q3/11 versus Q3/10. In order to present results on a comparable basis, Q3/11 GAAP income was adjusted to reverse an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's previous investment in Belize Electricity Limited. Q3/10 earnings were also adjusted for the reversal of a \$4 million expense originally recorded in Q4/09 related to the cost of converting portions of the distribution system at Terasen Gas Whistler to utilize natural gas instead of propane.

Table 1: Historical Q3 Income by Business Segment

	Q3/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q3/11 Adjusted Earnings (\$mm)	Q3/10 GAAP	Adj. (\$mm)	Q3/10 Adjusted Earnings (\$mm)	Variance Q3/11 Adj. vs. Q3/10 Adj.	Variance %
<b>Regulated Gas Utilities - Canadian</b>								
Fortis BC Energy Companies	(3.0)	-	(3.0)	(5.0)	(4.0)	(9.0)	6.0	-66.7%
<b>Regulated Electric Utilities - Canadian</b>								
FortisAlberta	19.0	0.0	19.0	19.0	-	19.0	0.0	0.0%
FortisBC	10.0	-	10.0	11.0	-	11.0	(1.0)	-9.1%
Newfoundland Power	8.0	-	8.0	8.0	-	8.0	0.0	0.0%
Other Canadian	6.0	-	6.0	5.0	-	5.0	1.0	20.0%
	43.0	0.0	43.0	43.0	-	43.0	0.0	0.0%
<b>Regulated Electric Utilities - Caribbean</b>	6.0	-	6.0	8.0	-	8.0	(2.0)	-25.0%
<b>Non-Regulated - Fortis Generation</b>	8.0	-	8.0	9.0	-	9.0	(1.0)	-11.1%
<b>Non-Regulated - Fortis Properties</b>	9.0	-	9.0	9.0	-	9.0	0.0	0.0%
<b>Corporate and Other</b>	(5.0)	(13.5)	(18.5)	(19.0)	-	(19.0)	0.5	-2.6%
<b>Net Earnings Applicable to Common Shares</b>	<b>58.0</b>	<b>(13.5)</b>	<b>44.5</b>	<b>45.0</b>	<b>(4.0)</b>	<b>41.0</b>	<b>(3.5)</b>	<b>8.5%</b>

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.

### Regulated Gas Utilities – FortisBC Energy Companies

Q3/11 net loss of \$3 million was lower than our estimate of a \$7.5 million loss and an adjusted net loss of \$9 million in Q3/10. We attribute the majority of the variance to seasonality, as timing differences resulted in a lower proportion of expenses recorded in Q3/11 compared to Q3/10.

### Regulated Electric Utilities – FortisAlberta

Q3/11 net income of \$19 million was lower than our estimate of \$20.2 million and consistent with Q3/10 earnings of \$19 million.

### Regulated Electric Utilities – FortisBC

Q3/11 net income of \$10 million was consistent with our estimate of \$10 million and slightly less than Q3/10 net income of \$11 million. The decrease in earnings was largely driven by lower capitalized AFUDC, due to fewer assets under construction during 2011, and higher effective corporate income taxes.

### Regulated Electric Utilities – Newfoundland Power

Q3/11 net income \$8 million was consistent with our estimate of \$7.8 million and Q3/10 net income of \$8 million.

### Regulated Electric Utilities – Other Canadian

Q3/11 net income of \$6 million was greater than our estimate of \$5.4 million and Q3/10 net income of \$5 million. The increase in earning was primarily due to a 3.8% rate increase at Algoma Power that became effective on December 1, 2010.



## Regulated Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$6 million in Q3/11 versus our estimate of \$7.1 million and Q3/10 net income of \$8 million. The decrease in Q3/11 earnings reflects the lost contribution from Belize Electricity, which contributed approximately \$2 million to earnings during Q3/10.

## Unregulated – Fortis Generation

Fortis Generation reported Q3/11 net income of \$8 million, which was greater than our estimate of \$4.6 million and slightly lower than Q3/10 net income of \$9 million. The difference between actual and expected results was due to the exclusion of earnings from BECOL in our estimates. In order to be conservative, we removed all earnings contributions from BECOL from our estimates after Q1/11, following the announcement on June 20 that the Government of Belize had expropriated Fortis's 70% interest in Belize Electricity Limited ("BEL"). As at October 31, BEL owed BECOL US\$8 million for overdue energy purchases, which represents about one-third of BECOL's annual sales to Belize electricity. Disclosure in the release suggests that the Government of Belize does not intend to expropriate BECOL, and that BECOL continues to deliver electricity to BEL and invoice BEL for deliveries.

## Unregulated – Fortis Properties

Fortis Properties reported Q3/11 net income of \$9 million, which was lower than our estimate of \$10.2 million and consistent with Q3/10 net income of \$9 million. Occupancy at the real estate division increased to 94.2% at the end of the quarter versus 93.7% at the end of Q3/10. At the hospitality division, revenue per available room increased to \$94.83 during Q3/11 versus \$89.54 during Q3/10.

## Regulatory Update

After a lull in 2010, we expect the end of 2011 to be relatively busy from a regulatory perspective. The Alberta Utilities Commission (AUC) is currently moving forward with a Generic Cost of Capital proceeding. The formal hearing began on June 20, 2011 and the AUC is expected to issue a cost of capital decision by the end of the year. The AUC is also exploring the implementation of Performance Based Regulation ("PBR"); however, we understand that a final decision on PBR is not expected until mid-2012. In addition to the broad regulatory initiatives outlined above, a number of Fortis's utilities have submitted rate or other filings in 2011:

- In November 2011, the FortisBC Energy utilities (formerly the Terasen companies) filed an application with the BCUC to amalgamate into one legal entity, effective January 1, 2013. In addition to BCUC approval, the amalgamation requires the consent of the Government of British Columbia;
- In May 2011, the FortisBC Energy utilities filed revenue requirements applications for 2012–2013. FortisBC Energy Inc. is seeking a return on estimated mid-year rate bases of

\$2,754 million in 2012E and \$2,811 million in 2013E, and FortisBC Energy Inc. Vancouver Island is seeking a return on estimated mid-year rate bases of \$788 million in 2012E and \$816 million in 2013E. A decision on the rate application is expected in late Q1/12;

- In June 2011, FortisBC Electric filed a Revenue Requirement Application and Integrated System Plan for 2012–2013, in which it is seeking a return on estimated mid-year net rate bases of \$1,145 million in 2012E, and \$1,212 million in 2013E. A decision on the rate application is expected in late 2011 or early 2012;
- In March 2011, FortisAlberta filed its 2012 and 2013 Distribution Tariff Application (“DTA”). The company requested approval of revenue requirements of \$410 million for 2012 and \$447 million for 2013, for rate increases of 8.2% and 6.9%, respectively. The DTA also proposes approximately \$776 million in gross capital expenditures over the two-year period. We understand that the AUC is only allowing FortisAlberta to settle the DTA through negotiation for 2012 rates in light of the ongoing discussions regarding PBR;
- Earlier in 2011, the interim Government of the Turks and Caicos Islands stated its intention to implement a carbon tax, which would have been applicable to Fortis Turks and Caicos, effective September 2011. To date, no carbon tax has been implemented. In the event that this tax is implemented and is not permitted to be passed onto Fortis Turks and Caicos’ customers, the potential impact to earnings would be approximately \$2–3 million on an annual basis.

## Belize Electricity Update

Fortis has commissioned an independent valuation of its previous investment in Belize Electricity Limited and expects to submit for compensation to the Government of Belize during the fourth quarter of 2011. We also understand that the Government of Belize has commissioned a similar independent valuation of its own. In addition, on October 21, Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and on October 25, the Government of Belize amended the constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL.

At this time, it is unclear as to when this situation will be resolved. As at September 30, the Belize Electricity assets (recorded as a long-term other assets), including foreign exchange impacts, totalled \$120 million.

## Estimates

We have updated our model to reflect Q3/11 results.

Table 2: Consolidated Summary

03-Nov-11

Current Price:

\$34.06

12-Month Target Price:

\$35.50

ROR:

7.6%

Michael McGowan

BMO Capital Markets

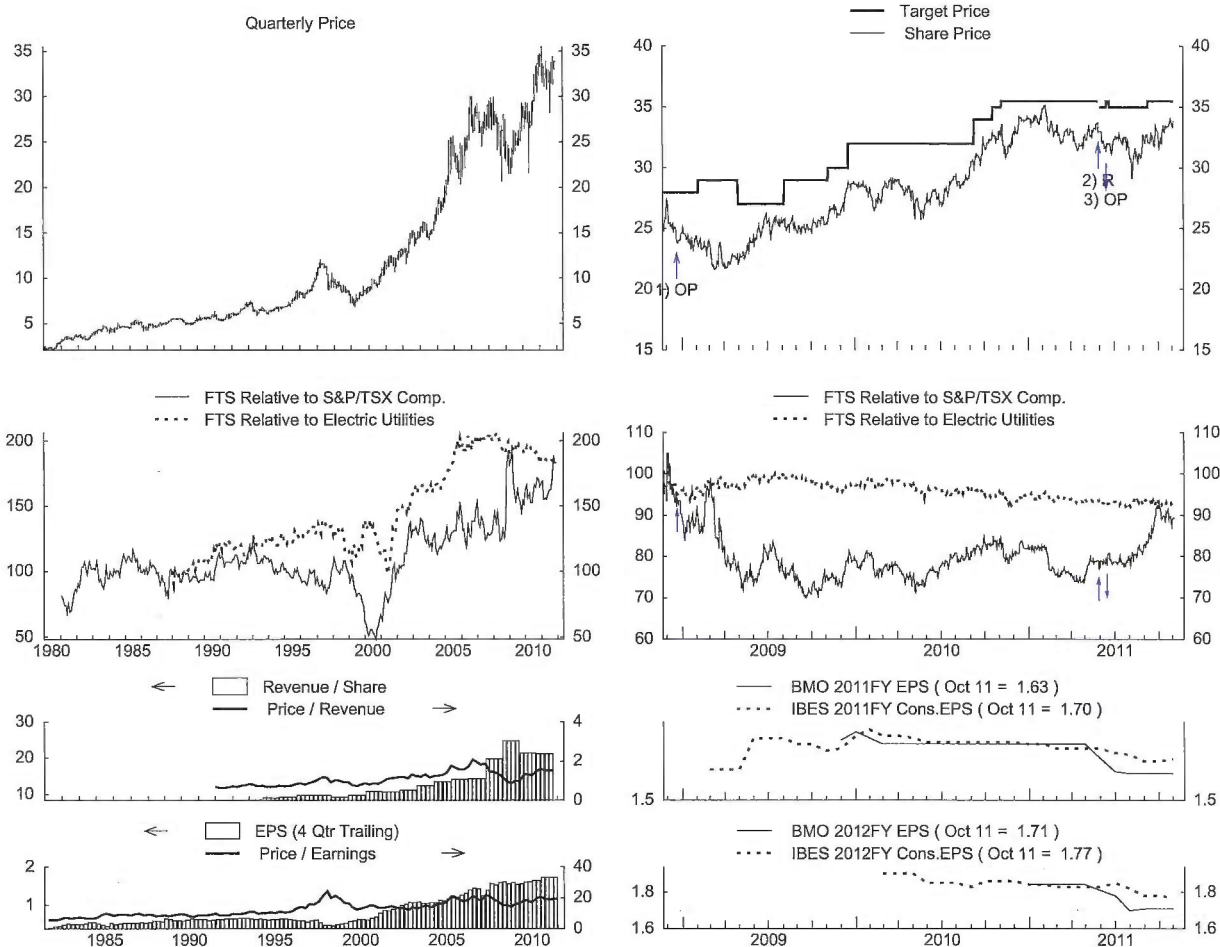
Recommendation:

Outperform

		Year Ending December 31											Recommendation	Outperform
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.62	\$1.67	\$1.73	\$1.80	
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.65	\$1.71	\$1.78	
Segmented EPS														
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.19	
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.12	
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16	\$0.17	
	Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.08	\$0.04	\$0.04	
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.19	\$0.12	\$0.12	\$0.11	
	FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	\$0.45	
	FortisGC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.28	\$0.30	
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78	\$0.80	
	Other/Corporate	(\$0.03)	(\$0.12)	(\$0.26)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.46)	(\$0.41)	(\$0.38)	(\$0.37)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.22	\$1.25	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	69.6%	70.6%	69.8%	
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	180.9	187.0	191.2	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.75	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.04	\$20.55	\$21.53	
Market Valuation														
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	-	-	-	
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	\$25.67	-	-	-	
	Price: Current	-	-	-	-	-	-	-	-	-	\$34.06	-	-	
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	-	
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	16.0	12.9	14.0	15.9	-	-	-	
	P/E Ratio: Current	-	-	-	-	-	-	-	-	-	20.4	19.7	18.9	
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	-	
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	-	
	Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.7	1.7	1.6	
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	-	
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.6%	4.4%	-	-	-	
	Yield: Current	-	-	-	-	-	-	-	-	-	3.4%	3.6%	3.7%	
Balance Sheet (\$mm)														
	Debt (S-T)	161.6	142.5	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(11.3)	229.3	430.4	
	Debt (L-T)	926.5	1,005.9	1,891.6	2,133.8	2,494.5	4,578.0	4,840.0	5,227.0	5,565.0	5,799.0	6,345.7	6,348.8	
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0	162.0	
	Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0	
	Convertible Debentures	14.4	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	44.0	44.0	44.0	
	Shareholders' Equity	884.5	614.7	1,000.1	1,213.4	1,275.7	3,600.7	3,045.7	3,192.7	3,305.0	3,748.3	3,843.5	4,207.6	
		1,746.9	1,960.4	3,492.7	3,808.8	4,588.1	6,691.7	9,391.7	9,902.7	10,407.0	10,699.1	11,541.4	12,109.8	
Balance Sheet (%)														
	Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	-0.1%	2.0%	3.6%	
	Debt (L-T)	53.0%	51.8%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%	52.4%	
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	1.3%	
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.5%	5.1%	7.1%	6.7%	8.8%	8.6%	7.9%	7.6%	
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	
	Shareholders' Equity	33.5%	31.5%	28.6%	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.2%	33.3%	34.7%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement														
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	301.4	323.4	345.0	
	Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	373.0	663.0	637.0	753.0	805.6	849.3	887.4	

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	20	1.16	3.4	67	20.03	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	5.9		12.6			11.3		
10 Year:	8.3		9.5			11.1		
20 Year:	5.5		5.9			7.5		

\* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 21-Nov-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: November 2, 2011



## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2013E EPS (12.5%); 1.75x 2013E BVPS (12.5%) and a target yield of 3.50% based on 2013E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

### Distribution of Ratings (September 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### Prior BMO Capital Markets Ratings Systems

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group



# Fortis

(FTS-TSX)

November 3, 2011  
Brief Research Note  
Gas & Electric Utilities

Stock Rating: Outperform  
Stock Price: \$33.80  
Target Price: \$35.50

Michael McGowan, CA, CFA  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA

Member of: Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

## Q3/11 Results Slightly Greater Than Expected

---

### Impact

Neutral

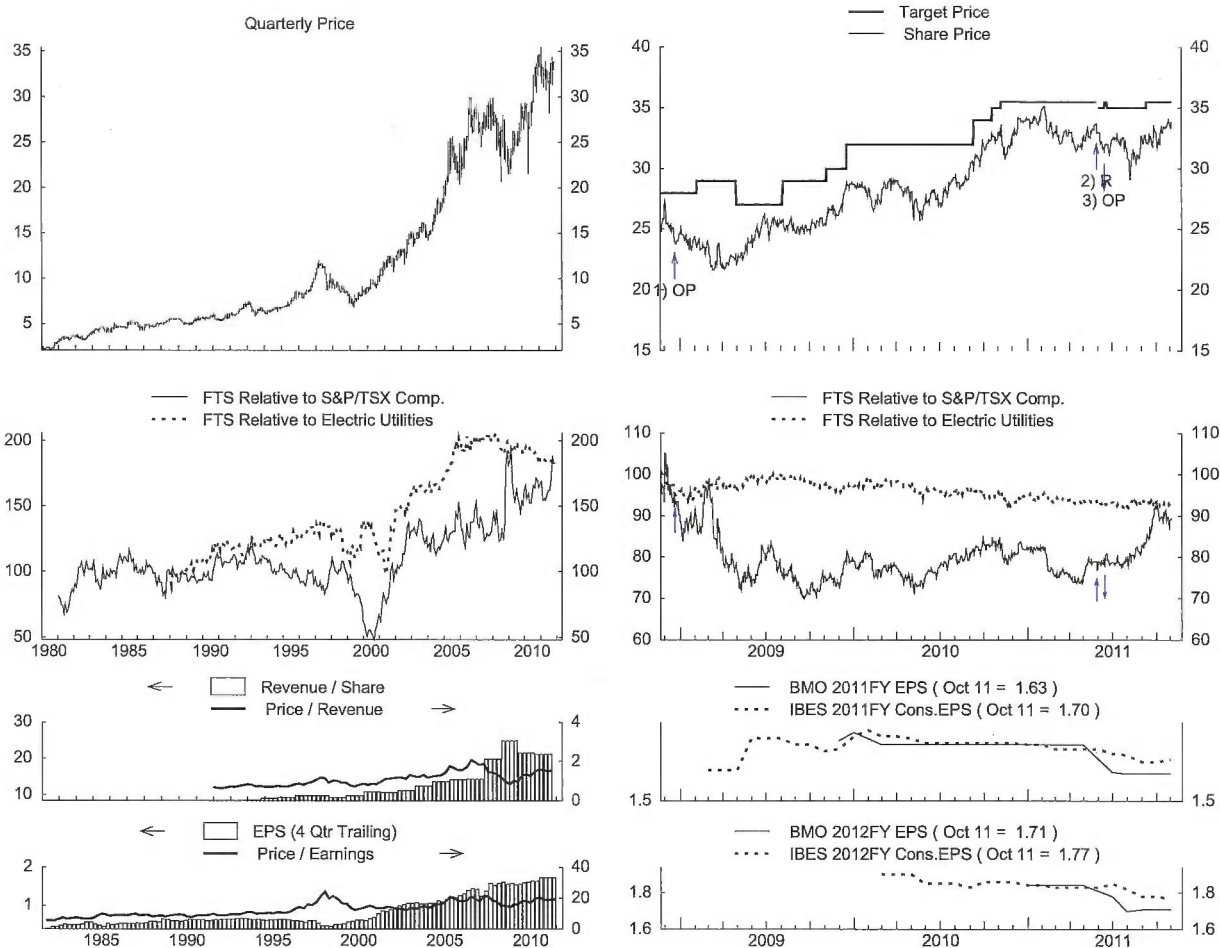
---

### Details & Analysis

Fortis reported Q3/11 GAAP EPS of \$0.30. After adjusting for the receipt of an \$11 million (after-tax) break fee related to the termination of the CVPS merger agreement, and a \$2.5 million (after-tax) net foreign exchange gain associated with the company's investment in Belize Electricity Limited, which was expropriated by the Government of Belize on June 20, 2011, we believe that recurring EPS were \$0.24. Recurring EPS were slightly greater than our estimate of \$0.22 and the First Call Mean estimate of \$0.23 (range \$0.22–0.24). The difference between actual and expected EPS was largely due to stronger-than-anticipated earnings at Fortis Generation. Earnings from the company's other business segments were generally consistent with our estimates. There were no changes to the company's long-term capital expenditure program. Fortis continues to forecast 2011E capital expenditures of \$1.2 billion and capital expenditures of \$5.7 billion during the next five years. Overall, this appears to have been a steady quarter.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	22	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	20	1.16	3.4	67	20.03	1.7	9
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	5.9		12.6			11.3		
10 Year:	8.3		9.5			11.1		
20 Year:	5.5		5.9			7.5		

\* Current EPS is the 4 Quarter Trailing to Q2/2011.

FTS - Rating as of 21-Nov-08 = OP

Date	Rating Change	Share Price
1 22-Dec-08	NR to OP	\$23.91
2 30-May-11	OP to R	\$32.97
3 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: November 2, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.



**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Company\\_Disclosure\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Company_Disclosure_Public.asp) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Conflict\\_Statement\\_Public.asp](http://researchglobal.bmocapitalmarkets.com/Conflict_Statement_Public.asp)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or

other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

**December 13, 2011**  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

## Updating Model to Reflect 3.4% Dividend Increase; Outperform Rating Maintained

### Event

On December 14, 2010, Fortis announced that it is increasing its annual dividend by 3.4% to \$1.20/share from \$1.16/share. The revised quarterly dividend of \$0.30/share will be payable on March 1 to shareholders of record as of February 15, 2012.

### Impact

Neutral. The annual dividend of \$1.20/share is slightly lower than the FY2012E DPS forecast of \$1.22/share that we had set out in our model.

### Forecasts

We have updated our estimates to reflect FY 2012E dividends of \$1.20. We have also trimmed our FY 2013E dividend estimate to \$1.24 from \$1.26.

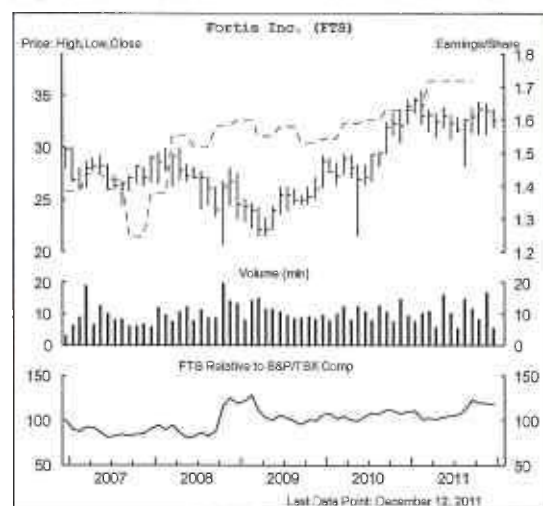
### Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.78 (12.5%), 1.75x 2012E BVPS of \$21.57 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

### Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

**Price (12-Dec)** \$32.59      **52-Week High** \$35.45  
**Target Price** \$35.50      **52-Week Low** \$28.24



(FY-Dec.)	2010A	2011E	2012E	2013E
EPS	\$1.59	\$1.65	\$1.71	\$1.78
P/E		19.8x	19.1x	18.3x
CFPS	\$4.50	\$4.45	\$4.54	\$4.64
P/CFPS		7.3x	7.2x	7.0x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,221	\$12,784	\$13,769	\$14,109
EBITDA (\$mm)	\$1,150.0	\$1,289.9	\$1,365.0	\$1,401.6
EV/EBITDA	10.6x	9.9x	10.1x	10.1x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011E	\$0.67a	\$0.32a	\$0.24a	\$0.45
2012E	\$0.69	\$0.33	\$0.24	\$0.47
Dividend	\$1.16	Yield		3.6%
Book Value	\$20.38	Price/Book		1.6x
Shares O/S (mm)	186.9	Mkt. Cap (mm)		\$6,092
Float O/S (mm)	185.5	Float Cap (mm)		\$6,045
Wkly Vol (000s)	2,404	Wkly \$ Vol (mm)		\$78.8
Net Debt (\$mm)	\$5,837	Next Rep. Date		10-Feb (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2011E: \$1.71; 2012E: \$1.77; 2013E: \$1.85



Table 1: Consolidated Summary

13-Dec-11

Current Price:

\$32.56

12-Month Target Price:

\$35.50

ROR:

12.6%

Michael McGowan

BMO Capital Markets

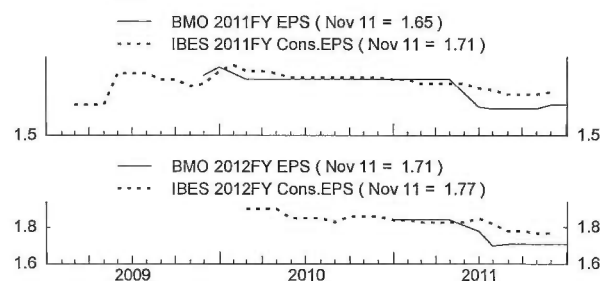
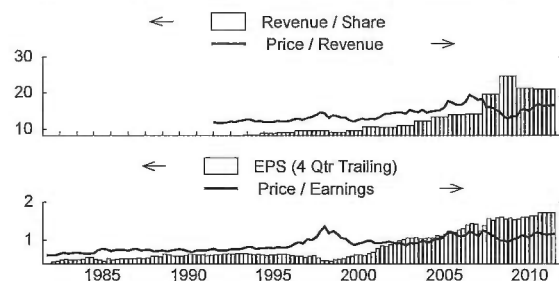
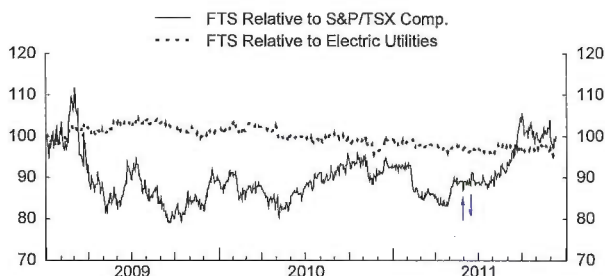
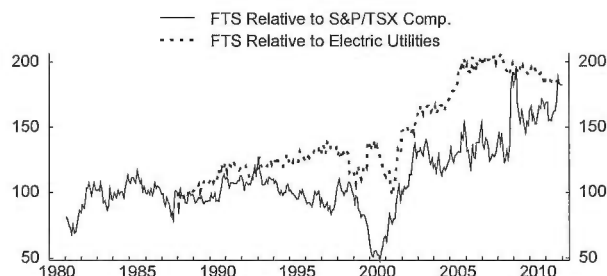
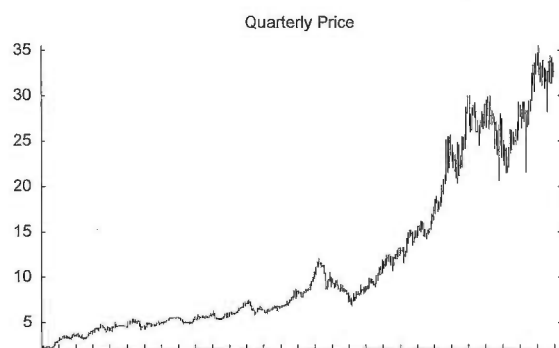
Recommendation:

Outperform

		Year Ending December 31											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.09	\$1.17	\$1.38	\$1.35	\$1.60	\$1.54	\$1.62	\$1.57	\$1.73	\$1.80
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.55	\$1.51	\$1.59	\$1.55	\$1.71	\$1.78
Segmented EP%													
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.19
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.12
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.14	\$0.16	\$0.17
	Fortis Generation	\$0.07	\$0.16	\$0.16	\$0.21	\$0.26	\$0.17	\$0.19	\$0.09	\$0.12	\$0.08	\$0.04	\$0.04
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.12	\$0.12	\$0.11
	Fortis Alberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.41	\$0.43	\$0.45
	FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.25	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.28	\$0.30
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.75	\$0.78	\$0.80
	Other Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.40)	(\$0.38)	(\$0.37)
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.83	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	69.5%	69.4%	68.7%
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	180.9	187.0	191.2
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$16.64	\$18.95	\$20.04	\$20.87	\$21.57
Market Valuation													
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$39.94	\$38.86	\$34.20	-	-	-
	Price: Low	\$10.76	\$11.53	\$14.23	\$17.00	\$20.35	\$24.50	\$20.70	\$21.62	\$25.57	-	-	-
	Price: Current	-	-	-	-	-	-	-	-	-	\$32.56	-	-
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	-	-	-
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	-	-	-
	P/E Ratio: Current	-	-	-	-	-	-	-	-	-	19.5	18.8	18.0
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	-	-	-
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	-	-	-
	Price/Book Value: Current	-	-	-	-	-	-	-	-	-	1.6	1.6	1.5
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	-	-	-
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	-	-	-
	Yield: Current	-	-	-	-	-	-	-	-	-	3.6%	3.7%	3.8%
Balance Sheet (\$mm)													
	Debt (S-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	(11.8)	225.0	422.3
	Debt (L-T)	926.5	1,006.9	1,881.6	1,133.8	2,494.5	4,578.0	4,940.0	5,237.0	5,959.0	5,799.0	6,345.7	6,348.8
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	162.0	162.0	162.0
	Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0
	Convertible Debentures	14.4	24.5	22.9	22.3	63.3	46.0	44.0	44.0	44.0	44.0	44.0	44.0
	Shareholders' Equity	684.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,106.0	3,749.0	3,848.0	4,216.9
		1,746.9	1,950.4	3,492.7	3,805.8	4,588.1	8,691.7	9,391.7	9,902.7	10,407.0	10,559.3	11,541.7	12,110.0
Balance Sheet (%)													
	Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.8%	6.9%	6.5%	4.0%	-0.1%	1.9%	3.5%
	Debt (L-T)	53.0%	51.6%	53.9%	25.0%	54.4%	52.7%	51.5%	52.9%	53.5%	54.4%	55.0%	52.4%
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.5%	1.4%	1.3%
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.8%	7.9%	7.6%
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
	Shareholders' Equity	33.5%	31.5%	28.6%	31.8%	27.8%	29.9%	32.4%	32.2%	31.8%	35.2%	33.3%	34.8%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Income Statement													
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	302.1	323.4	345.1
	Cash Flow from Operations	134.4	160.7	263.7	320.0	279.8	373.0	663.0	637.0	783.0	806.1	849.3	887.5

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	ND	21	0.84	2.9	61	16.69	1.7	nm
2008	ND	15	1.00	4.1	62	20.05	1.2	nm
2009	ND	19	1.04	3.6	68	18.65	1.5	nm
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	20.38	1.6	8
Average:		15		4.7	64		1.5	10.9
Growth(%):								
5 Year:	5.9		8.8			11.7		
10 Year:	8.3		9.5			11.3		
20 Year:	5.5		5.9			7.6		

\* Current EPS is the 4 Quarter Trailing to Q3/2011.

FTS - Rating as of 31-Dec-08 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: December 12, 2011

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)



**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2011 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Large Cap Stock Selections  
 Top 15 Income Stock Selections

**February 9, 2012**  
 Research Comment  
 Toronto, Ontario

**Michael McGowan, CA, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-5807  
 Michael.McGowan@bmo.com  
 Assoc: Mark Laing, CA, CFA

## Q4/11 Results in Line; Outperform Rating Maintained

### Event

Fortis reported Q4/11 EPS of \$0.46 vs. our estimate of \$0.45 and the First Call Mean estimate of \$0.47 (range \$0.45-0.50). In general, the majority of the company's business segments appeared to perform well and earnings from the individual segments were generally consistent with our estimates.

### Impact

Neutral. We expect that earnings and dividend growth will continue to be driven by rate base investment. Fortis's capital expenditure budget is \$1.3 billion in 2012 (up from \$1.2 billion in 2011) and \$5.5 billion during the next five years. The company also continues to evaluate the acquisition of U.S. gas or electric utilities. Overall, we believe that Q4 results represented a solid end to 2011.

### Forecasts

There are no changes to our estimates.

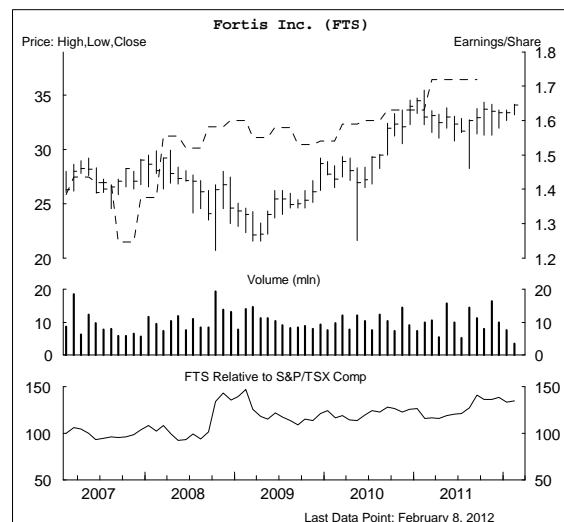
### Valuation

Our \$35.50 target price is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.78 (12.5%), 1.75x 2012E BVPS of \$22.23 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

### Recommendation

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

**Price (8-Feb)** \$34.08 **52-Week High** \$34.49  
**Target Price** \$35.50 **52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.59	\$1.66	\$1.71	\$1.78
P/E			19.9x	19.1x
CFPS	\$4.22	\$4.38	\$4.54	\$4.64
P/CFPS			7.5x	7.3x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,221	\$12,821	\$14,043	\$14,386
EBITDA (\$mm)	\$1,150.0	\$1,289.9	\$1,365.0	\$1,401.6
EV/EBITDA	10.6x	9.9x	10.3x	10.3x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012E	\$0.69	\$0.33	\$0.24	\$0.47
Dividend	\$1.20			Yield 3.5%
Book Value	\$20.73			Price/Book 1.6x
Shares O/S (mm)	186.9			Mkt. Cap (mm) \$6,371
Float O/S (mm)	185.5			Float Cap (mm) \$6,322
Wkly Vol (000s)	2,383			Wkly \$ Vol (mm) \$77.7
Net Debt (\$mm)	\$5,837			Next Rep. Date 02-May (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2011E: \$1.70; 2012E: \$1.77; 2013E: \$1.80

## Q4 Results in Line; Expect Continued Investment in Rate Base to Drive Earnings Growth

Fortis reported Q4/11 EPS of \$0.46 vs. our estimate of \$0.45 and the First Call Mean estimate of \$0.47 (range \$0.45-0.50). In general, the majority of the company's business segments appeared to perform well and earnings from the individual segments were generally consistent with our estimates.

With respect to growth initiatives, although the company was unsuccessful last year with its offer to acquire Central Vermont Public Service, Fortis will continue to evaluate the acquisition of gas and electric utilities in the U.S. Until the company is able to acquire a U.S.-based utility, it will focus on growing through additions to rate base. The company's 2012 capital budget has been set at \$1.3 billion (up from \$1.2 billion in 2011) and it continues to target total investment of \$5.5 billion during the next five years.

Overall, we viewed the Q4 results as a solid end to 2011. We are maintaining our \$35.50 price target, which is based on a weighted valuation approach: 18x 2012E diluted EPS of \$1.78 (12.5%), 1.75x 2012E BVPS of \$222.23 (12.5%) and a target yield of 3.50%, assuming 2012E dividends per share of \$1.24 (75%).

We believe Fortis's shares are attractively valued, considering the company's relatively low-risk, diversified business model. Our rating is Outperform.

### Q4/11 Results

Fortis reported Q4/11 GAAP net income of \$86 million, which was \$1.4 million greater than our estimate of \$84.6 million and \$1 million greater than Q4/10 GAAP net income of \$85 million. A comparison of Q4/11 and Q4/10 results by business segment is set out in Table 1.

**Table 1: Historical Q4 Income by Business Segment**

	Q4/11 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/11 Adjusted Earnings (\$mm)	Q4/10 GAAP Earnings (\$mm)	Adj. (\$mm)	Q4/10 Adjusted Earnings (\$mm)	Variance Q4/11 Adj. vs. Q4/10 Adj.	Variance %
<b>Regulated Gas Utilities - Canadian</b>								
Fortis BC Energy Companies	51.0	-	51.0	45.0	-	45.0	6.0	13.3%
<b>Regulated Electric Utilities - Canadian</b>								
FortisAlberta	17.0	-	17.0	17.0	-	17.0	0.0	0.0%
FortisBC	11.0	-	11.0	10.0	-	10.0	1.0	10.0%
Newfoundland Power	8.0	-	8.0	9.0	-	9.0	(1.0)	-11.1%
Other Canadian	4.0	-	4.0	5.0	-	5.0	(1.0)	-20.0%
	40.0	0.0	40.0	41.0	0.0	41.0	(1.0)	-2.4%
<b>Regulated Electric Utilities - Caribbean</b>	3.0	-	3.0	4.0	-	4.0	(1.0)	-25.0%
<b>Non-Regulated - Fortis Generation</b>	5.0	-	5.0	6.0	-	6.0	(1.0)	-16.7%
<b>Non-Regulated - Fortis Properties</b>	5.0	-	5.0	7.0	-	7.0	(2.0)	-28.6%
<b>Corporate and Other</b>	(18.0)	-	(18.0)	(18.0)	-	(18.0)	0.0	0.0%
<b>Net Earnings Applicable to Common Shares</b>	<b>86.0</b>	<b>0.0</b>	<b>86.0</b>	<b>85.0</b>	<b>0.0</b>	<b>85.0</b>	<b>(1.0)</b>	<b>1.2%</b>

Source: BMO Capital Markets, Company Reports

A discussion of the operating performance of each business segment follows.



## Regulated Gas Utilities – FortisBC Energy Companies

Q4/11 net income of \$51 million was greater than our estimate of \$48.1 million and Q4/10 net income of \$45 million. We attribute the majority of the variance to seasonality, improved economic conditions in the forestry and mining sectors and increased residential consumption, which led to much higher sales volumes (43,809 GJ in Q4/11 vs. 38,586 GJ in Q4/10).

On an annual basis, adjusted net income increased by 10.3% to \$139 million in 2011 from \$126 million in 2010.

## Regulated Electric Utilities – FortisAlberta

Q4/11 net income of \$17 million was slightly lower than our estimate of \$17.9 million and consistent with Q4/10 earnings of \$17 million.

On an annual basis, adjusted net income increased by 7.4% to \$73 million in 2011 from \$68 million in 2010. The increase to adjusted net income was primarily driven by rate base growth.

## Regulated Electric Utilities – Newfoundland Power

Q4/11 net income of \$8 million was consistent with our estimate of \$7.9 million and slightly lower than Q4/10 net income of \$9 million.

On an annual basis, net income decreased by 2.9% to \$34 million in 2011 from \$35 million in 2010.

## Regulated Electric Utilities – Other Canadian

Q4/11 net income of \$4 million was slightly less than our estimate of \$4.5 million and Q4/10 net income of \$5 million. The decrease in earnings was primarily due to a rate of return adjustment at Maritime Electric, which reduced Q4/11 revenue by approximately \$2 million as a result of higher-than-expected electricity sales during 2011.

On an annual basis, net income increased by 15.8% to \$22 million in 2011 from \$19 million in 2010.

## Regulated Utilities – Caribbean

The earnings contribution from the Caribbean business segment was \$3 million in Q4/11 versus our estimate of \$4.2 million and Q4/10 net income of \$4 million. The decrease in earnings reflects higher operating expenses at Fortis Turks and Caicos, which were largely due to consulting fees associated with ongoing regulatory matters and inflationary cost increases.

On an annual basis, net income decreased by 13.0% to \$20 million in 2011 from \$23 million in 2010.

## Unregulated – Fortis Generation

Fortis Generation reported net income of \$5 million, which was greater than our estimate of \$2.1 million and less than Q4/10 net income of \$6 million. The difference between actual and expected results was due to the exclusion of earnings from BECOL in our estimates. In order to be conservative, we removed all earnings contributions from BECOL from our estimates after Q1/11, following the announcement on June 20, 2011, that the Government of Belize had expropriated Fortis's 70% interest in Belize Electricity Limited ("BEL"). Disclosure in the release suggests that the Government of Belize does not intend to expropriate BECOL, and that BECOL continues to deliver electricity to BEL and invoice BEL for deliveries.

On an annual basis, net income decreased by 10.0% to \$18 million in 2011 from \$20 million in 2010.

## Unregulated – Fortis Properties

Fortis Properties reported Q4/11 net income of \$5 million, which was lower than our estimate of \$7.9 million and Q4/10 net income of \$7 million. Decreased occupancy at the hospitality properties in Western Canada and higher corporate income taxes were responsible for the decline. Occupancy at the real estate division decreased to 93.2% at the end of the quarter versus 94.5% at the end of Q4/10. Revenue per available room increased to \$72.39 during Q4/11 versus \$70.76 during Q4/10.

On an annual basis, net income decreased by 11.5% to \$23 million in 2011 from \$26 million in 2010.

## Other Items

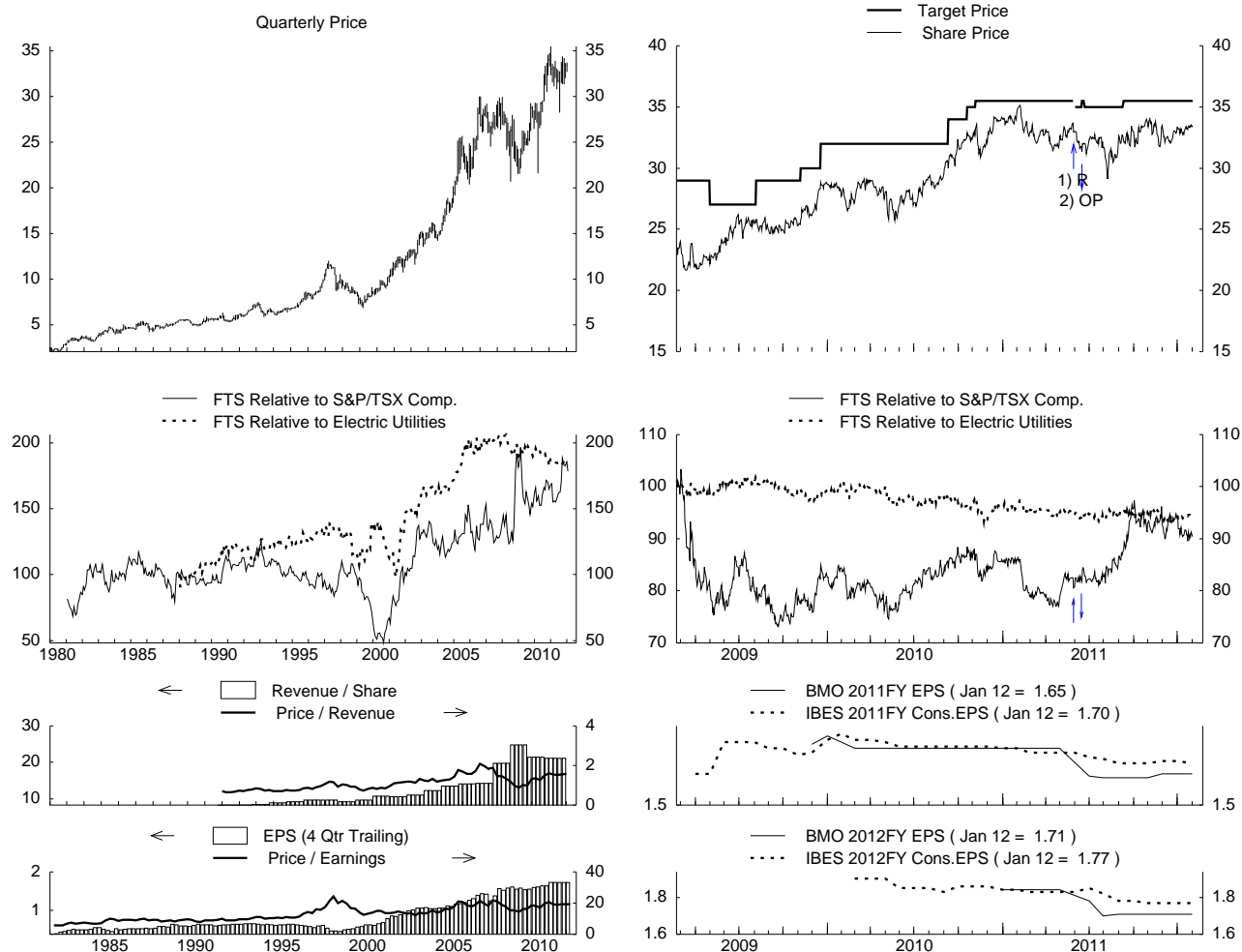
- Fortis continues to receive payments for electricity sales made by BECOL to BEL. As at December 31, 2011, BEL had an accounts receivable balance of US\$7.4 million, which is consistent with a receivable of US\$8 million that was outstanding at September 30, 2011.
- Little update was provided about the cost of capital review requested by the British Columbia Utilities Commission. The review is expected to occur in 2012, and will affect the FortisBC gas and electric utilities.

Table 2: Consolidated Summary

09-Feb-12														Michael McGowan
Current Price:		\$33.89												BMO Capital Markets
12-Month Target Price:		\$35.50												
ROR:		8.3%												
		Recommendation:												Outperform
		Year Ending December 31												
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share		\$0.97	\$1.06	\$1.05	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.62	\$1.67	\$1.73	\$1.80	
Total Diluted Earnings Per Share		\$0.96	\$1.03	\$0.99	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.59	\$1.66	\$1.71	\$1.78	
Segmented EPS														
	Newfoundland Power	\$0.44	\$0.43	\$0.37	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.20	
	Other Canadian	\$0.24	\$0.20	\$0.15	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.12	
	Fortis Properties	\$0.14	\$0.16	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.16	\$0.17	
	Fortis Generation	\$0.07	\$0.16	\$0.15	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.04	\$0.04	
	Fortis Caribbean	\$0.11	\$0.25	\$0.09	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.12	\$0.11	
	FortisAlberta	\$0.00	\$0.00	\$0.22	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.43	\$0.45	
	FortisBC	\$0.00	\$0.00	\$0.21	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.28	\$0.29	
	Terasen Inc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.72	\$0.77	\$0.79	\$0.80	
	Other/Corporate	(\$0.03)	(\$0.12)	(\$0.28)	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.39)	(\$0.38)	
Dividends		\$0.49	\$0.52	\$0.54	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	
Payout Ratio		49.9%	48.9%	51.4%	52.3%	48.4%	60.2%	64.2%	67.6%	69.3%	69.6%	69.4%	68.8%	
Average Shares (mm)		65.1	69.2	84.7	101.8	103.6	137.6	157.4	170.2	173.9	181.6	187.0	191.2	
Net Book Value		\$8.50	\$8.84	\$10.47	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.73	\$21.26	\$22.23	
Market Valuation														
	Price: High	\$13.28	\$15.24	\$17.75	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
	Price: Low	\$10.76	\$11.63	\$14.23	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
	Price: Current	-	-	-	-	-	-	-	-	-	-	\$33.89	-	
	P/E Ratio: High	13.7	14.3	16.9	21.9	21.7	22.0	18.7	18.7	21.2	21.1	-	-	
	P/E Ratio: Low	11.1	10.9	13.5	14.5	14.7	18.0	12.9	14.0	15.9	19.6	-	-	
	P/E Ratio: Current	-	-	-	-	-	-	-	-	-	-	19.6	18.8	
	Price/Book Value: High	1.6	1.7	1.7	2.2	2.4	1.8	1.7	1.5	1.8	1.7	-	-	
	Price/Book Value: Low	1.3	1.3	1.4	1.4	1.7	1.5	1.1	1.2	1.4	1.6	-	-	
	Price/Book Value: Current	-	-	-	-	-	-	-	-	-	-	1.6	1.5	
	Yield: High Price	3.7%	3.4%	3.0%	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
	Yield: Low Price	4.5%	4.5%	3.8%	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
	Yield: Current	-	-	-	-	-	-	-	-	-	-	3.5%	3.7%	
Balance Sheet (\$mm)														
	Debt (S-T)	181.6	142.6	229.1	80.3	182.5	911.0	650.0	639.0	414.0	265.0	380.3	577.1	
	Debt (L-T)	926.5	1,006.9	1,881.6	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,010.6	6,013.7	
	Minority Interest	40.0	36.8	37.5	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
	Preferred Shares	0.0	125.0	321.5	319.5	442.0	442.0	667.0	667.0	917.0	917.0	917.0	917.0	
	Convertible Debentures	14.4	24.5	22.9	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
	Shareholders' Equity	584.5	614.7	1,000.1	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	3,975.9	4,343.7	
		1,746.9	1,950.4	3,492.7	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,407.0	10,946.0	11,491.9	12,059.5	
Balance Sheet (%)														
	Debt (S-T)	10.4%	7.3%	6.6%	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	3.3%	4.8%	
	Debt (L-T)	53.0%	51.6%	53.9%	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	52.3%	49.9%	
	Minority Interest	2.3%	1.9%	1.1%	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.7%	
	Preferred Shares	0.0%	6.4%	9.2%	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.4%	8.0%	7.6%	
	Convertible Debentures	0.8%	1.3%	0.7%	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
	Shareholders' Equity	33.5%	31.5%	28.6%	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.4%	34.6%	36.0%	
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement														
	Net Profit to Common	63.3	73.6	89.1	119.2	143.2	187.4	252.5	262.0	281.0	302.5	323.4	344.9	
	Cash Flow from Operations	134.4	160.7	283.7	320.0	279.8	373.0	663.0	637.0	732.0	893.0	849.5	888.0	

Source: BMO Capital Markets

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	20.38	1.6	8
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	4.4		8.8			10.8		
10 Year:	7.4		9.5			10.5		
20 Year:	5.4		5.9			7.3		

\* Current EPS is the 4 Quarter Trailing to Q3/2011.

FTS - Rating as of 20-Feb-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 1, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands, and Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.



---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**February 9, 2012**

Brief Research Note  
Gas & Electric Utilities

**Stock Rating:** Outperform  
**Stock Price:** \$34.08  
**Target Price:** \$35.50

**Michael McGowan, CA, CFA**  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA

**Member of:** Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

## Q4/11 Results in Line

---

### Impact

Neutral

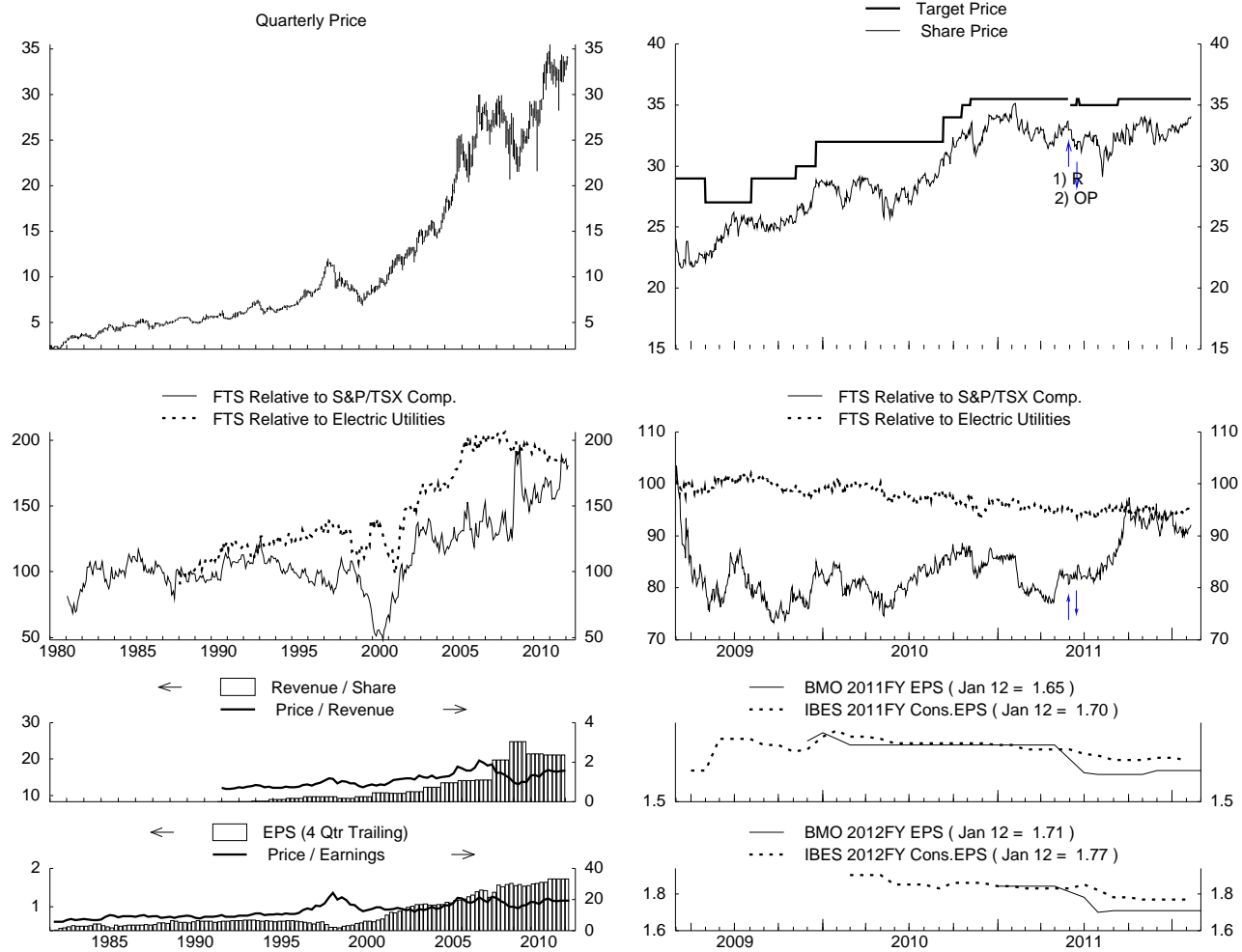
---

### Details & Analysis

Fortis reported Q4/11 EPS of \$0.46 vs. our estimate of \$0.45 and the First Call Mean estimate of \$0.47 (range \$0.45–0.50). In general, the majority of the company's business segments appeared to perform well and earnings from the individual segments were generally consistent with our estimates. Earnings and dividend growth in 2012 should be driven by the company's capital program. Fortis's capital expenditure budget is \$1.3 billion in 2012 (up from \$1.2 billion in 2011) and \$5.5 billion during the next five years. The company continues to evaluate expanding in the United States through the potential acquisition of a regulated gas or electric utility. In summary, the Q4/11 results appear to represent a solid end to 2011.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
Current*	1.72	19	1.16	3.5	67	20.38	1.6	8
Average:		15		4.7	64		1.5	10.6
Growth(%):								
5 Year:	4.4		8.8			10.8		
10 Year:	7.4		9.5			10.5		
20 Year:	5.4		5.9			7.3		

\* Current EPS is the 4 Quarter Trailing to Q3/2011.

FTS - Rating as of 27-Feb-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 8, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### **Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### **Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

### **Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or

other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

#### **Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of  Financial Group



# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Stock Price:** \$32.85  
**Target Price:** \$35.50

**Member of:** Top 15 Large Cap Stock Selections  
Top 15 Income Stock Selections

**February 21, 2012**  
Brief Research Note  
Gas & Electric Utilities

**Michael McGowan, CA, CFA**  
(416) 359-5807  
Michael.McGowan@bmo.com  
Assoc: Mark Laing, CA, CFA

## Acquisition of CH Energy Group Proposed

---

### Impact

Potentially Positive

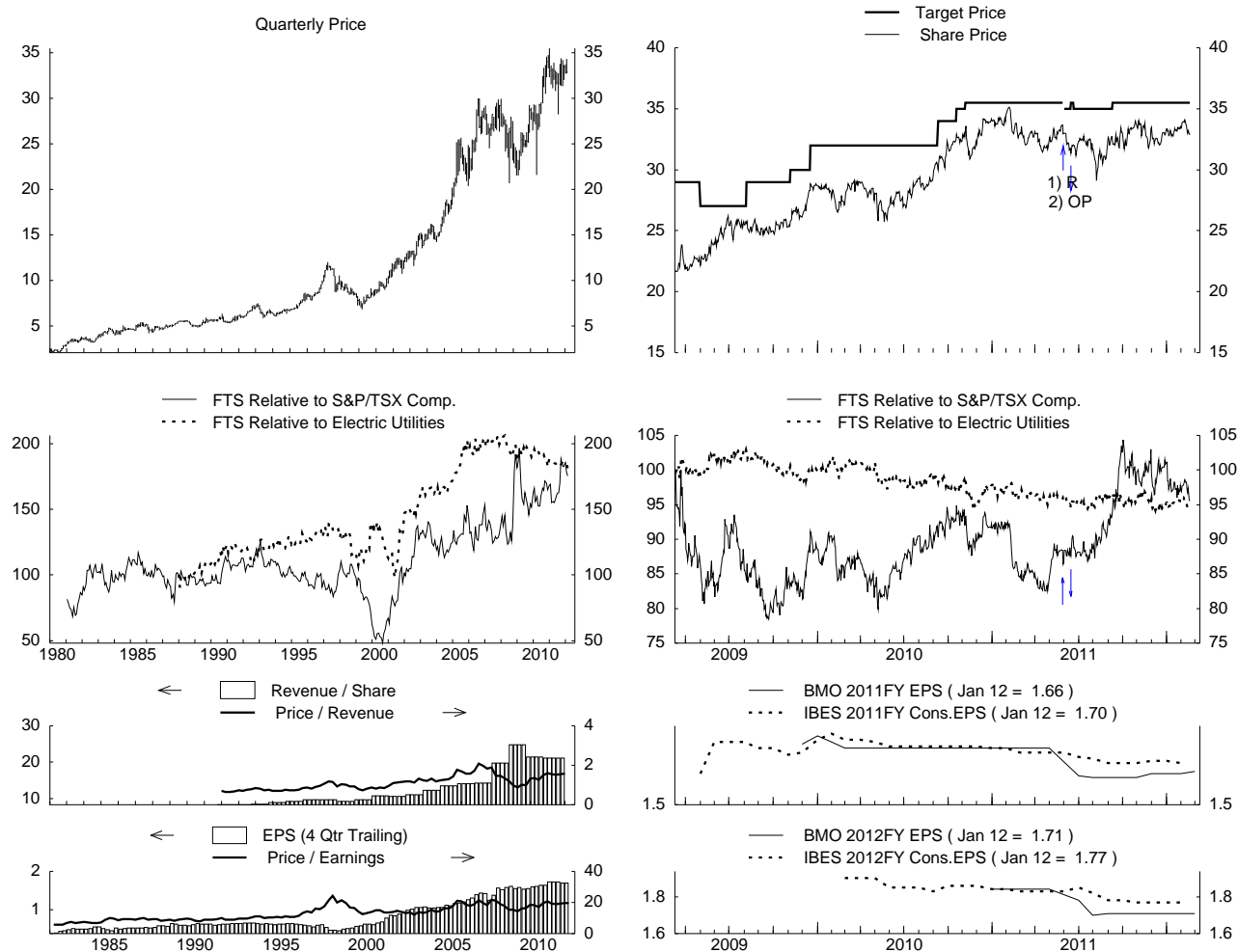
---

### Details & Analysis

Fortis announced that it has entered into an agreement to acquire CH Energy Group Inc. for US\$65/share, which translates into a total purchase price of approximately US\$1.5 billion, including the assumption of approximately US\$500 million of debt. The purchase price represents a premium of approximately 10.5% over the most recent closing price of CH Energy Group's common shares, and values CH at approximately 20.2x 2012E EPS, based on estimates provided by Bloomberg. We believe the following points regarding the proposed acquisition are relevant: (1) Approximately 97% of CH Energy Group's earnings are derived from CH Hudson Gas and Electric Corporation, which is a regulated natural gas and electric utility located in New York State; (2) For the three-year period beginning on July 1, 2010, CH Hudson's rates have been established using a 10% ROE and a capital structure of 48% common equity; (3) We estimate that the acquisition could be approximately \$0.05/share accretive to Fortis' EPS once it closes; and (4) The transaction will initially be funded through the use of credit lines; however, we expect that Fortis could issue approximately C\$400 million of equity to permanently finance the transaction. Closing of the transaction is expected to occur within 12 months, and is subject to customary regulatory and shareholder approvals.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	19.03	1.8	9
Current*	1.69	20	1.16	3.5	69	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	4.1		8.8			11.2		
10 Year:	7.2		9.5			10.7		
20 Year:	5.3		5.9			7.4		

\* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 10-Mar-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 17, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Michael McGowan, CA, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or

other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Not Rated  
**Industry Rating:** Market Perform

**February 21, 2012**  
 Research Comment  
 Toronto, Ontario

**BMO CM Research**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4002  
 Equity.Research@bmo.com  
 Assoc: Mark Laing, CA, CFA

## Coverage Discontinued

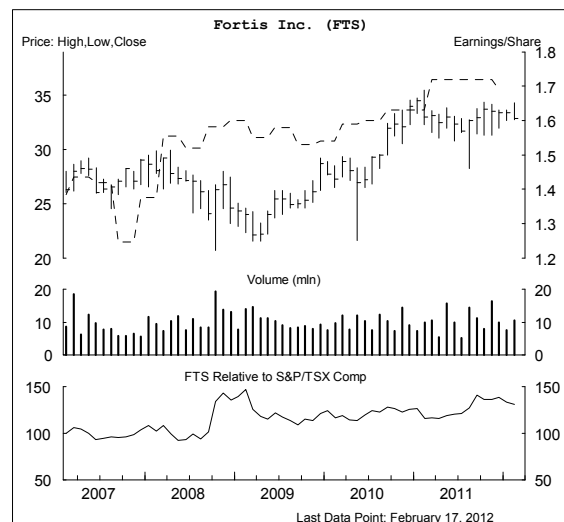
### Event

We are discontinuing coverage of Fortis Inc. (FTS-TSX) due to the departure of a research analyst.

### Recommendation

Shares of Fortis Inc. have been rated Outperform since February 11, 2007. Investors should not rely on BMO Capital Markets Research for an investment recommendation on Fortis Inc. until research coverage is resumed.

**Price (21-Feb)** \$32.38  
**Target Price** na  
**52-Week High** \$34.39  
**52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.59	\$1.66	na	na
P/E			na	na
CFPS	\$4.22	\$4.38	na	na
P/CFPS			na	na
Div.	\$1.12	\$1.16	na	na
EV (\$mm)	\$12,221	\$13,001	na	na
EBITDA (\$mm)	\$1,150.0	\$1,169.5	na	na
EV/EBITDA	10.6x	11.1x	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012E	na	na	na	na
Dividend	\$1.20			3.7%
Book Value	\$20.73			Price/Book
Shares O/S (mm)	186.9			1.6x
Float O/S (mm)	185.5			Mkt. Cap (mm)
Wkly Vol (000s)	2,453			\$6,053
Net Debt (\$mm)	\$5,837			Float Cap (mm)
				\$6,006
				Wkly \$ Vol (mm)
				\$80.0
				Next Rep. Date
				02-May (E)

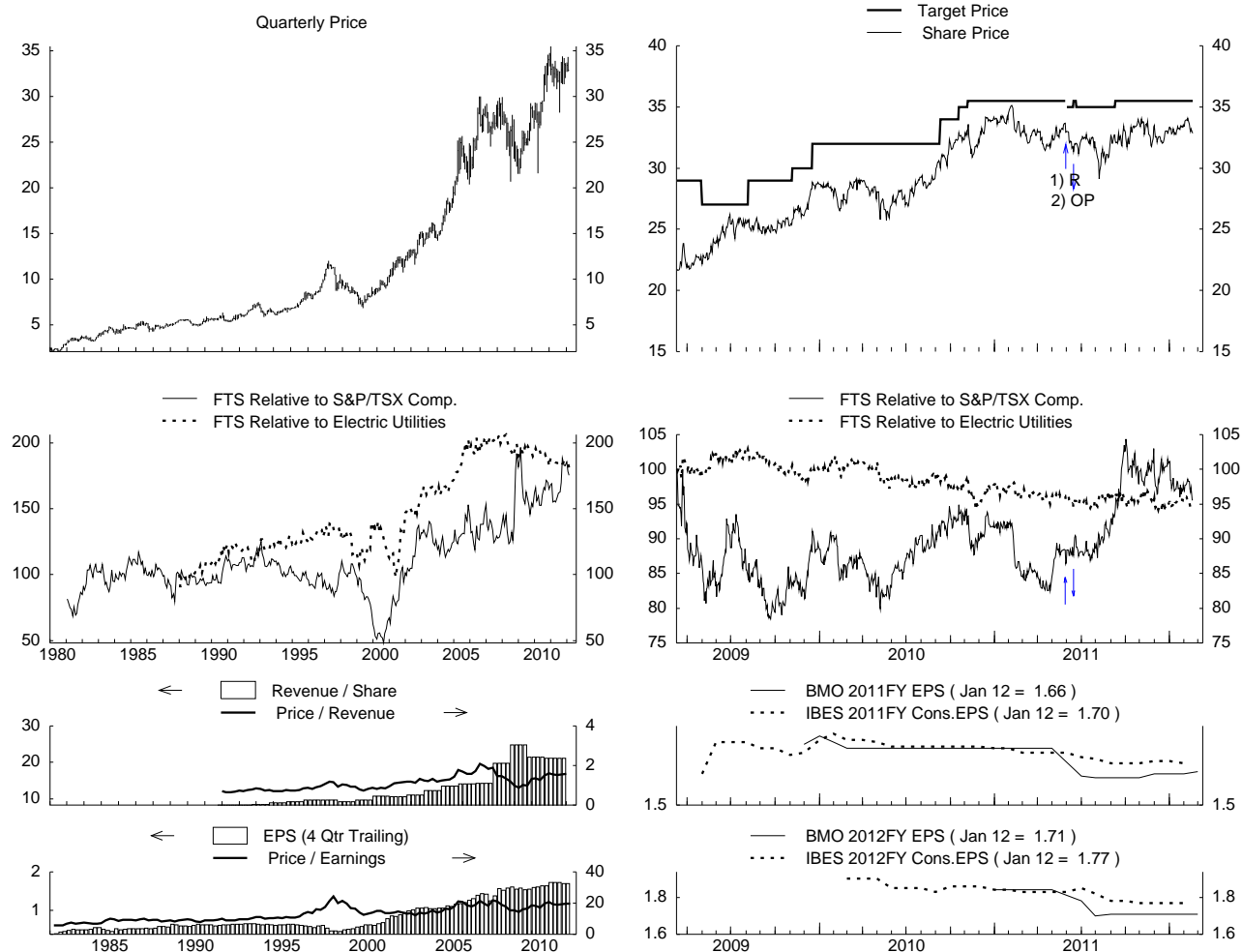
**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.74; 2013E: \$1.80



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	19.03	1.8	9
Current*	1.69	20	1.16	3.5	69	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	4.1		8.8			11.2		
10 Year:	7.2		9.5			10.7		
20 Year:	5.3		5.9			7.4		

\* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 10-Mar-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35

Last Daily Data Point: February 17, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, BMO CM Research, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** na

**Risks:** na

**Distribution of Ratings (December 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://bmocapitalmarkets.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

March 1, 2012

Research Fact Sheet

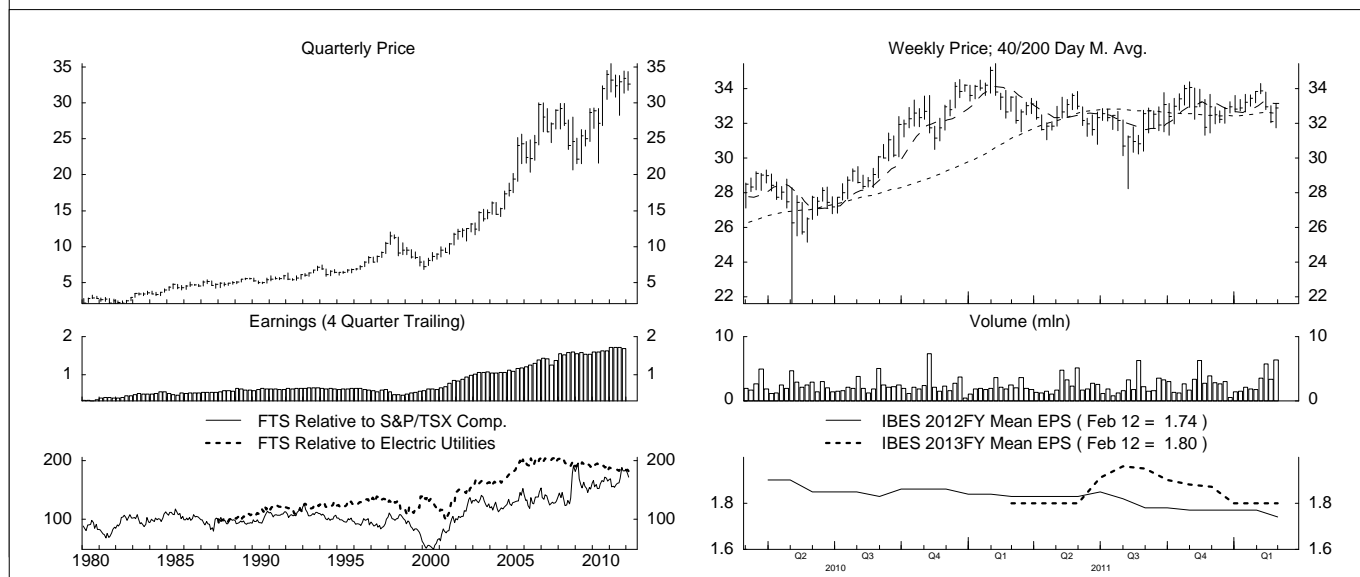
Gas &amp; Electric Utilities

**Stock Rating:** Not Rated  
**Industry Rating:** Market Perform

**BMO CM Research**  
 (416) 359-4002  
 Equity.Research@bmo.com  
 Assoc: Mark Laing, CA, CFA

				(FY-Dec.)	2010A	2011A	2012E	2013E	
Price (1-Mar)	\$32.88	52-Week High	\$34.39	EPS	\$1.59	\$1.66	na	na	
Target Price	na	52-Week Low	\$28.24	P/E			na	na	
Dividend	\$1.20	Book Value	\$20.73	CFPS	\$4.22	\$4.38	na	na	
Yield	3.6%	Price/Book	1.6x	P/CFPS			na	na	
Shares O/S (mm)	186.9	Mkt. Cap (\$mm)	\$6,146	Div.	\$1.12	\$1.16	na	na	
Float O/S (mm)	185.5	Float Cap (\$mm)	\$6,099	EV (\$mm)	\$12,221	\$13,001	na	na	
Wkly Vol (000s)	2,480	Wkly \$ Vol (mm)	\$80.9	EBITDA (\$mm)	\$1,150.0	\$1,169.5	na	na	
Net Debt (\$mm)	\$5,837	Next Rep. Date	2-May (E)	EV/EBITDA	10.6x	11.1x	na	na	
Quarterly EPS	Q1	Q2	Q3	Q4	ROE (%)	8.5%	7.8%	na	na
2010A	\$0.58	\$0.32	\$0.24	\$0.49	Book Value (\$)	\$18.95	\$20.73	na	na
2011A	\$0.67	\$0.32	\$0.24	\$0.46	D/Tot. Cap. (%)	59.4%	56.2%	na	na
2012E	na	na	na	na	Reg. ROE (%)	na	na	na	na

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks and Caicos (100%),

FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%, British Columbia). *Website:* fortisinc.com

**Recent Results** – Fortis reported Q4/11 EPS of \$0.46 versus the First Call Mean estimate of \$0.47 (range \$0.45–\$0.50) and Q4/10 EPS of \$0.49.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

**Corporate Developments** – On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group Inc. for US\$65/share, which translates into a total purchase price of approximately US\$1.5 billion, including the assumption of approximately US\$500 million of debt. The purchase price represents a premium of approximately 10.5% over the most recent closing price of CH Energy Group's common shares, and values CH at approximately 20.2x 2012E EPS, based on estimates provided by Bloomberg.

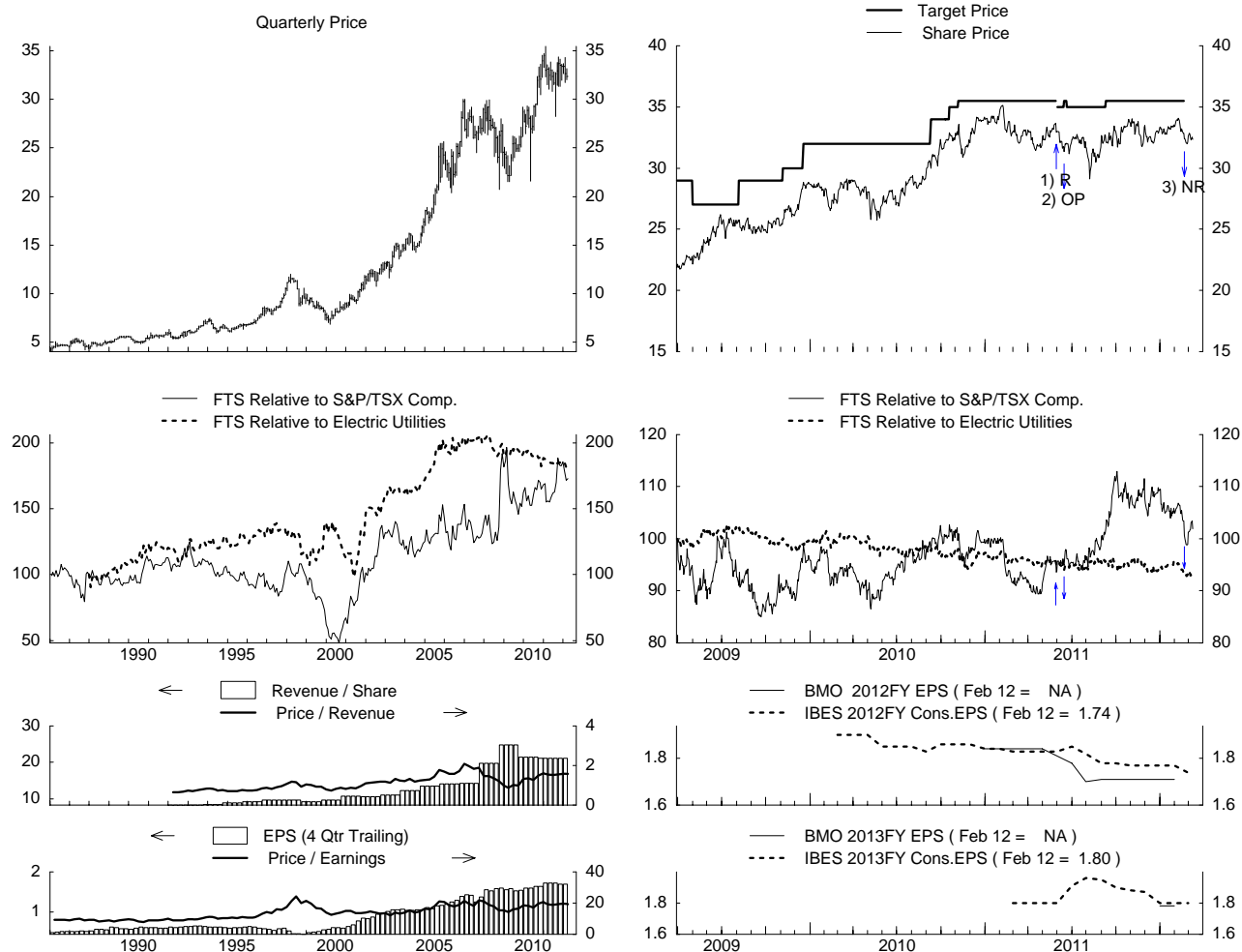
The company's 2012 capital budget has been set at \$1.3 billion and it continues to target total investment of \$5.5

billion during the next five years. Approximately 64% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 13% relates to Fortis' non-regulated businesses.

Fortis continues to receive payments for electricity sales made by Belize Electricity Company Limited ("BECOL") to Belize Electricity Limited ("BEL"). As at December 31, 2011, BECOL had an accounts receivable balance of US\$7.4 million, which is consistent with a receivable of US\$8 million that was outstanding at September 30, 2011.

**Recommendation** – Fortis is not rated. Member of Top 15 Income stock selections.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	19.03	1.8	8
Current*	1.69	19	1.20	3.7	71	20.73	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	4.1		9.6			11.2		
10 Year:	7.2		9.8			10.7		
20 Year:	5.3		5.9			7.4		

\* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 30-Mar-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38

Last Daily Data Point: March 8, 2012



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, BMO CM Research, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a weighted valuation approach: 18x diluted 2012E EPS (12.5%); 1.75x 2012E BVPS (12.5%) and a target yield of 3.50% based on 2012E dividends per share (75%).

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (December 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp. are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Income Stock Selections

**April 9, 2012**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 Ben.Pham@bmo.com

## Initiating Coverage at Outperform; Your All-Weather Stock

### The Company

Fortis is Canada's largest and most diversified regulated distribution utility company, with over 2,000,000 natural gas and electricity customers across the country. The company also has a small portfolio of real estate holdings and interests in two Caribbean regulated electricity distribution companies. In addition, the company is developing the 335 MW Waneta Dam expansion, a \$900 million contracted hydro project (51% owned) that is expected to be commissioned by spring 2015.

### Forecasts

We are introducing EPS (f.d) forecasts of \$1.74 in 2012 and \$1.81 in 2013.

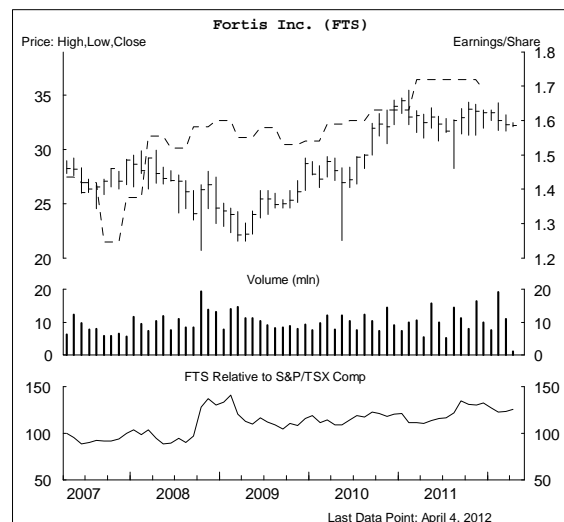
### Valuation

Our target price of \$34.50 represents a 19x 2013E EPS, which is a premium to its peer group and toward the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of earnings are derived from regulated operations)

### Recommendation

We are initiating coverage of Fortis with an Outperform rating. Fortis is hardly a market darling these days amid less robust earnings growth and uncertainty regarding its unregulated hydro assets in Belize. We have heard this song before, and while we recognize the market is waiting anxiously for a full resolution of these issues, we would argue that these issues are already priced in. In the meantime, we believe the market should return its attention to the company's sizable \$5.5 billion relatively low-risk organic growth initiatives through 2016, which should ultimately bear fruit. Aside from its organic growth execution scorecard, another key driver for Fortis' share price in the near term is the successful consummation of NY-based utility CH Energy, which still requires approval from CH Energy shareholders (likely summer 2012) and regulators (Q1/13). Please refer to our [report](#) for further details.

**Price (5-Apr)** \$32.11 **52-Week High** \$34.39  
**Target Price** \$34.50 **52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.74	\$1.81
P/E			18.5x	17.7x
CFPS	\$4.25	\$4.38	\$4.46	\$4.43
P/CFPS			7.2x	7.3x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,520	\$12,558	\$13,391	\$15,855
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,291.8	\$1,490.5
EV/EBITDA	10.9x	10.7x	10.4x	10.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.69	\$0.34	\$0.25	\$0.48
Dividend	\$1.20			Yield 3.7%
Book Value	\$20.73			Price/Book 1.5x
Shares O/S (mm)	188.8			Mkt. Cap (mm) \$6,062
Float O/S (mm)	188.8			Float Cap (mm) \$6,062
Wkly Vol (000s)	2,573			Wkly \$ Vol (mm) \$83.8
Net Debt (\$mm)	\$5,855			Next Rep. Date 02-May (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.75; 2013E: \$1.82



## Outperform

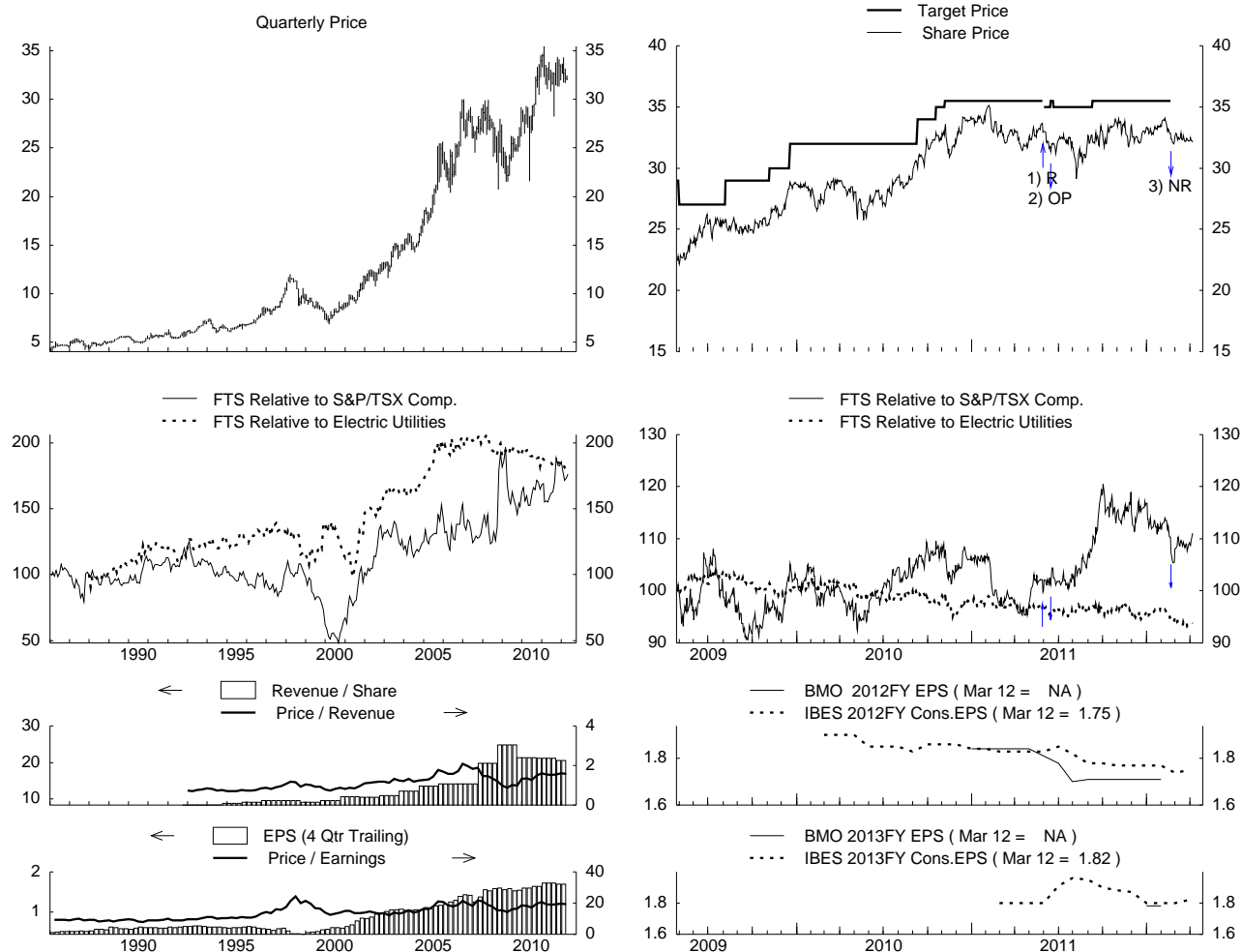
12-Month Target Price: \$34.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$32.11  
 ROR: 11.2%

## Fortis Inc. (FTS)

	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.76	\$1.83	4.8%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.74	\$1.81	4.4%
First Call Consensus								\$1.75	\$1.82	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.17	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.10	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.14	\$0.13	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.11	\$0.11	
FortisAlberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.43	\$0.44	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.27	\$0.26	
Terasen Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.79	\$0.73	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.22	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.36)	(\$0.41)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	68.3%	67.7%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	181.6	187.9	206.5	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.73	\$21.38	\$22.88	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$32.11	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	18.5	17.8	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.5	10.4	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.7%	3.9%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	257.2	408.9	
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	7,156.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,112.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	4,038.2	4,724.3	
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.4	13,609.2	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	2.2%	3.0%	
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	52.6%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.2%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.4%	35.1%	34.7%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,744.0	4,560.4	10.6%
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,291.8	1,490.5	12.9%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	848.5	994.1	15.1%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	330.4	378.0	11.8%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	837.9	914.4	7.2%

Note: Priced as of market close on April 5, 2012.  
 Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.59	21	1.12	3.3	69	19.03	1.8	8
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.69	19	1.20	3.7	71	20.73	1.6	8

Average: 15 4.7 65 1.5 10.5

Growth(%):

5 Year: 3.3 9.6 11.2  
10 Year: 7.3 9.8 10.7  
20 Year: 5.1 5.9 7.4

\* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 27-Apr-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38

Last Daily Data Point: April 5, 2012



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 30, 2011)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order

2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**May 2, 2012**Brief Research Note  
Power & Utilities**Stock Rating:** Outperform  
**Stock Price:** \$34.19  
**Target Price:** \$34.50**Benjamin Pham, CFA**  
(416) 359-4061  
Ben.Pham@bmo.com**Member of:** Top 15 Income Stock Selections

## Q1/12 Results Slightly Lower Than Expected

---

### Impact

Neutral

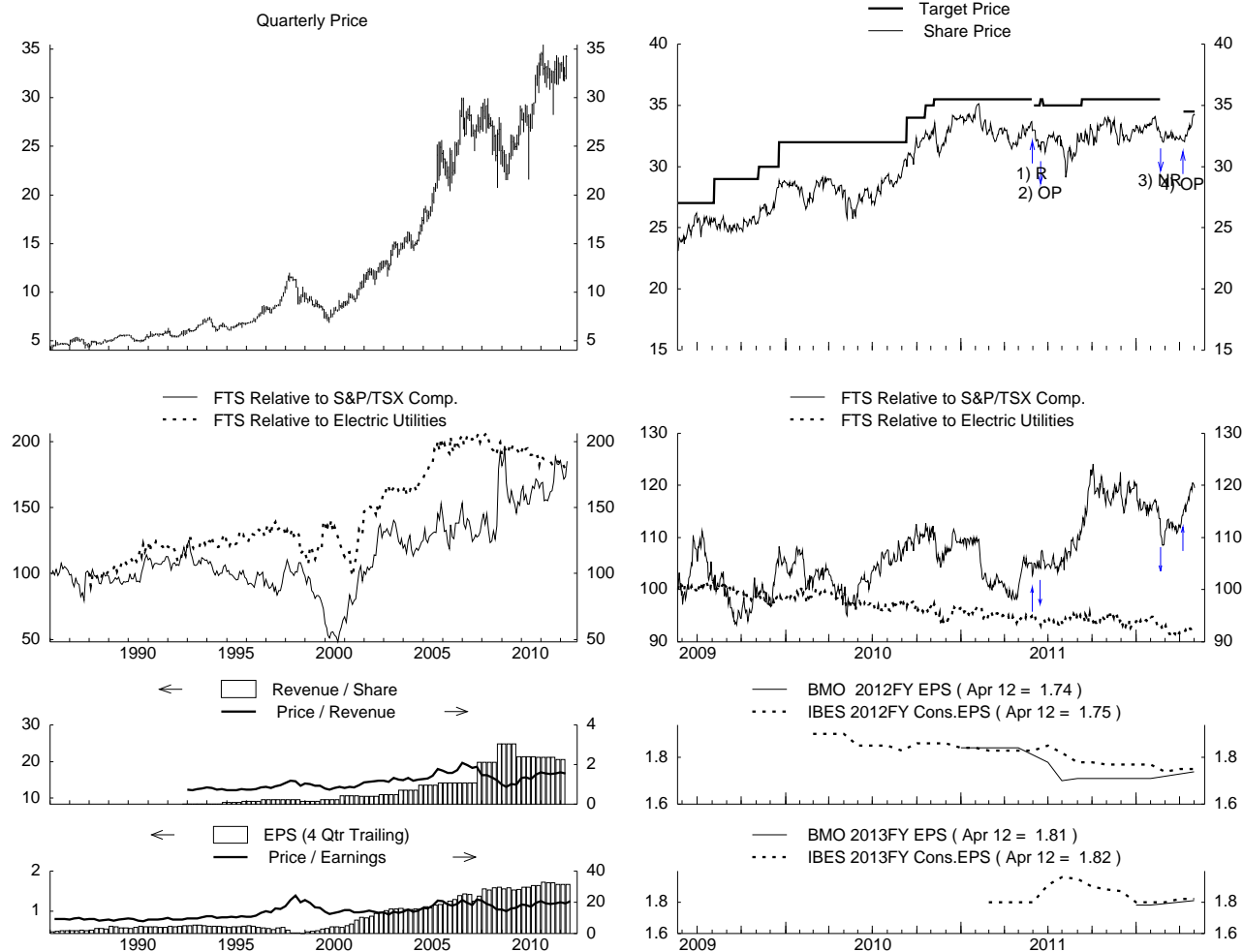
---

### Details & Analysis

Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus. The company reported headline earnings of \$0.64 and comparable earnings of \$0.66 after adjusting for one-time acquisition costs associated with the proposed CH Energy transaction. The variance vs. our estimate was largely due to lower-than expected earnings contribution from FortisAlberta and FortisBC. Key highlights: (1) the company reaffirmed capital expenditures of \$1.3 billion in 2012 and ~\$5.5 billion over the five-year period of 2012-2016. Notably, its 335 MW expansion of the Waneta Dam (50% Fortis) is on track for an expected in-service date of spring 2015; (2) regulatory filings were made recently with the New York State Public Service Commission (April 20) and the Federal Energy Regulatory Commission (April 23) in connection with its proposed acquisition of CH Energy Group. A CH Energy shareholder vote is expected in mid-2012, with closing expected at the end of Q1/13; and (3) the British Columbia Utilities Commission is currently moving forward with a Cost of Capital proceeding regarding the appropriate allowed ROE and deemed capital structure for utilities subject to its review, effective January 1, 2013. A return to an ROE automatic adjustment (effective for 2014) will also be examined. We estimate that a 50 bps change in allowed ROE at Fortis' B.C.-based utilities will impact its consolidated EPS by ~\$0.05.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	21	1.20	3.5	72	20.73	1.7	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.1		9.6			11.2		
10 Year:	7.2		9.8			10.7		
20 Year:	5.0		5.9			7.4		

\* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 21-May-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: May 1, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Benjamin Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.



### **Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### **Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

### **Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or

other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

#### **Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Income Stock Selections

**May 3, 2012**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 Ben.Pham@bmo.com

## Q1 – Onward and Upward

### Event

Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus. The company reported headline earnings of \$0.64 and comparable earnings of \$0.66 after adjusting for one-time acquisition costs associated with the proposed CH Energy transaction. Comparable EPS were slightly lower than our estimate of \$0.69, but generally consistent with Street consensus of \$0.67 per share. The variance vs. our estimate was largely due to lower-than-expected earnings contribution from FortisAlberta, FortisBC Electric and Fortis Properties, partially offset by higher-than-expected results from Other Canadian and its gas utility.

### Impact

Neutral.

### Forecasts

We have updated our financial model to reflect Q1/12 results and revised assumptions. We are lowering our 2012 EPS estimate (f.d.) to \$1.71 from \$1.74 but increasing our 2013 estimate (f.d.) to \$1.84 from \$1.81.

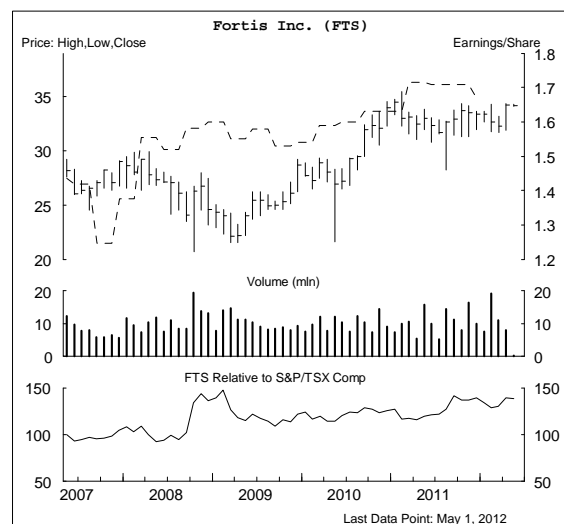
### Valuation

We have raised our 12-month target price by \$1 to \$35.50. Our target price of \$35.50 represents 19.2x 2013E EPS (from 19.0x previously) our revised 2013 EPS forecast, which is a premium to its peer group and towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility and the secular reduction observed in 10-year government of Canada bond yields.

### Recommendation

We continue to rate the shares of Fortis Outperform.

**Price (2-May)** \$34.55  
**Target Price** \$35.50↑  
**52-Week High** \$34.55  
**52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.71↓	\$1.84↑
P/E			20.2x	18.8x
CFPS	\$4.25	\$4.38	\$4.41↓	\$4.44↑
P/CFPS			7.8x	7.8x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,520	\$12,558	\$13,396	\$15,802
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,289.8	\$1,493.5
EV/EBITDA	10.9x	10.7x	10.4x	10.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66a	\$0.34	\$0.25	\$0.48
Dividend	\$1.20			
Book Value	\$20.61			
Shares O/S (mm)	189.3			
Float O/S (mm)	189.3			
Wkly Vol (000s)	2,620			
Net Debt (\$mm)	\$5,867			
Yield				3.5%
Price/Book				1.7x
Mkt. Cap (mm)				\$6,539
Float Cap (mm)				\$6,539
Wkly \$ Vol (mm)				\$85.5
Next Rep. Date				Jul (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.75; 2013E: \$1.81

### Changes

**Annual EPS**  
 2012E \$1.74 to \$1.71  
 2013E \$1.81 to \$1.84

**Annual CFPS**  
 2012E \$4.46 to \$4.41  
 2013E \$4.43 to \$4.44

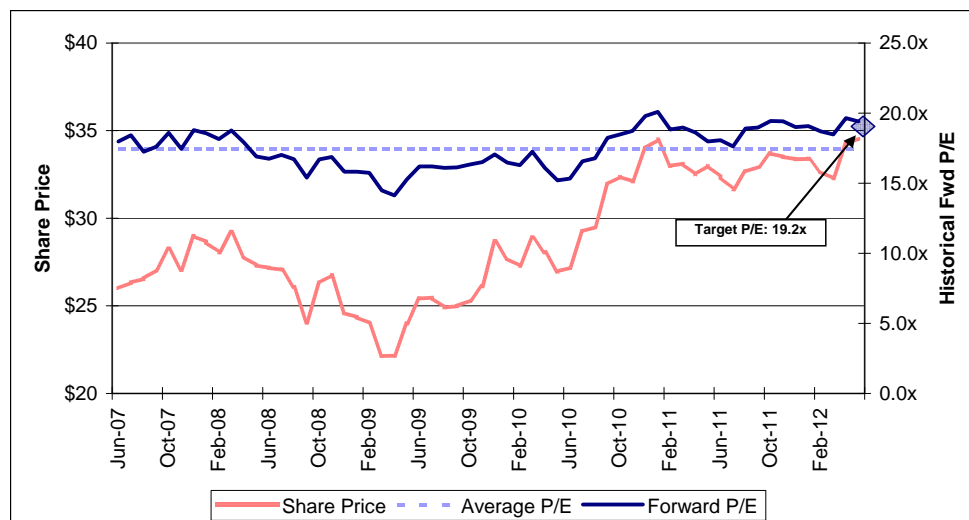
**Target**  
 \$34.50 to \$35.50

## Q1 – Onward and Upward

- **We are maintaining an Outperform rating on Fortis shares and increasing our 12-month target price by \$1 (~3%) to \$35.50 in connection with our revised estimate and target multiple.** Despite bottom-line results that fell shy of our expectations, Fortis' first-quarter results reinforced the positive earnings momentum that the company has put in place via ownership of several utility distribution businesses across Canada that possess strong growth prospects. In our view, Fortis is well positioned to grow its EPS to ~\$2.00 by 2015 while its significant exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds. We are maintaining our Outperform rating and increasing our 12-month target price by \$1 to \$35.50. Our target price of \$35.50 represents 19.2x 2013E EPS (from 19.0x previously) our revised 2013 EPS forecast, which is a premium to its peer group and towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the secular reduction observed in 10-year government of Canada bond yields.
- **Reaffirming capital spending guidance.** Against the backdrop of \$229 million of capital spending for the first quarter of 2012, the company reaffirmed its \$1.3 billion capital budget for 2012. The company's 2012–2016 capital spending outlook of \$5.5 billion is also unchanged with 64% expected to be incurred at the regulated electric utilities, 23% at regulated gas utilities and 13% at its non-regulated operations.
- **CH Energy:** Regulatory filings were made recently with the New York State Public Service Commission (April 20) and the Federal Energy Regulatory Commission (April 23) in connection with its proposed acquisition of CH Energy Group. A CH Energy shareholder vote is planned in mid-2012, with closing expected at the end of Q1/13. Our outlook continues to assume a \$500 million common equity issue in early 2013.
- **Waneta – on track:** Fortis's \$900 million Waneta dam expansion (51% interest) remains on track for start-up in spring 2015. The company has completed the excavation of the intake, powerhouse and power tunnels and has spent \$290 million since construction began in late 2010. Assuming that this project is financed with 35% equity and is capable of generating a 10.5% ROE, it could contribute up to \$16.9 million in incremental earnings when it is commissioned.
- **Regulatory update:** We expect 2012 to be relatively busy from a regulatory perspective. The British Columbia Utilities Commission (BCUC) is currently moving forward with a Cost of Capital proceeding regarding: (i) the appropriate allowed ROE and deemed capital structure for a benchmark low-risk utility, effective January 1, 2013; (ii) the determination of whether a return to an ROE automatic adjustment (effective for 2014) is warranted; (iii) a generic methodology on how to establish each utility's cost of capital in reference to the cost of capital for a benchmark low-risk utility; and (iv) a methodology to establish a deemed capital structure and deemed cost of capital. The BCUC also issued in April its decision on FortisBC Energy's 2012–2013 rate application. In addition to the above regulatory initiatives, a number of Fortis' utilities have submitted rate filings or are expecting rate decisions this year:

- In April 2012, the FortisBC Energy utilities re-filed their application with the BCUC to amalgamate into one legal entity. In late 2011, the utilities suspended their application in order to provide additional information to the BCUC, as requested. In addition to BCUC approval, the amalgamation requires the consent of the Government of British Columbia.
  - In November 2011, FortisBC Electric filed an updated 2012–2013 Revenue Requirement Application, reflecting a return on estimated mid-year net rate base of \$1,146 million in 2012 and \$1,215 million in 2013. An oral hearing occurred in March 2012 and a decision on the rate application is expected in mid-2012.
  - In April 2012, the Alberta Utilities Commission (AUC) approved FortisAlberta's negotiated settlement for 2012 distribution revenue requirements, reflecting a forecast mid-year rate base of \$2,025 million. The AUC continues to explore the implementation of Performance Based Regulation. A hearing commenced in April 2012 and a decision is expected in 2012.
  - In March 2012, Newfoundland Power filed a Cost of Capital Application with the PUB to discontinue the use of the current ROE adjustment mechanism and to approve a reasonable rate of return on average rate base for 2012. A public hearing on the application is currently scheduled for June 2012.
  - Maritime Electric plans to file an application with the Regulatory & Appeals Commission in fall 2012 for 2013 rates and allowed ROE.
- **Liquidity and resources:** At quarter-end, the company had \$110 million of cash and consolidated credit facilities of roughly \$2.2 billion, of which \$2.0 billion was available, including \$769 million unused under its \$800 million corporate committed revolving credit facility. Moreover, Fortis has requested an increase in the amount available for borrowing under its corporate credit facility to \$1 billion from \$800 million, which will enhance its liquidity position. Fortis expects the increase to be available in May 2012.
  - **Revised estimates:** We have updated our financial model to reflect Q1/12 results and revised assumptions. We are lowering our 2012 EPS estimate (f.d.) to \$1.71 from \$1.74 but increasing our 2013 estimate (f.d.) to \$1.84 from \$1.81 (reflecting a lower run-rate for corporate costs).
  - **Valuation:** We are maintaining an Outperform rating on Fortis shares and increasing our target price by \$1 (~3%) to \$35.50. At current prices, we believe that Fortis shares are reasonably valued, trading at a P/E multiple of 18.7x our 2013 estimate, which is a premium to its peer group and towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the secular reduction observed in 10-year government of Canada bond yields.

## Exhibit 1: FTS – P/E, Share Price and Target P/E



Source: Thomson One, Bloomberg

- First-quarter results:** Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus. The company reported headline earnings of \$0.64 and comparable earnings of \$0.66 after adjusting for one-time acquisition costs associated with the proposed CH Energy transaction. Comparable EPS were slightly lower than our estimate of \$0.69, but generally consistent with Street consensus of \$0.67 per share. The variance vs. our estimate was largely due to lower-than expected earnings contribution from FortisAlberta, FortisBC Electric and Fortis Properties, partially offset by higher-than-expected results from Other Canadian and its gas utility. (Table 1). Our annual estimates are set out in Table 2.

Table 1: Earnings by Business Segment

	Q1/12 (\$mm)	Q1/12E (\$mm)	Q1/11 (\$mm)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	82.0	79.8	75.0
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	21.0	23.2	21.0
FortisBC	16.0	20.5	19.0
Newfoundland Power	7.0	7.1	6.0
Other Canadian	7.0	5.8	6.0
	51.0	56.7	52.0
<b>Regulated Electric Utilities - Caribbean</b>	3.0	3.6	4.0
<b>Non-Regulated - Fortis Generation</b>	5.0	4.9	3.0
<b>Non-Regulated - Fortis Properties</b>	1.0	2.6	1.0
<b>Corporate and Other <sup>(1)</sup></b>	(17.0)	(17.4)	(19.0)
<b>Net Earnings Applicable to Common Shares</b>	<b>125.0</b>	<b>130.1</b>	<b>116.0</b>
Average Shares	189.0	187.9	175.0
<b>Adjusted EPS (basic)</b>	<b>\$0.66</b>	<b>\$0.69</b>	<b>\$0.66</b>

Note: (1) Q1/12 Corporate costs exclude \$4 million of acquisition-related expenses associated with CH Energy transaction

Source: BMO Capital Markets, Company Reports



Table 2: Consolidated Summary Sheet



## Outperform

12-Month Target Price: \$35.50

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$34.55

ROR: 6.2%

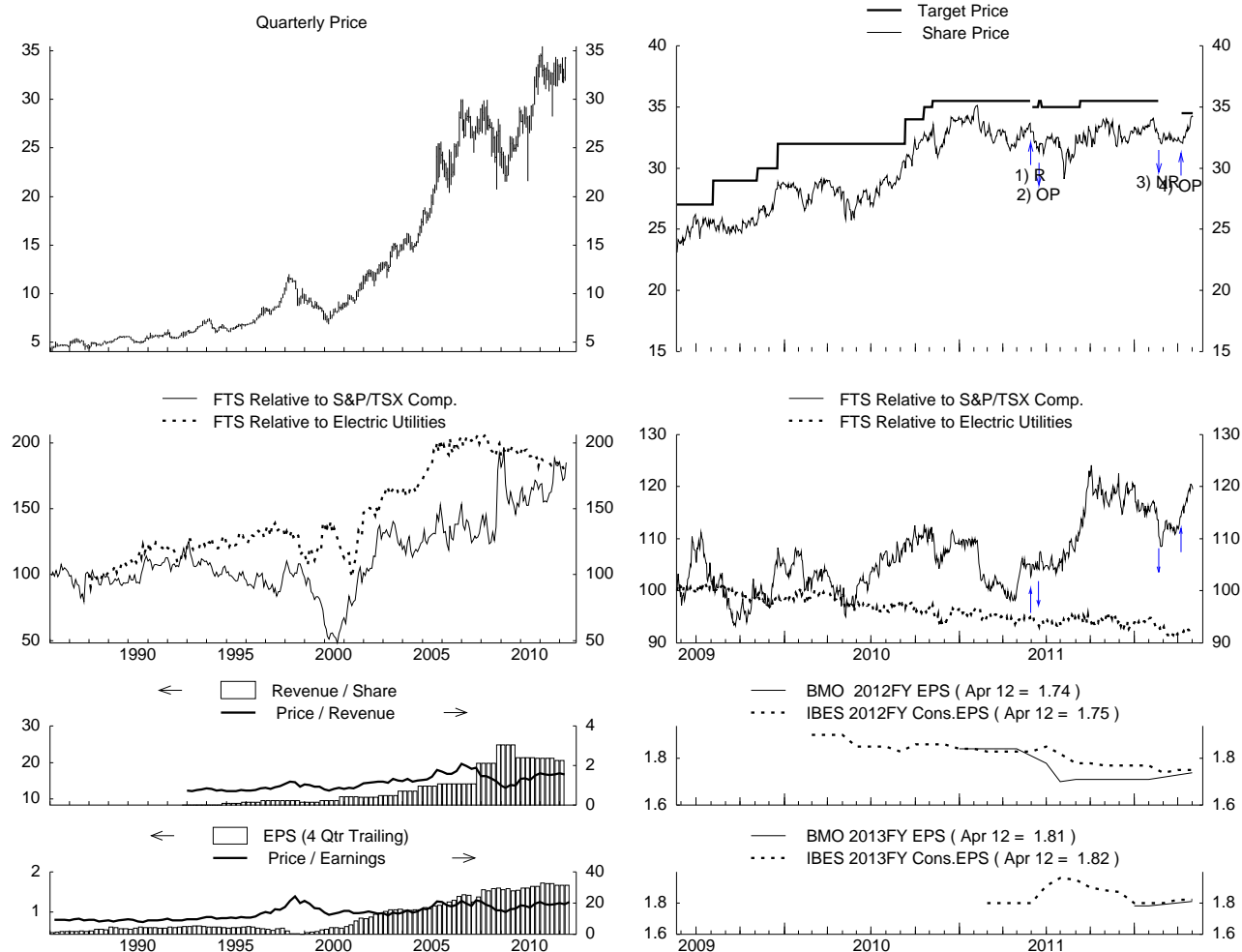
## Fortis Inc. (FTS)

	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.73	\$1.86	5.7%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.71	\$1.84	5.4%
First Call Consensus								\$1.76	\$1.82	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.17	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.13	\$0.13	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	
FortisAlberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.42	\$0.43	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.24	\$0.25	
Terasen Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.79	\$0.74	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.34)	(\$0.39)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	69.3%	66.6%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	181.6	189.7	208.3	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.16	\$22.70	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.55	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	20.2	18.7	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.9	10.8	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.5%	3.6%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	260.5	454.4	
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	7,106.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,112.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	4,034.9	4,728.8	
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.4	13,609.2	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	2.3%	3.3%	
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	52.2%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.2%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.4%	35.0%	34.7%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,744.0	4,559.4	10.5%
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,289.8	1,493.5	13.0%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	846.5	997.1	15.3%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	328.7	387.6	13.2%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	836.2	923.9	7.8%

Note: Priced as of market close on May 2, 2012.

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	21	1.20	3.5	72	20.73	1.7	8

Average: 15 4.7 65 1.5 10.5

Growth(%):

5 Year: 3.1 9.6 11.2  
10 Year: 7.2 9.8 10.7  
20 Year: 5.0 5.9 7.4

\* Current EPS is the 4 Quarter Trailing to Q4/2011.

FTS - Rating as of 21-May-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: May 1, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.2x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée./Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Income Stock Selections

**May 24, 2012**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 Ben.Pham@bmo.com  
 Assoc: Adam Johnson, CA

## S&P Affirms Credit Rating, but More Equity Needed

### Event

On May 23, S&P affirmed Fortis' A- credit rating and revised the outlook to Stable from CreditWatch with negative implications, on the assumption that the company will finance the previously announced CH Energy acquisition with at least \$600 million in common equity and \$250 million in preferred shares (vs. our initial estimates of \$500 million and \$200 million, respectively). Management has confirmed that it will finance the CH Energy transaction in conformance with S&P's assumptions in order to keep its A- credit rating intact, but noted that a portion of the proceeds will also be used to finance the company's 51% interest in the Waneta Dam hydro project, which is currently under development and is expected to be commissioned in spring 2015.

### Impact

Slightly Negative. While more equity will be required to permanently finance the proposed CH Energy acquisition, the transaction remains slightly accretive and allows for geographical expansion in a low-risk utility operation while maintaining the company's A- credit rating.

### Forecasts

We have updated our model to reflect the higher equity and preferred share issues. There is no change to our 2012 EPS estimate (fd) of \$1.71, but we are decreasing our 2013 EPS estimate (fd) to \$1.82 from \$1.84.

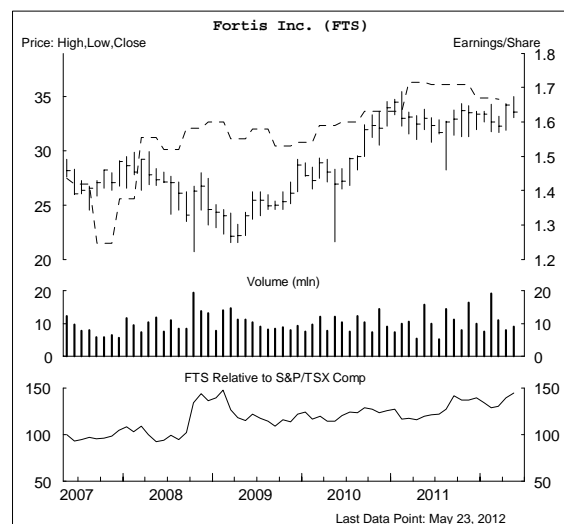
### Valuation

We have reduced our price target to \$35.00 from \$35.50 in connection with our revised estimates. Our target price is based on 19.2x 2013E EPS.

### Recommendation

We continue to rate the shares of Fortis Outperform.

**Price (23-May)** \$33.55  
**Target Price** \$35.00↓  
**52-Week High** \$34.98  
**52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.71	\$1.82↓
P/E			19.6x	18.4x
CFPS	\$4.25	\$4.38	\$4.41	\$4.39↓
P/CFPS			7.6x	7.6x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,520	\$12,558	\$13,397	\$15,554
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,290.1	\$1,495.4
EV/EBITDA	10.9x	10.7x	10.4x	10.4x
<b>Quarterly EPS</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66a	\$0.34	\$0.25	\$0.48
Dividend	\$1.20			3.6%
Book Value	\$20.61			Price/Book
Shares O/S (mm)	189.3			1.6x
Float O/S (mm)	189.3			Mkt. Cap (mm)
Wkly Vol (000s)	2,594			\$6,350
Net Debt (\$mm)	\$5,867			Float Cap (mm)
				\$6,350
				Wkly \$ Vol (mm)
				\$84.7
				Next Rep. Date
				Jul (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.74; 2013E: \$1.83

### Changes

**Annual EPS**  
 2013E \$1.84 to \$1.82

**Annual CFPS**  
 2013E \$4.44 to \$4.39

**Target**  
 \$35.50 to \$35.00

Table 1: Consolidated Summary Sheet



## Outperform

12-Month Target Price: \$35.00

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$33.54

ROR: 7.9%

## Fortis Inc. (FTS)

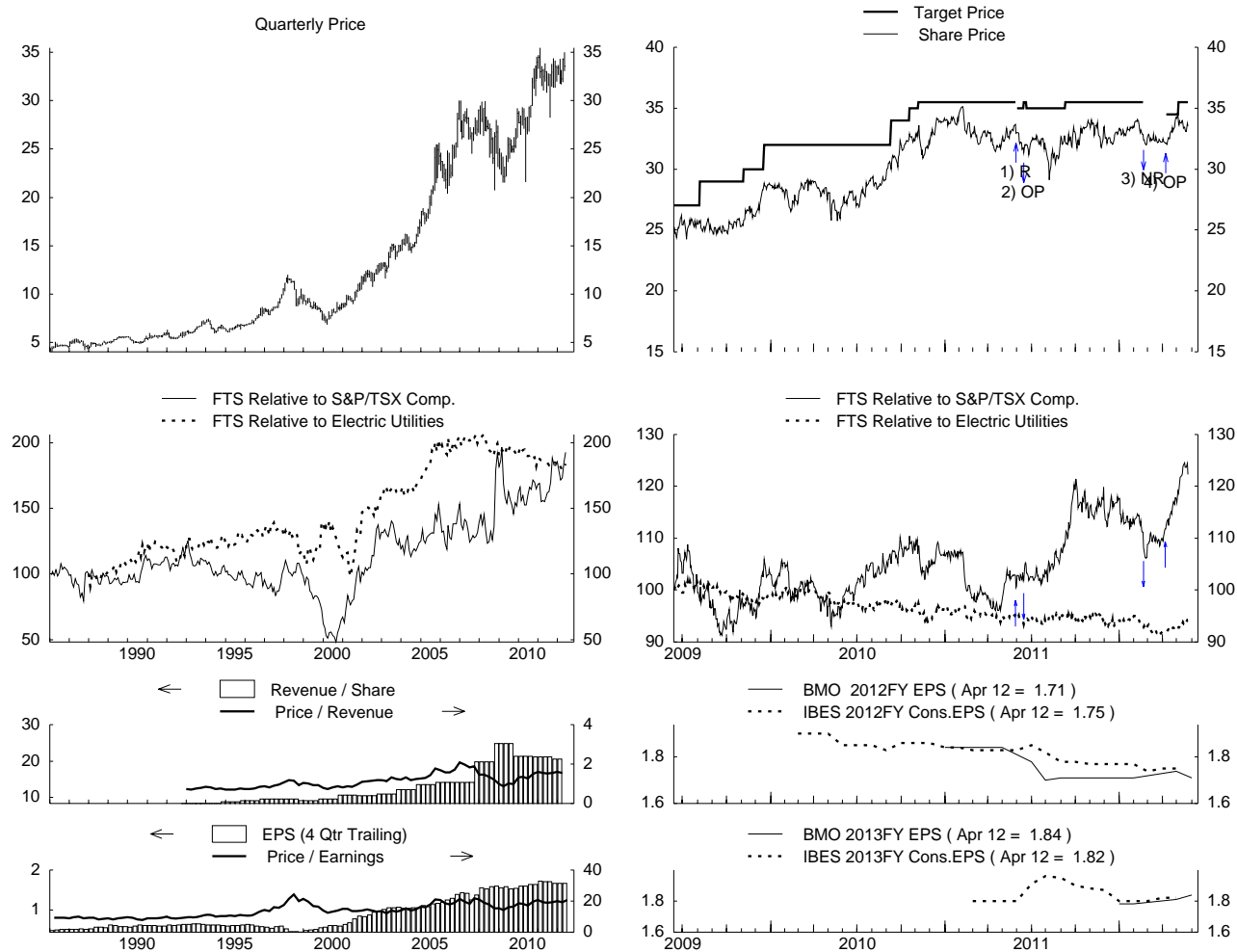
	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.73	\$1.84	5.1%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.71	\$1.82	4.8%
First Call Consensus								\$1.74	\$1.83	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.18	\$0.17	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.12	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.13	\$0.13	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.10	
Fortis Alberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.42	\$0.43	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.24	\$0.25	
Terasen Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.79	\$0.72	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.22	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.34)	(\$0.38)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	69.5%	67.4%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	181.6	189.7	211.5	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.16	\$22.82	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$33.54	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.6	18.4	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.7	10.6	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.7%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	261.9	457.3	
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	6,956.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,162.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	4,034.0	4,826.3	
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.9	13,609.8	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	2.3%	3.4%	
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	51.1%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.5%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.4%	35.0%	35.5%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,779.5	4,596.9	11.0%
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,290.1	1,495.4	13.1%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	845.1	997.1	15.3%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	327.8	389.0	13.4%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	834.8	927.5	8.0%

Note: Priced intraday on May 24, 2012

Source: BMO Capital Markets, Company Reports



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	72	20.73	1.6	8
Current*	1.67	21	1.20	3.5	72	20.61	1.7	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.0		9.6			11.1		
10 Year:	7.1		9.8			10.6		
20 Year:	5.0		5.9			7.3		

\* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 12-Jun-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: May 23, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

## FORTIS (FTS-TSX)

BEN PHAM, CFA

**Rating:** Outperform  
**Price:** \$33.55  
**Target:** \$35.00 ↓  
**2011A EPS:** \$1.66  
**2012E EPS:** \$1.71  
**2013E EPS:** \$1.82 ↓

All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Title:** S&P Affirms Credit Rating, but More Equity Needed

**Event:** On May 23, S&P affirmed Fortis' A- credit rating and revised the outlook to Stable from CreditWatch with negative implications, on the assumption that the company will finance the previously announced CH Energy acquisition with at least \$600 million in common equity and \$250 million in preferred shares (vs. our initial estimates of \$500 million and \$200 million, respectively). Management has confirmed that it will finance the CH Energy transaction in conformance with S&P's assumptions in order to keep its A- credit rating intact, but noted that a portion of the proceeds will also be used to finance the company's 51% interest in the Waneta Dam hydro project, which is currently under development and is expected to be commissioned in spring 2015.

**Impact:** Slightly Negative. While more equity will be required to permanently finance the proposed CH Energy acquisition, the transaction remains slightly accretive and allows for geographical expansion in a low-risk utility operation while maintaining the company's A- credit rating.

**Forecasts:** We have updated our model to reflect the higher equity and preferred share issues. There is no change to our 2012 EPS estimate (fd) of \$1.71, but we are decreasing our 2013 EPS estimate (fd) to \$1.82 from \$1.84.

**Valuation:** We have reduced our price target to \$35.00 from \$35.50 in connection with our revised estimates. Our target price is based on 19.2x 2013E EPS.

**Recommendation:** We continue to rate the shares of Fortis Outperform.

# Fortis

(FTS-TSX)

June 6, 2012

Research Fact Sheet

Power &amp; Utilities

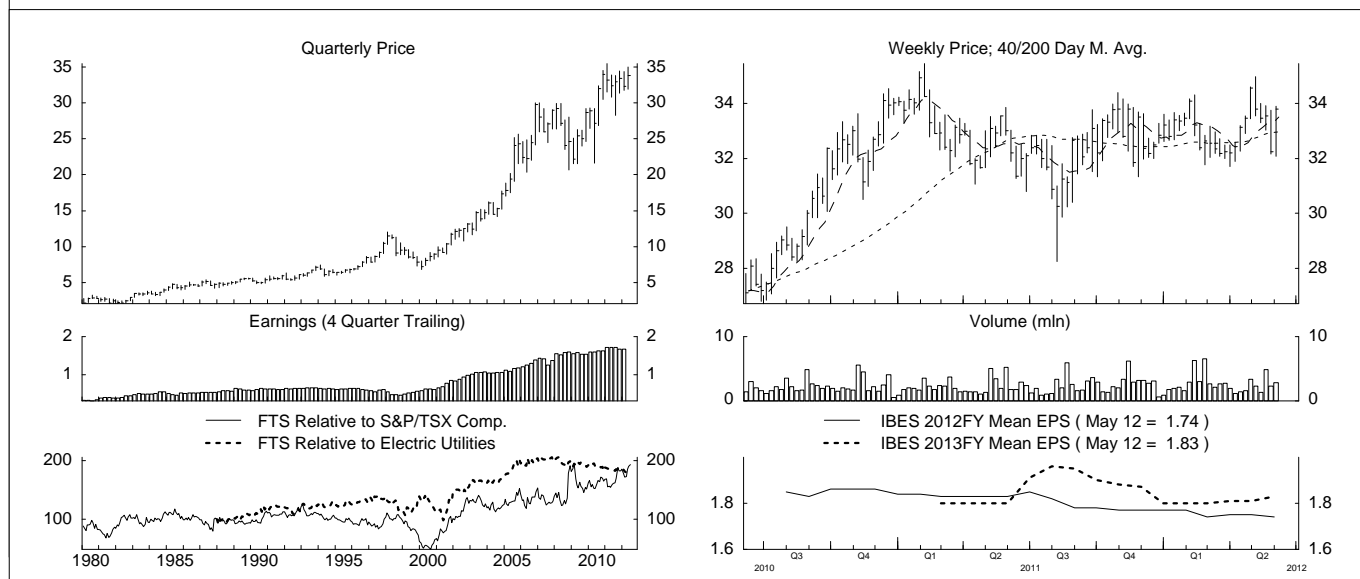
**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Ben Pham, CFA**  
 (416) 359-4061  
 Ben.Pham@bmo.com  
 Assoc: Adam Johnson, CA

Price (6-Jun)	\$33.79	52-Week High	\$34.98	
Target Price	\$35.00	52-Week Low	\$28.24	
Dividend	\$1.20	Book Value	\$20.61	
Yield	3.6%	Price/Book	1.6x	
Shares O/S (mm)	189.3	Mkt. Cap (\$mm)	\$6,396	
Float O/S (mm)	189.3	Float Cap (\$mm)	\$6,396	
Wkly Vol (000s)	2,533	Wkly \$ Vol (mm)	\$82.7	
Net Debt (\$mm)	\$5,867	Next Rep. Date	Jul (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66 a	\$0.34	\$0.25	\$0.48

(FY-Dec.)	2010A	2011A	2012E	2013E
<b>EPS</b>	\$1.60	\$1.66	\$1.71	\$1.82
<b>P/E</b>			19.8x	18.6x
<b>CFPS</b>	\$4.25	\$4.38	\$4.41	\$4.39
<b>P/CFPS</b>			7.7x	7.7x
<b>Div.</b>	\$1.12	\$1.16	\$1.20	\$1.24
<b>EV (\$mm)</b>	\$12,187	\$12,996	\$13,893	\$15,929
<b>EBITDA (\$mm)</b>	\$1,150.0	\$1,169.5	\$1,290.1	\$1,495.4
<b>EV/EBITDA</b>	10.6x	11.1x	10.8x	10.7x
<b>ROE (%)</b>	8.5%	7.8%	8.1%	8.1%
<b>Book Value (\$)</b>	\$18.95	\$20.53	\$21.16	\$22.82
<b>D/Tot. Cap. (%)</b>	57.9%	54.3%	55.2%	54.5%
<b>Reg. ROE (%)</b>	na	na	na	na

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Caribbean Utilities (59.5%, Grand Cayman Island), Turks and Caicos (100%),

FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%, British Columbia). *Website:* fortisinc.com

**Recent Results** – Fortis reported Q1/12 results that were slightly lower than our estimates but in line with consensus (adjusted EPS of \$0.66 vs. our estimate of \$0.69 and consensus of \$0.67).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.



**Corporate Developments** – Regulatory filings were made with the New York State Public Service Commission (April 20) and the Federal Energy Regulatory Commission (April 23) regarding the company's previously announced proposed acquisition of CH Energy Group, an energy delivery company whose main business is an electric and natural gas transmission and distribution utility in New York's Mid-Hudson Valley region. Pending regulatory approval and a shareholder vote in June 2012, the transaction is expected to close in Q1/13.

On May 23, S&P affirmed Fortis's A- credit rating and revised its outlook on the company to Stable from CreditWatch with negative implications. S&P's outlook assumes that Fortis will finance the CH Energy Group acquisition with at least \$600 million in common shares and \$250 million in preferred shares. Management has confirmed that it will finance the transaction in conformance with S&P's assumptions in order to keep its A- credit rating

intact, but noted that a portion of the proceeds will also be used to finance the company's 51% interest in the Waneta Dam hydro project, which is currently under development and is expected to be commissioned in spring 2015.

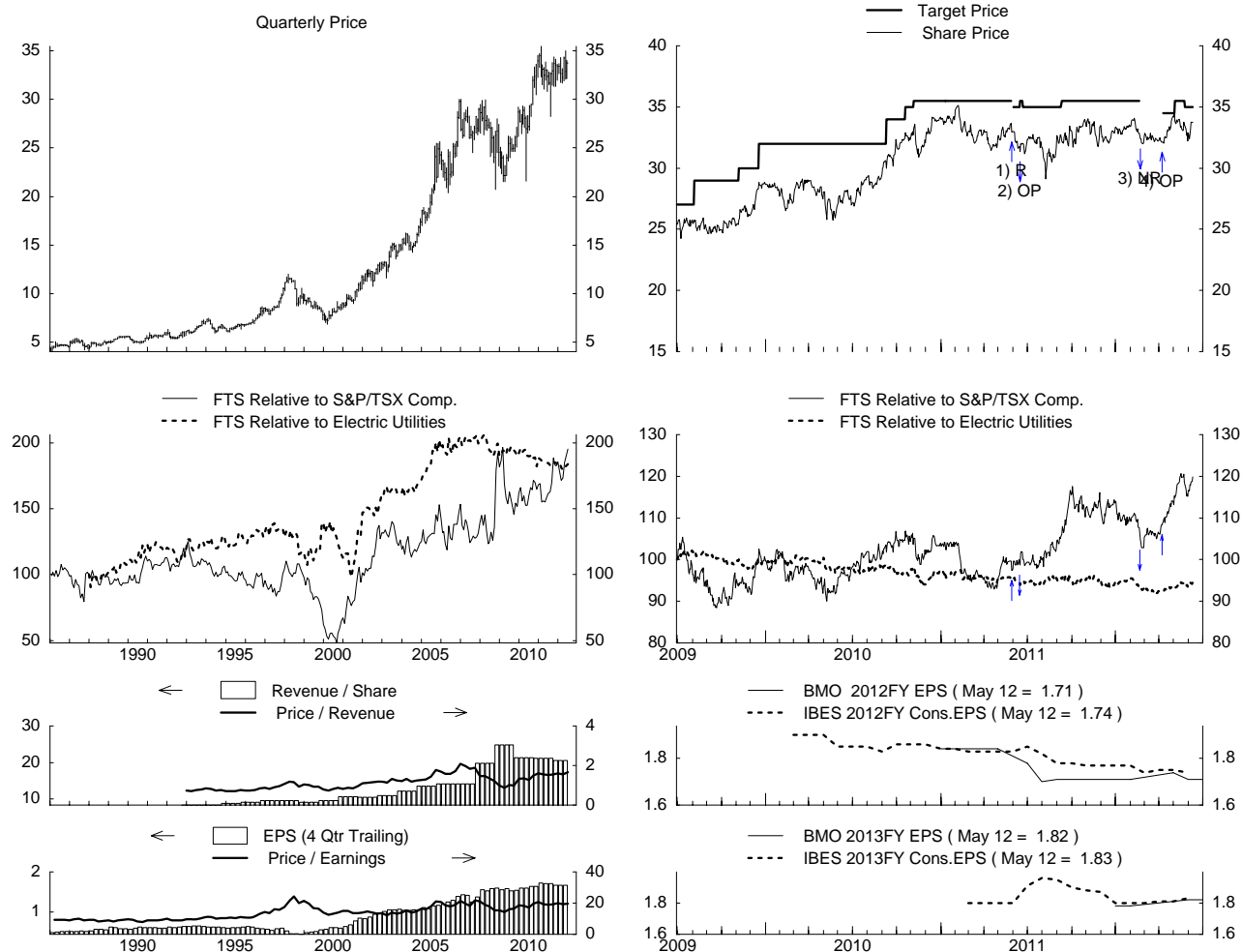
The company reaffirmed its 2012 capital budget at \$1.3 billion and it continues to target total investment of \$5.5 billion during the next five years. Approximately 64% of the total relates to the regulated electric utilities, 23% relates to the regulated gas utilities and 13% relates to Fortis' non-regulated businesses.

**Forecasts** – We are forecasting EPS (f.d.) of \$1.71 and \$1.82 for 2012 and 2013, respectively.

**Valuation** – Our target price of \$35 is based 19.2x 2013E EPS.

**Recommendation** – At current levels, we believe the shares of Fortis are attractively valued. Our rating is Outperform.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	20	1.20	3.6	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:		3.0	7.4			11.1		
10 Year:		7.1	9.4			10.6		
20 Year:		5.0	6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 30-Jun-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: June 8, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.2x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (March 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**June 19, 2012**  
Brief Research Note  
Power & Utilities

**Stock Rating:** Outperform  
**Stock Price:** \$32.58  
**Target Price:** \$35.00

**Ben Pham, CFA**  
(416) 359-4061  
Ben.Pham@bmo.com  
Assoc: Adam Johnson, CA

**Member of:** Top 15 Income Stock Selections

## CH Energy Shareholders Approve Acquisition

---

### Impact

Neutral

---

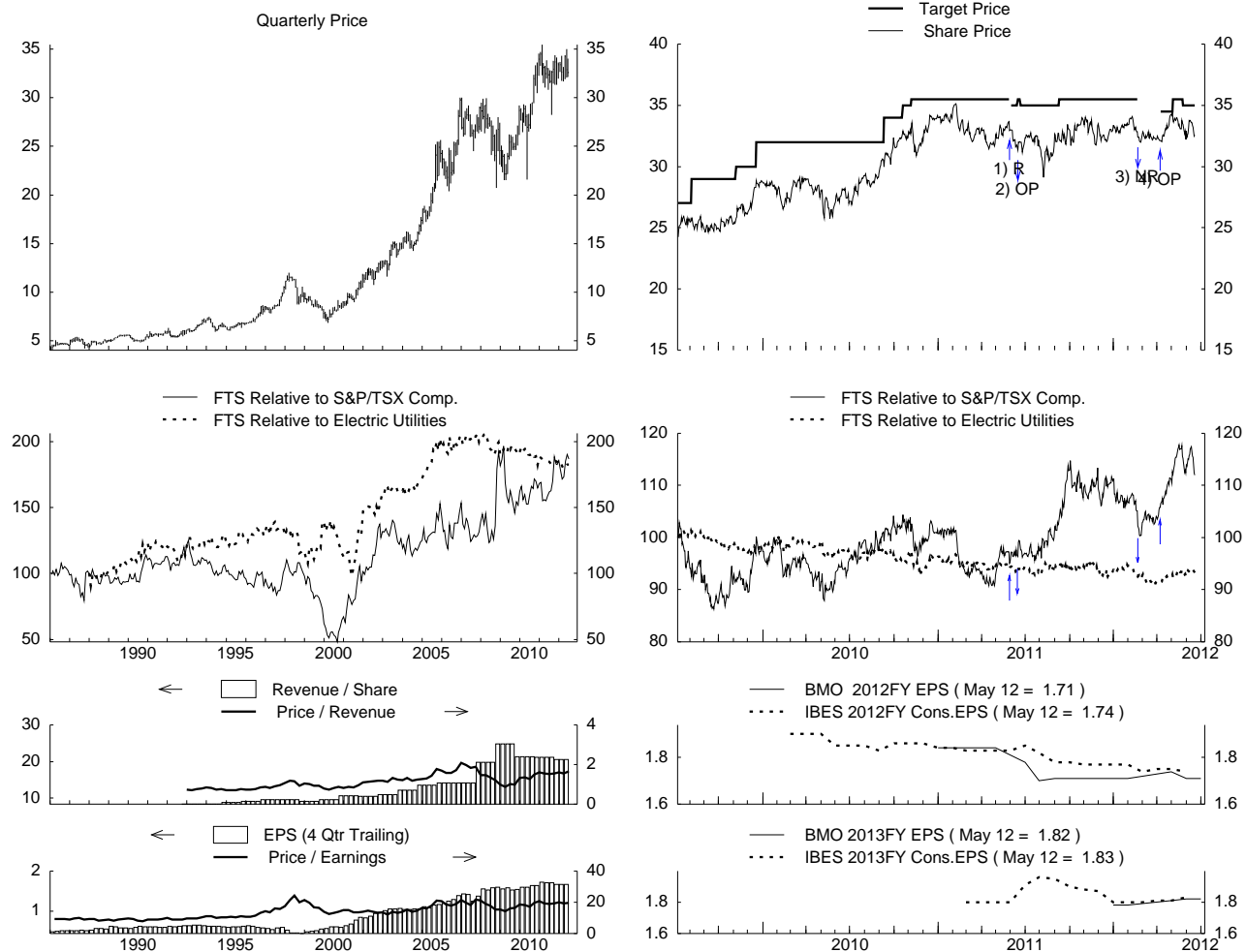
### Details & Analysis

Fortis has announced that the shareholders of CH Energy Group have voted in favour of the merger agreement under which Fortis will acquire 100% of CH Energy for US\$65.00 per share, for an aggregate purchase consideration of ~US\$1.5 billion (including assumed debt of US\$500 million). The transaction remains subject to regulatory approvals from the New York State Public Service Commission and the Federal Energy Regulatory Commission. (Fortis previously submitted filings to launch the regulatory review process with these bodies in April.) Shareholder approval was in line with expectations and we continue to assume new common equity in the amount of \$600 million in order to complete the transaction, which, pending approvals and closing conditions, is expected to close by the end of Q1/13.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	20	1.20	3.6	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.0		7.4			11.1		
10 Year:	7.1		9.4			10.6		
20 Year:	5.0		6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 8-Jul-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11

Last Daily Data Point: June 18, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.2x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets eight Top 15 lists guide investors to our best ideas according to different objectives (Canadian large, small, growth, value, income, quantitative; and US large, US small) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or

other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Income Stock Selections

**June 29, 2012**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 Ben.Pham@bmo.com  
 Assoc: Adam Johnson, CA

## Coverage Resumed With Outperform Rating

### Event

We are resuming coverage of FTS with an Outperform rating after coming off restriction after closing of its \$601 million subscription receipts offering. The offering of 18.5 million subscription receipts (9.8% to share count) will be used, subsequent to receipt of all required approvals (expected by the end of Q1/13), to finance a portion of the previously announced acquisition of CH Energy Group for US\$1.5 billion. The offering was largely expected, although we had assumed a Q1/13 time frame. While the offering is a bit sooner than expected, and thus leading to dilution to our 2012 outlook, this removes the equity overhang that we believe has largely placed a damper on recent stock price performance, and has returned FTS closer to breakeven YTD. We believe FTS remains well positioned to grow its EPS to \$2.00 by 2015 while its ~90% exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds.

### Impact

Neutral.

### Forecasts

Our 2012 EPS (fd) is tweaked down two pennies owing to differences in expected timing, while our 2013E EPS (fd) increases to \$1.83 from \$1.82.

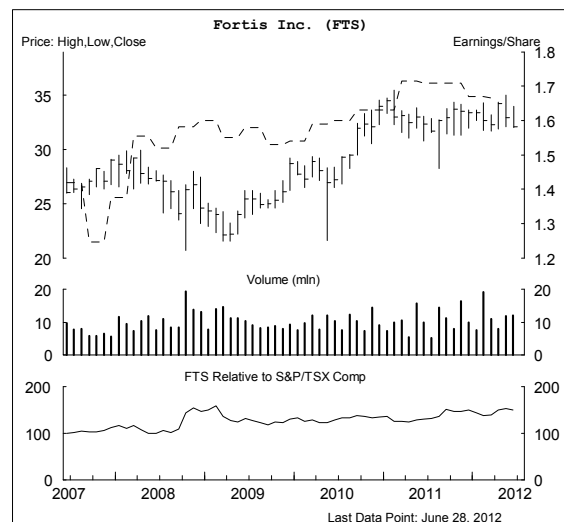
### Valuation

Our target price of \$35 is unchanged and represents 19.2x our 2013E EPS.

### Recommendation

With the recent stock price weakness coupled with a sizable unchanged \$5.5 billion organic growth program through 2016, our bias on the stock remains positive. We are maintaining our Outperform rating with over 12% total return potential.

**Price (28-Jun)** \$32.09      **52-Week High** \$34.98  
**Target Price** \$35.00      **52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
<b>EPS</b>	\$1.60	\$1.66	\$1.69↓	\$1.83↑
<b>P/E</b>			19.0x	17.5x
<b>CFPS</b>	\$4.25	\$4.38	\$4.26↓	\$4.41↑
<b>P/CFPS</b>			7.5x	7.3x
<b>Div.</b>	\$1.12	\$1.16	\$1.20	\$1.24
<b>EV (\$mm)</b>	\$12,187	\$12,996	\$13,302	\$15,563
<b>EBITDA (\$mm)</b>	\$1,150.0	\$1,169.5	\$1,290.1	\$1,495.4
<b>EV/EBITDA</b>	10.6x	11.1x	10.3x	10.4x
<b>Quarterly EPS</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2010A</b>	\$0.58	\$0.32	\$0.24	\$0.49
<b>2011A</b>	\$0.67	\$0.32	\$0.24	\$0.45
<b>2012E</b>	\$0.66a	\$0.34	\$0.25	\$0.48
<b>Dividend</b>	\$1.20			3.7%
<b>Book Value</b>	\$20.61			1.6x
<b>Shares O/S (mm)</b>	189.3			<b>Mkt. Cap (mm)</b> \$6,074
<b>Float O/S (mm)</b>	189.3			<b>Float Cap (mm)</b> \$6,074
<b>Wkly Vol (000s)</b>	2,591			<b>Wkly \$ Vol (mm)</b> \$84.8
<b>Net Debt (\$mm)</b>	\$5,867			<b>Next Rep. Date</b> Jul (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.73; 2013E: \$1.84

### Changes

Annual EPS	Annual CFPS
2012E \$1.71 to \$1.69	2012E \$4.41 to \$4.26
2013E \$1.82 to \$1.83	2013E \$4.39 to \$4.41

Table 1: Consolidated Summary Sheet



## Outperform

12-Month Target Price: \$35.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$32.28  
 ROR: 12.1%

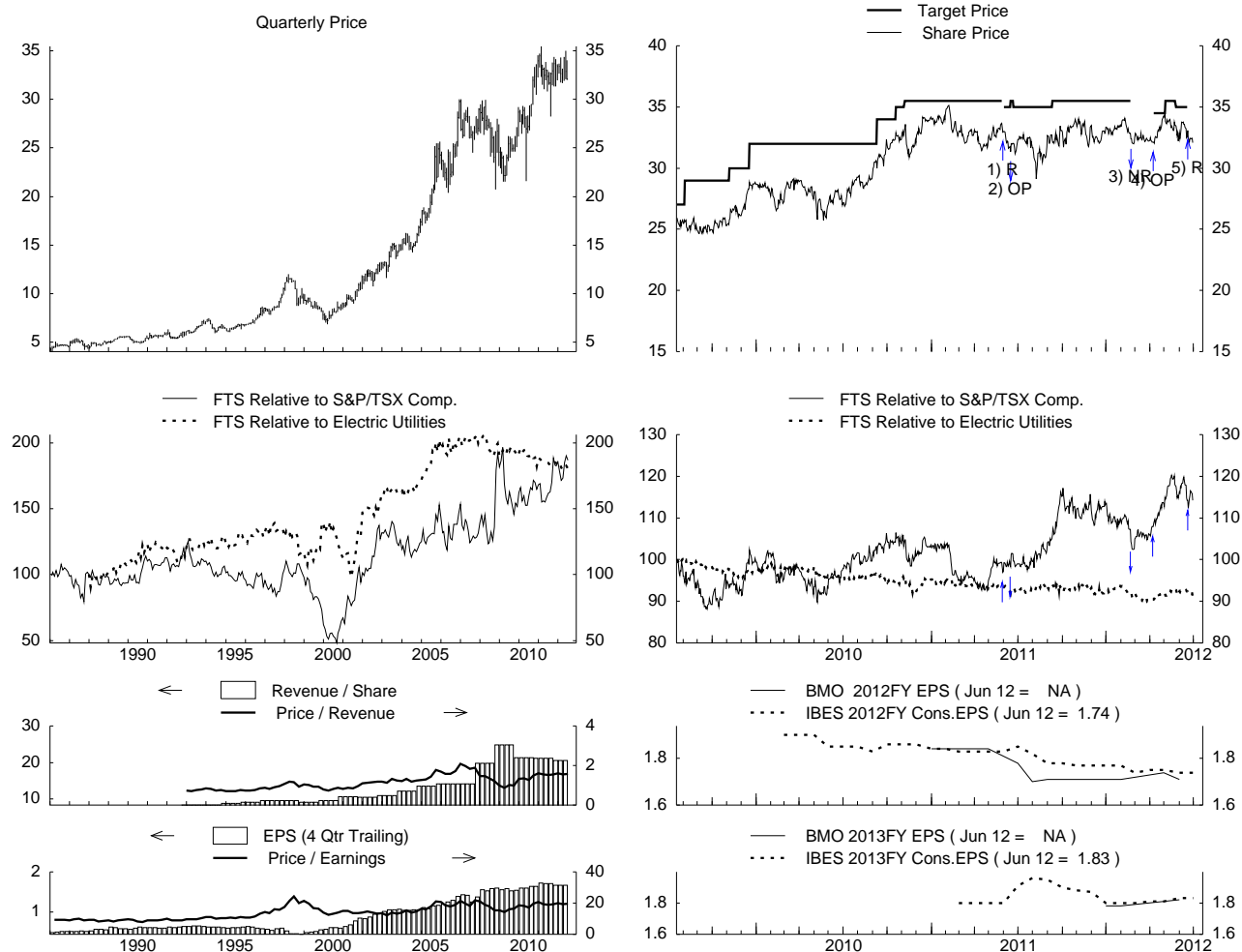
## Fortis Inc. (FTS)

	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.71	\$1.85	5.4%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.83	5.1%
First Call Consensus								\$1.71	\$1.83	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.17	\$0.17	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.13	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.09	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.09	\$0.11	
FortisAlberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.40	\$0.43	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.23	\$0.25	
Terasen Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.75	\$0.73	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.22	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.26)	(\$0.38)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	70.3%	67.0%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	181.6	199.0	210.2	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$22.18	\$22.89	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$32.28	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.1	17.6	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.3	10.4	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.7%	3.8%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	(343.1)	451.0	
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	6,956.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,162.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	4,639.0	4,832.7	
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.9	13,609.8	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	-3.0%	3.3%	
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	51.1%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.5%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.4%	40.3%	35.5%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,779.5	4,596.9	11.0%
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,290.1	1,495.4	13.1%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	845.1	997.1	15.3%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	339.9	389.1	13.4%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	846.9	927.6	8.0%

Note: Priced intraday on June 29, 2012  
 Source: BMO Capital Markets, Company Reports



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	20	1.20	3.6	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.0		7.4			11.1		
10 Year:	7.1		9.4			10.6		
20 Year:	5.0		6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 20-Jul-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08

Last Daily Data Point: June 28, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.2x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order

2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

“Nesbitt Burns” is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. “BMO Capital Markets” is a trademark of Bank of Montreal, used under license. “BMO (M-Bar roundel symbol)” is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**July 31, 2012**  
Brief Research Note  
Power & Utilities

**Stock Rating:** Outperform  
**Stock Price:** \$33.40  
**Target Price:** \$35.50

**Ben Pham, CFA**  
(416) 359-4061  
Ben.Pham@bmo.com  
Assoc: Adam Johnson, CA

**Member of:** Top 15 Income Stock Selections

## Q2/12 Results in Line With Expectations

---

### Impact

Neutral

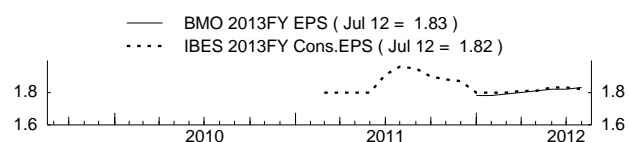
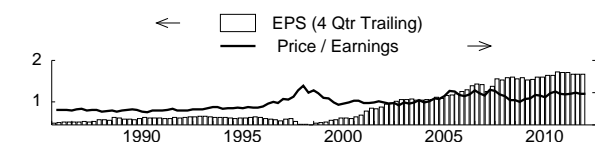
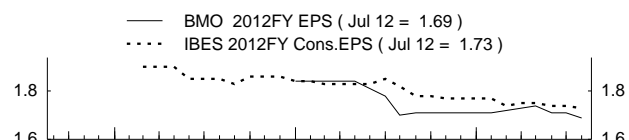
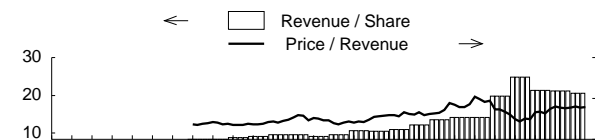
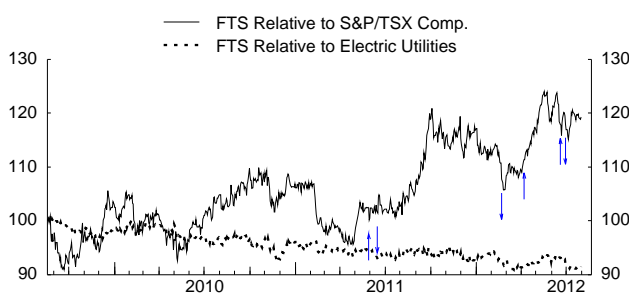
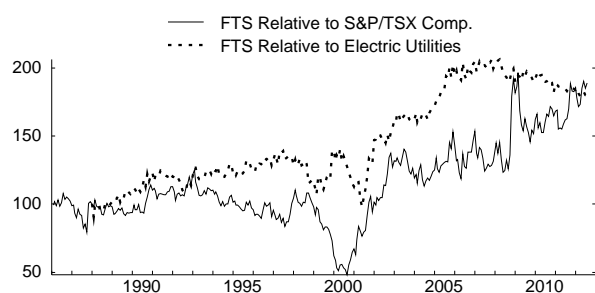
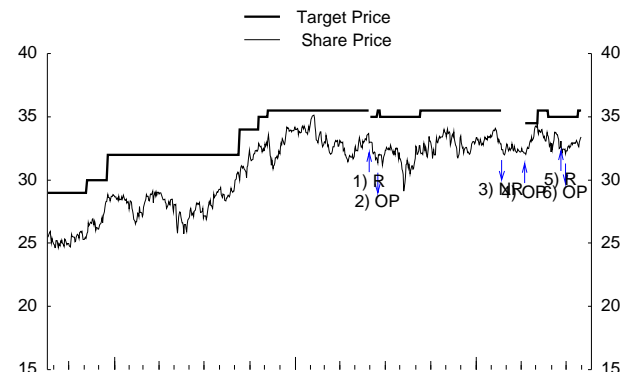
---

### Details & Analysis

Fortis reported Q2/12 EPS of \$0.33, generally in line with our estimate of \$0.34 and square on with Street consensus of \$0.33. Earnings from the majority of the company's business segments were generally in line with our estimates, with stronger-than-expected results at FortisAlberta offsetting slightly higher-than-expected corporate costs (largely due to CH Energy acquisition-related expenses). Key highlights: (1) There are no changes to the company's capital expenditure program. Fortis expects to invest \$1.3 billion of capital in 2012 and approximately \$5.5 billion during 2012–2016. Notably, its \$900mm Waneta hydroelectric project (51% Fortis) in British Columbia is still on track for an expected in-service date of spring 2015. (2) Fortis still expects the US\$1.5 billion CH Energy Group acquisition to close by the end of Q1/13. The transaction received CH Energy shareholder approval in June 2012, and regulatory approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in July 2012. The New York Public Service Commission is currently reviewing the application for transaction approval that FTS submitted in April; and (3) on the regulatory front, a decision on FortisBC's 2012/13 rate application is expected in Q3/12. Also, Newfoundland Power recently received approval of an increase in its allowed ROE to 8.80% in 2012 from 8.38% in 2011. We continue to review the release.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	19	1.20	3.7	72	20.61	1.6	8

Average: 15 4.7 65 1.5 10.5

Growth(%):

5 Year:	3.2	7.4	11.1
10 Year:	6.7	9.4	10.6
20 Year:	5.1	6.1	7.3

\* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 19-Aug-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Daily Data Point: July 30, 2012



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.2x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (June 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### **Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### **Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

### **Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or

other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

#### **Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltee/Ltd.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Income Stock Selections

**August 1, 2012**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 Ben.Pham@bmo.com  
 Assoc: Adam Johnson, CA

## Q2 – It's Business as Usual at FTS

### Event

Fortis' second-quarter performance was solid as usual (Q2/12 EPS of \$0.33 vs. BMO Research at \$0.34 and consensus of \$0.33), reflective of stronger-than-expected results at FortisAlberta, which offset higher-than-expected corporate costs. Earnings from the majority of the company's other business segments were generally in line with our estimates. One of the things we like the most about FTS is its longer-term earnings visibility. Indeed, the company reaffirmed its capex guidance of \$1.3 billion for 2012 and \$5.5 billion spending from 2012–2016. Against that backdrop, Fortis is well positioned to grow its EPS to ~\$2.00 by 2015E while its significant exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds.

### Impact

Neutral.

### Forecasts

We have updated our financial model to reflect Q2/12 results. Our 2012E EPS estimate (f.d.) of \$1.69 and 2013E EPS estimate (f.d.) of \$1.83 is unchanged.

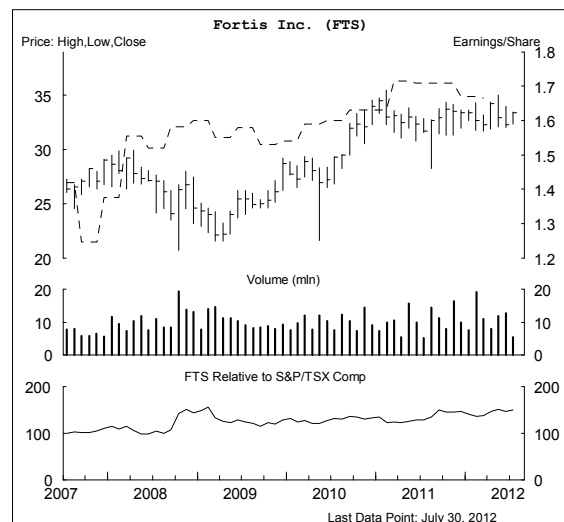
### Valuation

We are maintaining our target price of \$35.50, which represents 19.4x our 2013E EPS forecast.

### Recommendation

We continue to rate the shares of Fortis Outperform.

**Price (31-Jul)** \$33.54 **52-Week High** \$34.98  
**Target Price** \$35.50 **52-Week Low** \$28.24



(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.69	\$1.83
P/E			19.8x	18.3x
CFPS	\$4.25	\$4.38	\$4.26	\$4.41
P/CFPS			7.9x	7.6x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,187	\$12,996	\$13,551	\$15,826
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,289.9	\$1,489.8
EV/EBITDA	10.6x	11.1x	10.5x	10.6x
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66a	\$0.33a	\$0.26↑	\$0.46↓
Dividend	\$1.20			3.6%
Book Value	\$20.67			Price/Book
Shares O/S (mm)	190.0			1.6x
Float O/S (mm)	190.0			Mkt. Cap (mm)
Wkly Vol (000s)	2,606			\$6,373
Net Debt (\$mm)	\$5,818			Float Cap (mm)
				\$6,373
				Wkly \$ Vol (mm)
				\$85.3
				Next Rep. Date
				Nov (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.73; 2013E: \$1.82

### Changes

**Quarterly EPS**  
 Q3/12E \$0.25 to \$0.26  
 Q4/12E \$0.48 to \$0.46

## Q2 – It's Business As Usual at FTS

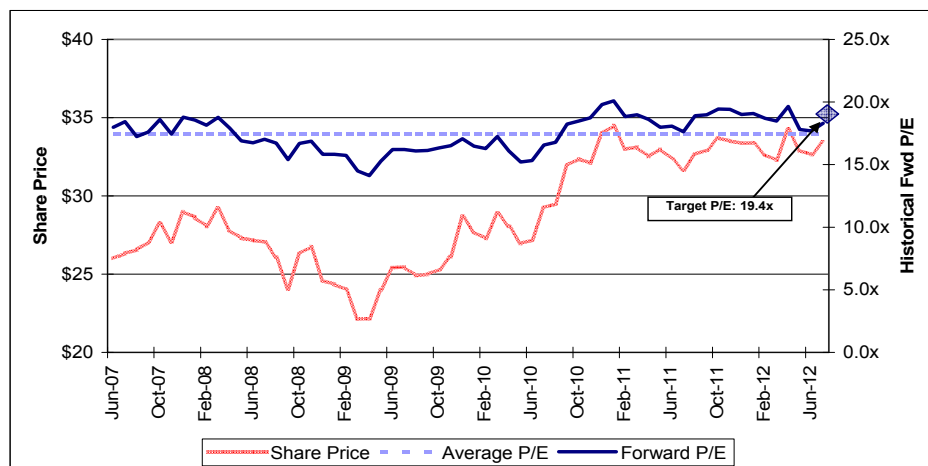
- **We are maintaining an Outperform rating and 12-month target price of \$35.50 on Fortis shares.** Fortis' second-quarter performance was solid as usual, reflective of stronger-than-expected results at FortisAlberta, which offset higher-than-expected corporate costs. Earnings from the majority of the company's other business segments were generally in line with our estimates. One of the things we like the most about FTS is its longer-term earnings visibility. Indeed, the company reaffirmed its capex guidance of \$1.3 billion for 2012 and \$5.5 billion spending from 2012–2016. Against that backdrop, Fortis is well positioned to grow its EPS to ~\$2.00 by 2015E while its significant exposure to low-risk utility operations should afford it shelter from ongoing global macroeconomic headwinds. We are maintaining our Outperform rating and \$35.50 target price. Our target price of \$35.50 represents 19.4x our 2013E EPS forecast.
- **No changes to \$5.5 billion capital expenditure program.** Consolidated capital expenditures totalled ~\$282 million in Q2/12 (~\$511 million for the first half of 2012). The company's full-year outlook for capital spending remains unchanged (\$1.3 billion) as is its estimate of ~\$5.5 billion in total capital spending between 2012 and 2016. Over this five-year period, Fortis plans to deploy ~65% of the total capital spending to regulated activities (driven by FortisAlberta and FortisBC Electric), ~21% to regulated gas utilities and ~14% to non-regulated operations.
- **CH Energy acquisition on track for end of Q1/13 close:** Several key advancements in the proposed CH Energy acquisition took place during the quarter. The transaction received approval from CH Energy's shareholders (June 19) and regulatory approval from both the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States in July. Fortis issued ~\$600 million in subscription receipts at the end of June in order to finance the required equity component of the transaction price; the completion of this offering alleviates any concern related to an equity overhang and should ensure the preservation of the company's A-rated balance sheet. Approval for the CH Energy acquisition still needs to be obtained from the New York State Public Service Commission, which is currently reviewing the application filed on April 23. The company maintains its expectation that the transaction will close by the end of Q1/13.
- **Waneta expansion:** Construction activities continued for the \$900 million Waneta dam expansion, a project in which Fortis holds a 51% interest. A total of \$345 million has been spent to date since construction began in late 2010. The company has reported that the project is still on track for completion on budget and on time, with a target in-service date of spring 2015.
- **Key regulatory updates:**
  - The company expects that the British Columbia Utilities Commission (BCUC) will reach a decision on the 2012/2013 Revenue Requirements Application (RRA) filed by FortisBC Electric during Q3/12. The RRA, updated in November 2011, calls for rate increases of 1.5% and 6.5% in 2012 and 2013, respectively.

- The preliminary timetable for the Generic Cost of Capital review by the BCUC calls for evidence proceedings through to early December 2012; if necessary, an oral hearing will commence on December 12, 2012. As set out the final scoping document released by the BCUC in April, the commission will review several issues with respect to the determination of an appropriate cost of capital for regulated utilities. The outcome of these proceedings remains uncertain and could have a material impact on the future earnings of the FortisBC Energy Companies as well as FortisBC Electric.
  - The AUC continued its assessment of the potential implementation of performance-based regulation (PBR) for Alberta-based distribution utilities beginning in 2013. A hearing took place during April and May 2012, and in July 2012 FortisAlberta submitted its final argument with respect to how PBR should be implemented. A final decision from the AUC is expected in Q4/12.
  - In July 2012, the AUC issued a decision that reaffirmed FortisAlberta as the primary electricity distributor within its service territory, in response to an application from the Central Alberta Rural Electrification Association (CAREA) requesting service rights to new customers in certain areas where FortisAlberta and CAREA territories overlap.
  - After filing a Cost of Capital Application with the Board of Commissioners of Public Utilities of Newfoundland (PUB) in March 2012, Newfoundland Power was awarded an increase in its allowed ROE from 8.38% (2011) to 8.80% (2012). Effective July 1, the PUB approved an overall average increase in electricity rates for Newfoundland Power's customers of 6.6%. Newfoundland Power will be filing a general rate application for 2013 with the PUB during Q3/12.
  - Maritime Electric intends to file an application for 2013 customer rates and allowed return with the Island Regulatory and Appeals Commission in fall 2012.
- **Possible small tuck-in acquisition in B.C.:** FortisBC Electric has entered into preliminary discussions with the City of Kelowna, British Columbia to purchase its electricity distribution assets (15,000 customers), to which FortisBC has provided electricity and has operated and maintained since 2000. Subject to negotiation of definitive agreements and municipal and regulatory approvals, the transaction is expected to close by the end of Q1/13. For more details, please see a [press release](#) issued by the City of Kelowna on July 19.
  - **Liquidity and resources:** Available liquidity improved from the first quarter after Fortis secured a limit increase on its corporate credit facility from \$800 million to \$1 billion in May 2012. As of June 30, the company had \$231 million of cash and consolidated credit facilities of roughly \$2.5 billion, of which ~\$2.0 billion was available.
  - **No change to our estimates:** We have updated our financial model to reflect Q2/12 results. Our 2012 EPS estimate (f.d.) of \$1.69 and 2013 EPS estimate (f.d.) of \$1.83 is unchanged.
  - **Valuation:** We are maintaining an Outperform rating and 12-month target price of \$35.50 on Fortis shares. At current prices, we believe that Fortis shares are reasonably valued,



trading at a P/E multiple of 18.4x our 2013 estimate, which is towards the upper end of its five-year historical trading range. We believe the premium is justified given its superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the secular reduction observed in 10-year government of Canada bond yields.

### Exhibit 1: FTS – P/E, Share Price and Target P/E



Source: Thomson One, Bloomberg

### Exhibit 2: Upcoming Events/Catalysts

Q3/12	Expected regulatory approval of FortisBC Electric's 2012/13 Rates
Q3/12	Expected filing of 2013 general rate application for Newfoundland Power
Q4/12	Expected decision on performance-based regulation in Alberta
Nov. 1, 2012	Q3/12 Results
Fall 2012	Expected filing of Maritime Electric's 2013 rate application
End of 2012/Early 2013	Expected decision on BCUC Cost of Capital Proceeding
Late 2012/Early 2013	Expected New York Commission approval of CH Energy transaction
End of Q1/13	Expected closing of CH Energy transaction
End of Q1/13	Expected closing of Kelowna distribution asset acquisition
2H/2013	Expected completion of Newfoundland office building
Spring 2015	Expected commissioning of Waneta hydro facility

Source: BMO Capital Markets

- Second-quarter results:** Fortis reported Q2/12 EPS of \$0.33, generally in line with our estimate of \$0.34 and square on with Street consensus of \$0.33. Earnings from the majority of the company's business segments were generally in line with our estimates, with stronger-than-expected results at FortisAlberta offsetting higher-than-expected corporate costs. Quarterly earnings variances for each business segment are set out in Exhibit 3, while our annual estimates are set out in Exhibit 4.

**Exhibit 3: Earnings by Business Segment – Q2/12**

	<b>Q2/12 (\$mm)</b>	<b>Q2/12E (\$mm)</b>	<b>Q2/11 (\$mm)</b>
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	13.0	16.5	15.0
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	26.0	18.7	17.0
FortisBC	9.0	9.1	9.0
Newfoundland Power	12.0	10.9	11.0
Other Canadian	5.0	5.9	6.0
	52.0	44.6	43.0
<b>Regulated Electric Utilities - Caribbean</b>	6.0	5.9	7.0
<b>Non-Regulated - Fortis Generation</b>	5.0	3.2	2.0
<b>Non-Regulated - Fortis Properties</b>	8.0	7.4	7.0
<b>Corporate and Other<sup>(1)</sup></b>	(22.0)	(12.7)	(18.0)
<b>Net Earnings Applicable to Common Shares</b>	<b>62.0</b>	<b>64.8</b>	<b>56.0</b>
Average Shares	189.6	189.0	177.1
<b>Adjusted EPS (basic)</b>	<b>\$0.33</b>	<b>\$0.34</b>	<b>\$0.32</b>

Notes:

(1) Includes approximately \$4.0 million in transaction costs relating to CH Energy acquisition.

Source: BMO Capital Markets, Company Reports

## Exhibit 4: Consolidated Summary Sheet



## Outperform

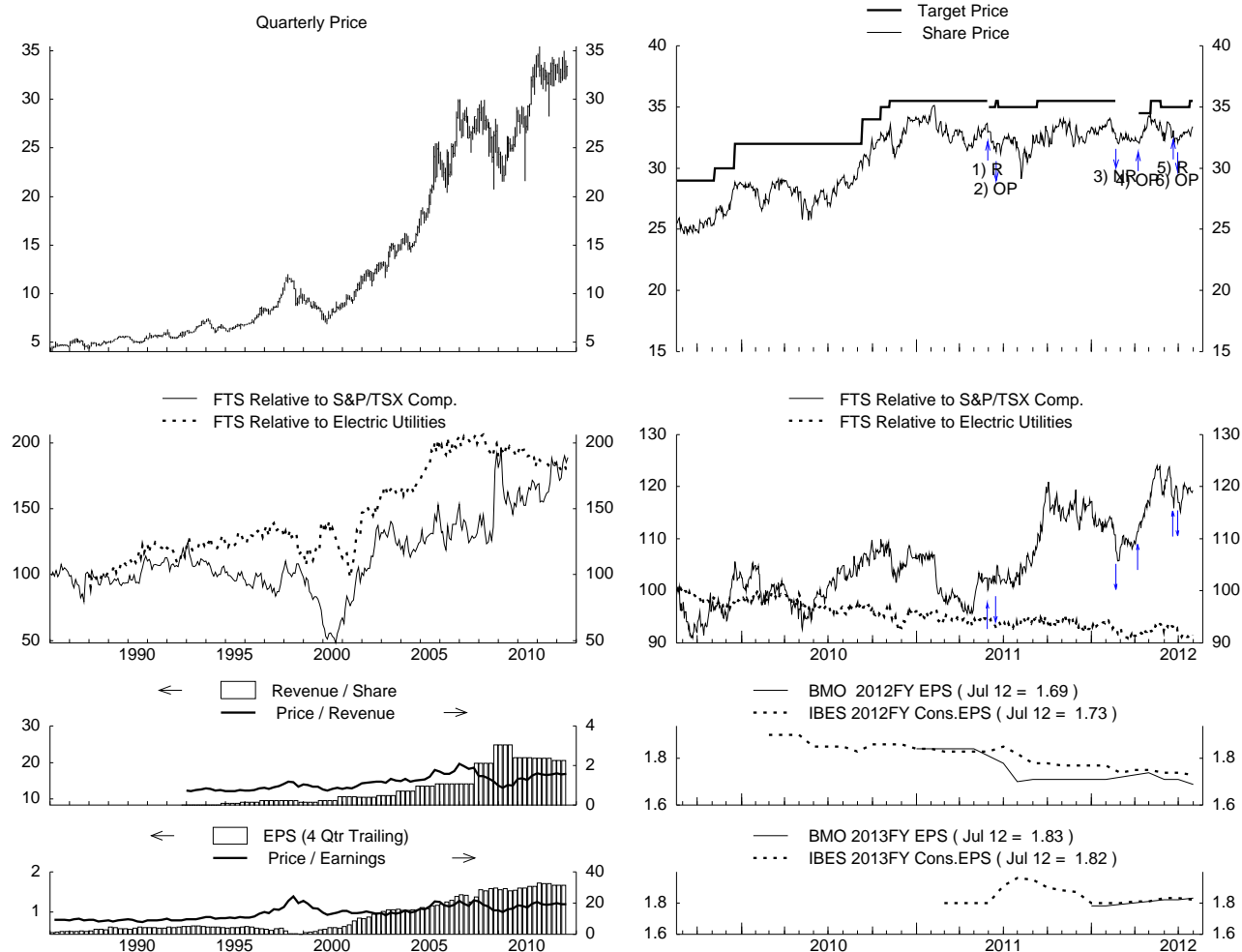
12-Month Target Price: \$35.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$33.54  
 ROR: 9.4%

## Fortis Inc. (FTS)

	Year Ending December 31									CAGR 2011A- 2013E
	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	
Total Basic Earnings Per Share	\$1.17	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.71	\$1.84	5.2%
Total Diluted Earnings Per Share	\$1.10	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.83	4.9%
First Call Consensus								\$1.73	\$1.82	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.18	
Other Canadian	\$0.12	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.11	
Fortis Properties	\$0.14	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.13	\$0.12	
Fortis Generation	\$0.21	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.11	\$0.09	
Fortis Caribbean	\$0.18	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	
FortisAlberta	\$0.30	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.46	\$0.44	
FortisBC	\$0.24	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.25	\$0.26	
Terasen Inc.	\$0.00	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.77	\$0.74	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	
Other/Corporate	(\$0.30)	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.41)	(\$0.43)	
Dividends	\$0.61	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	3.4%
Payout Ratio	52.3%	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	70.3%	67.3%	
Average Shares (mm)	101.8	103.6	137.6	157.4	170.2	172.9	181.6	189.7	205.9	
Net Book Value	\$11.76	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.15	\$22.84	
Market Valuation										
Price: High	\$25.64	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	
Price: Low	\$17.00	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	
Price: Current	-	-	-	-	-	-	-	\$33.54	-	
P/E Ratio: High	23.3	22.5	23.3	19.2	19.1	21.3	21.2	-	-	
P/E Ratio: Low	15.4	15.3	19.0	13.2	14.3	16.0	19.7	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.8	18.4	
EV/EBITDA: High	10.5	12.3	12.5	10.4	10.9	11.3	11.5	-	-	
EV/EBITDA: Low	8.7	10.4	11.6	9.1	9.8	10.0	11.1	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.7	10.5	
Yield: High Price	2.4%	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	
Yield: Low Price	3.6%	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.7%	
Balance Sheet (\$mm)										
Debt (S-T)	80.3	182.5	911.0	650.0	639.0	414.0	265.0	265.9	464.5	
Debt (L-T)	2,133.8	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	6,956.1	
Minority Interest	39.6	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	
Preferred Shares	319.5	442.0	442.0	667.0	667.0	912.0	912.0	912.0	1,162.0	
Convertible Debentures	22.3	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	
Shareholders' Equity	1,213.4	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	4,030.1	4,819.2	
	3,808.8	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,515.9	13,609.8	
Balance Sheet (%)										
Debt (S-T)	2.1%	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	2.3%	3.4%	
Debt (L-T)	56.0%	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	51.1%	
Minority Interest	1.0%	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	
Preferred Shares	8.4%	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	7.9%	8.5%	
Convertible Debentures	0.6%	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	
Shareholders' Equity	31.9%	27.8%	29.9%	32.4%	32.2%	31.8%	35.4%	35.0%	35.4%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,422.2	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,780.6	4,591.7	10.9%
EBITDA	495.9	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,289.9	1,489.8	12.9%
EBIT	338.2	343.6	543.4	713.0	704.0	736.0	750.5	844.9	991.6	14.9%
Net Earnings	119.2	143.2	187.4	252.5	262.0	281.0	302.5	323.8	379.6	12.0%
Cash Flow from Operations	329.2	316.3	490.0	622.0	678.0	734.0	795.0	830.8	918.1	7.5%

Note: Priced as of market close on July 31, 2012.  
 Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.67	19	1.20	3.7	72	20.61	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	3.2		7.4			11.1		
10 Year:	6.7		9.4			10.6		
20 Year:	5.1		6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q1/2012.

FTS - Rating as of 19-Aug-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Daily Data Point: July 30, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.4x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (June 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its’ affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.



---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

September 6, 2012  
Research Fact Sheet  
Power & Utilities

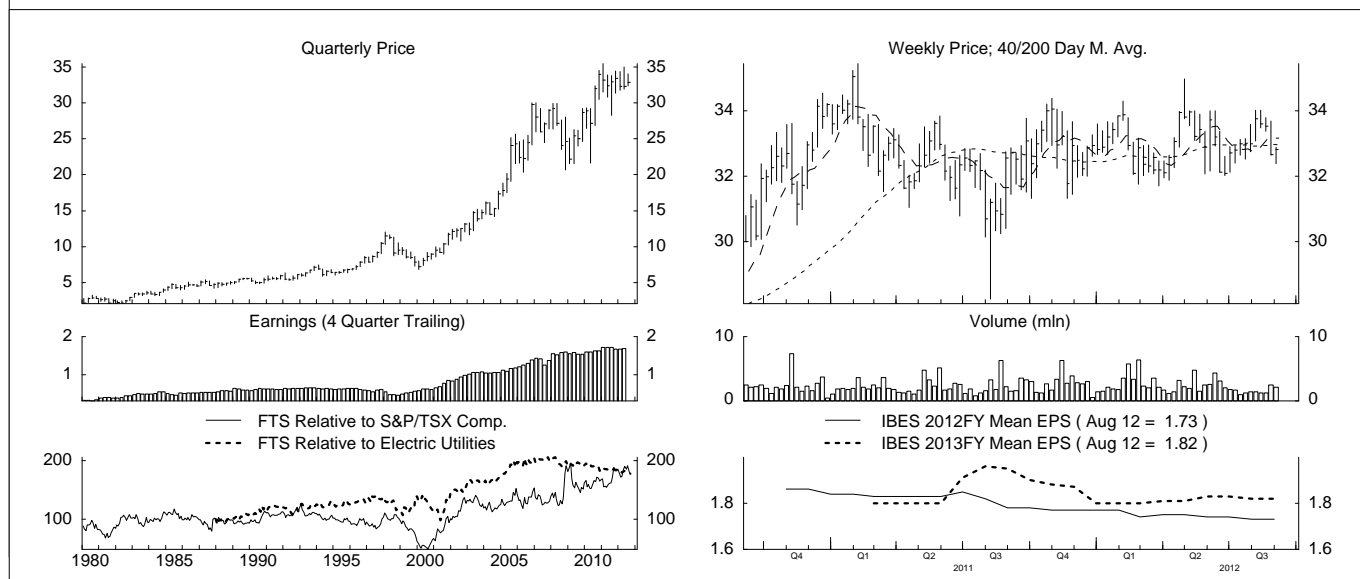
Stock Rating: **Outperform**  
Industry Rating: **Market Perform**

**Ben Pham, CFA**  
(416) 359-4061  
ben.pham@bmo.com  
Assoc: Adam Johnson, CA

Price (6-Sep)	\$32.82	52-Week High	\$34.98	
Target Price	\$35.50	52-Week Low	\$31.32	
Dividend	\$1.20	Book Value	\$20.67	
Yield	3.7%	Price/Book	1.6x	
Shares O/S (mm)	190.0	Mkt. Cap (\$mm)	\$6,236	
Float O/S (mm)	190.0	Float Cap (\$mm)	\$6,236	
Wkly Vol (000s)	2,462	Wkly \$ Vol (mm)	\$81.2	
Net Debt (\$mm)	\$5,818	Next Rep. Date	Nov (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2010A	\$0.58	\$0.32	\$0.24	\$0.49
2011A	\$0.67	\$0.32	\$0.24	\$0.45
2012E	\$0.66 a	\$0.33 a	\$0.26	\$0.46

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS	\$1.60	\$1.66	\$1.69	\$1.83
P/E			19.4x	17.9x
CFPS	\$4.25	\$4.38	\$4.26	\$4.41
P/CFPS			7.7x	7.4x
Div.	\$1.12	\$1.16	\$1.20	\$1.24
EV (\$mm)	\$12,187	\$12,996	\$13,712	\$15,549
EBITDA (\$mm)	\$1,150.0	\$1,169.5	\$1,289.3	\$1,489.8
EV/EBITDA	10.6x	11.1x	10.6x	10.4x
ROE (%)	8.5%	7.8%	8.0%	7.9%
Book Value (\$)	\$18.95	\$20.53	\$21.15	\$22.83
D/Tot. Cap. (%)	57.9%	54.3%	55.3%	54.5%
Reg. ROE (%)	na	na	na	na

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%, PEI), Fortis Ontario (100%), Caribbean Utilities (59.5%,

Grand Cayman Island), Turks and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%, British Columbia). *Website:* fortisinc.com

**Recent Results** – Fortis reported Q2/12 financial results that were generally in line with expectations (EPS of \$0.33 vs. our estimate of \$0.34 and consensus of \$0.33), reflective of

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

stronger-than-expected results at FortisAlberta, which offset higher-than-expected corporate costs.

**Corporate Developments** – The company's proposed acquisition of CH Energy received approval from CH Energy's shareholders (June 19) and regulatory approval from both the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States in July. Fortis issued ~\$600 million in subscription receipts at the end of June in order to finance the required equity component of the transaction price. Approval for the acquisition still needs to be obtained from the New York State Public Service Commission; the company maintains its expectation that the transaction will close by the end of Q1/13.

Effective July 1, the Board of Commissioners of Public Utilities of Newfoundland awarded an overall average increase in electricity rates for Newfoundland Power of 6.6%, reflecting an increase in allowed ROE from 8.38% (2011) to 8.80% (2012). FortisBC Electric and the FortisBC Energy Companies are awaiting the outcome of the British Columbia Utilities Commission's Generic Cost of Capital hearing (evidence proceedings currently taking place through December 2012). Also, FortisAlberta filed its final

argument with the Alberta Utilities Commission with respect to how performance-based regulation should be implemented in the province. A final decision is expected in Q4/12.

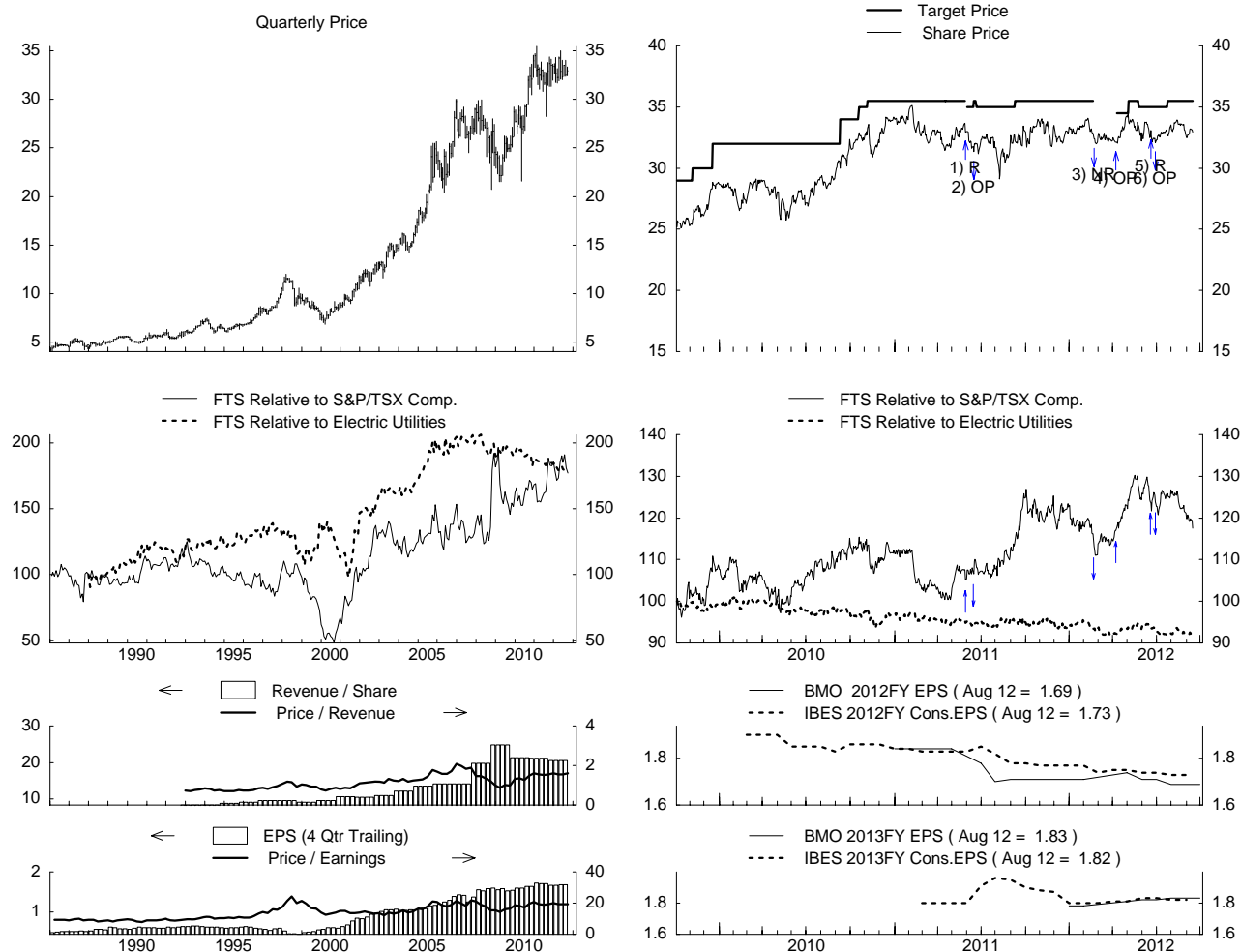
FortisBC Electric entered into preliminary discussions with the City of Kelowna to purchase its electricity distribution assets (~15,000 customers); subject to negotiation of definitive agreements and municipal and regulatory approvals, this transaction is expected to close by the end of Q1/13.

**Forecasts** – We are forecasting EPS (f.d.) of \$1.69 and \$1.83 for 2012 and 2013, respectively.

**Valuation** – Our target price of \$35.50 is based 19.4x 2013E EPS.

**Recommendation** – At current levels, we believe the shares of Fortis are attractively valued. We rate Fortis Outperform. Member of Top 15 Income stock selections.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.68	19	1.20	3.7	71	20.67	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:		3.4	7.4			11.1		
10 Year:		6.8	9.4			10.7		
20 Year:		5.1	6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2012.

FTS - Rating as of 5-Oct-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Daily Data Point: September 13, 2012

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 19.4x our 2013E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (June 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion)



Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

“Nesbitt Burns” is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. “BMO Capital Markets” is a trademark of Bank of Montreal, used under license. “BMO (M-Bar roundel symbol)” is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Stock Price:** \$33.77  
**Target Price:** \$35.50

**Member of:** Top 15 Income Stock Selections

**November 1, 2012**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CA  
BMO Nesbitt Burns Inc.

## Q3/12 EPS Largely in Line With Expectations

---

### Impact

Neutral

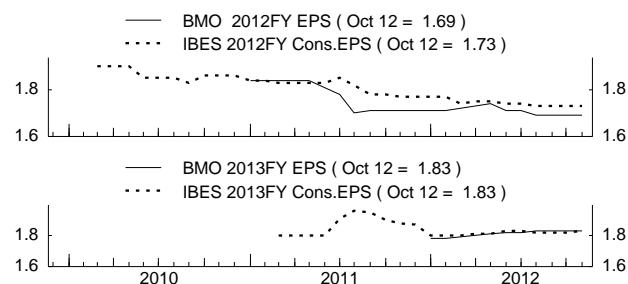
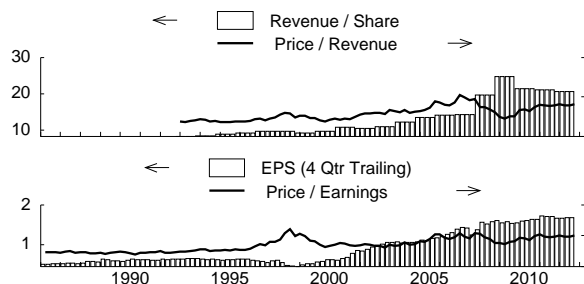
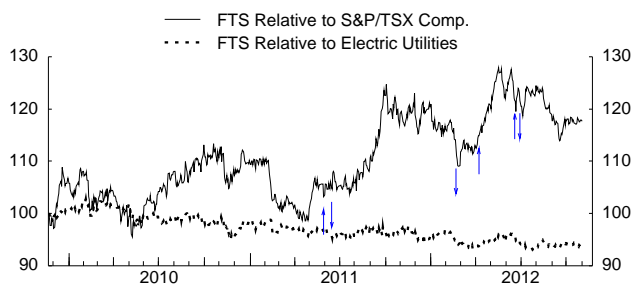
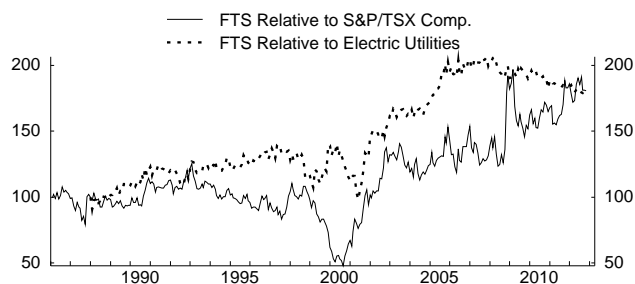
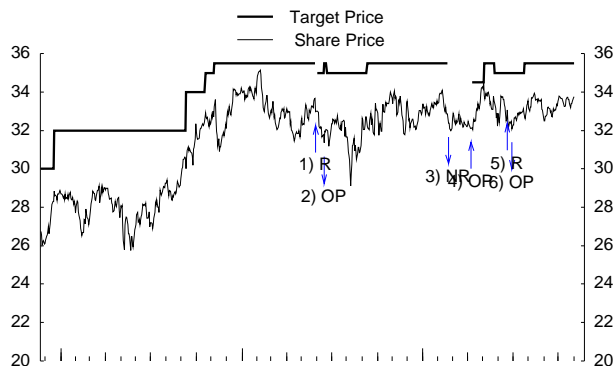
---

### Details & Analysis

Fortis reported Q3/12 EPS of \$0.24, largely in line with our estimate and Street consensus of \$0.26. Higher-than-expected corporate costs more than offset stronger-than-expected performance from its western Canadian regulated electric utilities, FortisAlberta and FortisBC. Key-takeaways: (1) There were no changes to the company's long-term capital expenditure program. Fortis continues to forecast 2012E capital expenditures of \$1.3 billion and capital expenditures of \$5.5 billion through the end of 2016. Notably, its \$900 million Waneta hydroelectric project (51% Fortis) in British Columbia is still on track for an expected in-service date of spring 2015; (2) Fortis still expects to close the CH Energy Group acquisition by the end of Q1/13, subject to approval by the New York Public Service Commission (application submitted in April); and (3) On the regulatory front, the Alberta Utilities Commission issued a generic decision in September 2012 outlining the performance-based regulation framework applicable to distribution utilities in Alberta for a five-year term starting January 1, 2013. A generic cost of capital proceeding to finalize 2013 cost of capital for Alberta-based distribution utilities is expected to commence in late 2012 or early 2013. Also, Newfoundland Power filed a general rate application in September 2012 for 2013 revenue requirements and cost of capital. A hearing on the application is expected in Q1/13.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.68	20	1.20	3.6	71	20.67	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	6.2		7.4			11.1		
10 Year:	6.0		9.4			10.7		
20 Year:	5.0		6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2012.

FTS - Rating as of 20-Nov-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Price (October 31, 2012): \$33.77

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### **Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### **Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

### **Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group



# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

**Member of:** Top 15 Income Stock Selections

**November 2, 2012**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CA

## Q3 – What's Not to Like?

### Event

Fortis's financial performance in the third quarter was largely in line with our expectations as well as those of the Street. Results from the regulated electric utilities FortisAlberta and FortisBC were above our expectations; however, higher-than-expected corporate costs weighed, resulting in EPS to come in two cents below our estimate (\$0.24 vs. \$0.26). All in all, results were solid across virtually all of the company's business segments, and major growth initiatives continued to progress as planned, providing support for visible and stable earnings growth through at least 2016.

### Impact

Neutral.

### Forecasts

We are maintaining our Q4/12 basic EPS estimate of \$0.46. We have lowered our 2012E EPS to \$1.67 (fd) from \$1.69 (fd) to reflect Q3/12 results. Our 2013E EPS of \$1.83 (fd) and 2014E EPS of \$1.91 (fd) are unchanged.

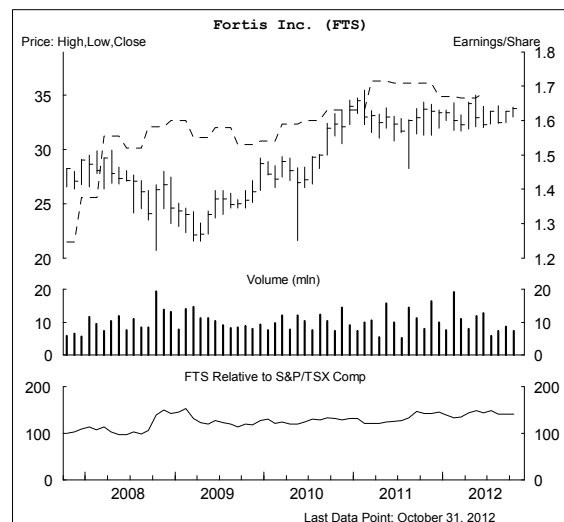
### Valuation

We are maintaining our target price of \$35.50, which represents 18.5x our 2014E EPS forecast.

### Recommendation

We continue to rate the shares of Fortis Outperform.

**Price (1-Nov)** \$33.90 **52-Week High** \$34.98  
**Target Price** \$35.50 **52-Week Low** \$31.32



(FY-Dec.)	2011A	2012E	2013E	2014E
<b>EPS</b>	\$1.66	\$1.67↓	\$1.83	\$1.91
<b>P/E</b>		20.3x	18.5x	17.7x
<b>CFPS</b>	\$4.38	\$4.26	\$4.41	\$4.53
<b>P/CFPS</b>		8.0x	7.7x	7.5x
<b>Div.</b>	\$1.16	\$1.20	\$1.24	\$1.30
<b>EV (\$mm)</b>	\$12,996	\$13,922	\$15,798	\$16,284
<b>EBITDA (\$mm)</b>	\$1,169.5	\$1,278.6	\$1,491.9	\$1,560.8
<b>EV/EBITDA</b>	11.1x	10.9x	10.6x	10.4x
<b>Quarterly EPS</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2011A</b>	\$0.67	\$0.32	\$0.24	\$0.45
<b>2012E</b>	\$0.66a	\$0.33a	\$0.24a	\$0.46
<b>2013E</b>	\$0.68	\$0.38	\$0.26	\$0.58
<b>Dividend</b>	\$1.20			3.5%
<b>Book Value</b>	\$20.63			1.6x
<b>Shares O/S (mm)</b>	190.7			\$6,463
<b>Float O/S (mm)</b>	190.7			\$6,463
<b>Wkly Vol (000s)</b>	2,410			\$79.6
<b>Net Debt (\$mm)</b>	\$5,887			Feb (E)
<b>Yield</b>				3.5%
<b>Price/Book</b>				1.6x
<b>Mkt. Cap (mm)</b>				\$6,463
<b>Float Cap (mm)</b>				\$6,463
<b>Wkly \$ Vol (mm)</b>				\$79.6
<b>Next Rep. Date</b>				Feb (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.73; 2013E: \$1.83; 2014E: \$1.92

### Changes

**Annual EPS**  
 2012E \$1.69 to \$1.67

### Q3 – What's Not to Like?

- **We are maintaining an Outperform rating and 12-month target price of \$35.50 on Fortis shares.** Fortis's financial performance in the third quarter was largely in line with our expectations as well as those of the Street. Results from the company's western Canadian regulated electric utilities, FortisAlberta and FortisBC, were above our expectations; however, higher-than-expected corporate costs weighed, resulting in EPS to come in two cents below our estimate (\$0.24 vs. \$0.26). All in all, results were solid across the company's business segments, and major growth initiatives continued to progress as planned, providing support for visible and stable earnings growth through at least 2016. As global macroeconomic uncertainties persist, we maintain our belief that Fortis's superior earnings stability (through high exposure to rate-regulated operations) makes its shares an attractive vehicle in which to ride the storm. We are maintaining our Outperform rating and \$35.50 target price, which reflects 18.5x our 2014E EPS forecast.
- **Plans for \$5.5 billion in capital expenditure programs through 2016 are unchanged.** Consolidated capital expenditures totalled ~\$283 million in Q3/12 (~\$794 million for the nine months of 2012). The company's full-year outlook for capital spending is unchanged (\$1.3 billion) as is its estimate of ~\$5.5 billion in total capital spending between 2012 and 2016. Over this five-year period, Fortis plans to deploy ~64% of the total capital spending to regulated electric activities (driven by FortisAlberta and FortisBC Electric), ~23% to regulated gas utilities, and ~13% to non-regulated operations.
- **CH Energy acquisition on track for end of Q1/13 close:** Subsequent to the quarter-end, another milestone was attained in the proposed CH Energy acquisition as the required waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976* was satisfied in October 2012. The transaction continues to await approval from the New York State Public Service Commission; the company maintains its expectation for the transaction to close by the end of Q1/13. Recall that this acquisition is fully-funded given the company's issuance of ~\$600 million in subscription receipts at the end of June.
- **Waneta expansion:** Construction activities continued for the \$900 million Waneta dam expansion, a project in which Fortis holds a 51% interest. A total of \$380 million has been spent to date since construction began in late 2010. The company has reported that the project is still on track for completion on budget and on time, with a target in-service date of spring 2015.
- **Recent financing activities show continued access to capital at attractive rates:** In October 2012, FortisAlberta raised \$125 million in 40-year unsecured debentures at 3.98%. Subsequent to the earnings release, Fortis also announced an offering of \$150 million in Series J preferred shares (up to \$200 million including an over-allotment option) at 4.75%; this transaction is expected to close on November 13, 2012. The company continues to demonstrate an ability to effectively manage its capital structure and secure relatively low-cost financing, which should support future value creation from its large-scale capital spending program.

- **Key regulatory updates:**

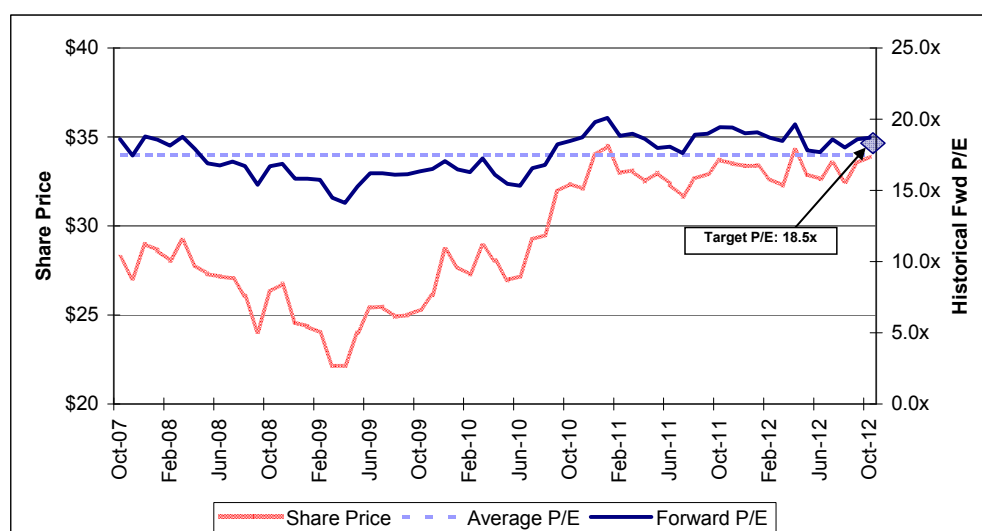
- In September 2012, the Alberta Utilities Commission (AUC) issued a generic decision outlining a new Performance-Based Regulation (PBR) framework which will be applicable to all distribution utilities (gas and electric) in Alberta over a five-year period commencing January 1, 2013. FortisAlberta will file its PBR compliance application in November 2012; however, the company believes that PBR poses a “greater risk that FortisAlberta’s earnings will be negatively impacted given the length of the PBR term and the uncertainty of resulting rate adjustments,” and has sought leave to appeal the September PBR decision with the Alberta Court of Appeal. Given that this is the AUC’s first attempt at this type of PBR implementation, the mechanics remain somewhat of an unknown to utility players in Alberta. We expect more insight with respect to the company-specific impacts of PBR to become available in early 2013 after the filing of compliance applications.
- The company expects that the AUC will hold a Generic Cost of Capital proceeding to finalize 2013 cost of capital rates either in late 2012 or early 2013.
- The British Columbia Utilities Commission (BCUC) issued its decision with respect to FortisBC’s 2012/2013 Revenue Requirements Application (RRA) as well as its 2012/2013 Capital Expenditure Plan (CEP) and its 2012/2013 Integrated Systems Plan. The final revenue requirements for 2012 and 2013 are based on the same ROE and capital structure as was used in 2011, pending the outcome of the BCUC’s 2013 Generic Cost of Capital review (see below). The decision on the CEP will result in a mid-year rate base of ~\$1.112 billion for 2012 and \$1.173 billion for 2013 (vs. \$1.146 billion and \$1.215 billion for 2012 and 2013 as requested). Fortis has reported that the cumulative impact of this rate decision has been recorded in Q3/12.
- Evidence proceedings for the BCUC’s 2013 Generic Cost of Capital review are expected to continue through December 2012, with an oral hearing expected to commence on December 12, 2012. The outcome of these proceedings remains uncertain and could have a material impact on the future earnings of the FortisBC Energy Companies as well as FortisBC Electric.
- In September 2012, Newfoundland Power filed a General Rate Application with the Board of Commissioners of Public Utilities of Newfoundland (PUB) for its 2013 electricity rates and allowed cost of capital. FTS expects that the PUB will hold a hearing on this application in Q1/13.

- **Smaller acquisition opportunities not to be counted out:** During the quarter, the company pursued several small-scale acquisitions across its different platforms. These acquisitions took place largely under the radar due to their size, but we highlight them here: (1) FortisBC Electric made an offer to purchase electrical utility assets from the City of Kelowna for \$55 million and is currently working with the City to close the transaction by the end of Q1/13; (2) Fortis Turks and Caicos acquired Turks and Caicos Utilities Limited in August 2012 for US\$13 million. This business includes 9 MW in diesel generating

capacity and serves over 2,000 electrical customers; (3) In October 2012, Fortis Properties acquired the 126-room StationPark All Suite Hotel in London, Ontario for ~\$13 million.

- **Liquidity and resources:** As of September 30, the company had \$147 million of cash and consolidated credit facilities of roughly \$2.5 billion, of which ~\$2.0 billion was available.
- **Estimate revisions:** We are maintaining our Q4/12 basic EPS estimate of \$0.46. We have lowered our 2012E EPS to \$1.67 (fd) from \$1.69 (fd) to reflect Q3/12 results. Our 2013E EPS of \$1.83 (fd) and 2014E EPS of \$1.91 (fd) are unchanged. Our consolidated estimates are set out in Exhibit 4.
- **Valuation:** We are maintaining an Outperform rating and 12-month target price of \$35.50 on Fortis shares. Fortis shares currently trade at a P/E multiple of 17.7x our 2014 EPS estimate, which is towards the upper end of its five-year historical trading range. We reiterate our belief that this valuation premium is justified, given the company's superior earnings visibility (~90% of Fortis's earnings arise from utility operations, the highest among its peers) and the persistence of historically low 10-year government of Canada bond yields.

**Exhibit 1: FTS – P/E, Share Price and Target P/E**



Source: Thomson One, Bloomberg

**Exhibit 2: Upcoming Events/Catalysts**

Late 2012/Early 2013	Expected New York Commission approval of CH Energy transaction
Early 2013	Expected decision on BCUC Cost of Capital Proceeding
Early 2013	Expected AUC decision on 2013 Generic Cost of Capital
Feb/Mar 2013	Expected release of 2012 year-end financial results
During Q1/13	Expected hearing on Newfoundland Power 2013 general rate application
End of Q1/13	Expected closing of CH Energy transaction
End of Q1/13	Expected closing of Kelowna distribution asset acquisition
2H/2013	Expected completion of Newfoundland office building
Spring 2015	Expected commissioning of Waneta hydro facility

Source: BMO Capital Markets, Company Reports

## Exhibit 3: Earnings by Business Segment – Q3/12

	Q3/12 (\$mm)	Q3/12E (\$mm)	Q3/11 (\$mm)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	(6.0)	(5.0)	(4.0)
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	26.0	21.6	19.0
FortisBC	13.0	11.7	10.0
Newfoundland Power	9.0	8.1	8.0
Other Canadian	6.0	5.6	6.0
<b>Regulated Electric Utilities - Caribbean</b>	54.0	47.0	43.0
<b>Non-Regulated - Fortis Generation</b>	7.0	6.4	6.0
<b>Non-Regulated - Fortis Properties</b>	5.0	7.4	8.0
<b>Corporate and Other</b>	8.0	8.7	9.0
<b>Net Earnings Applicable to Common Shares</b>	(23.0)	(14.8)	(6.0)
	<b>45.0</b>	<b>49.9</b>	<b>56.0</b>
Average Shares	190.2	189.6	186.5
<b>Adjusted EPS (basic)</b>	<b>\$0.24</b>	<b>\$0.26</b>	<b>\$0.30</b>

Source: BMO Capital Markets, Company Reports

## Exhibit 4: Consolidated Summary Sheet



## Outperform

12-Month Target Price: \$35.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$33.90  
 ROR: 8.3%

## Fortis Inc. (FTS)

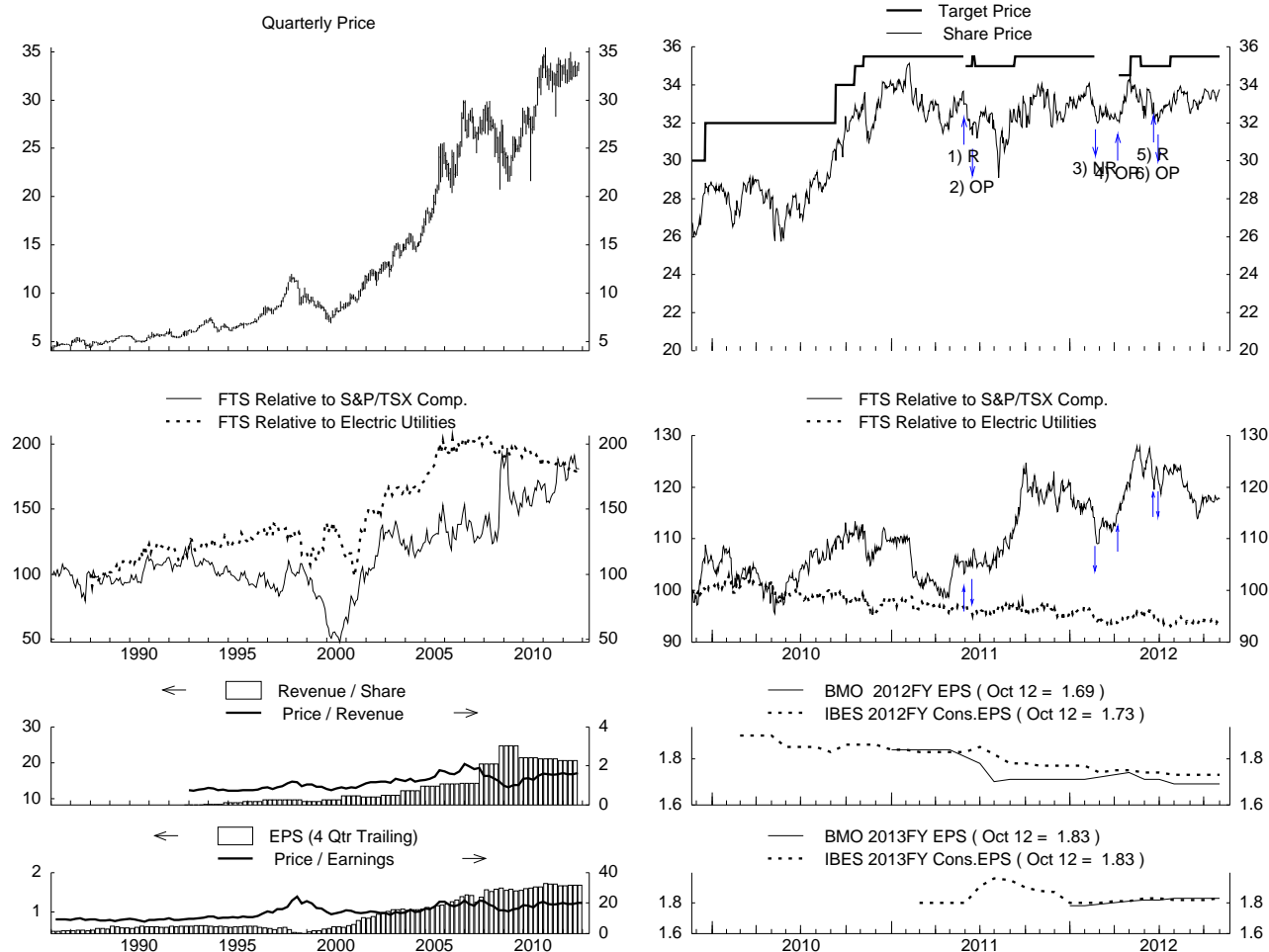
	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	CAGR 2011A- 2014E
<b>Total Basic Earnings Per Share</b>	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.68	\$1.84	\$1.94	5.2%
<b>Total Diluted Earnings Per Share</b>	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.67	\$1.83	\$1.91	4.9%
<b>First Call Consensus</b>							\$1.73	\$1.83	\$1.92	
<b>Segmented EPS</b>										
Newfoundland Power	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.18	\$0.18	
Other Canadian	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.11	\$0.11	
Fortis Properties	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.12	\$0.13	
Fortis Generation	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09	\$0.09	
Fortis Caribbean	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	\$0.11	
FortisAlberta	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.48	\$0.44	\$0.45	
FortisBC	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.26	\$0.26	\$0.26	
Terasen Inc.	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.77	\$0.74	\$0.74	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	\$0.24	
Other/Corporate	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.45)	(\$0.43)	(\$0.37)	
<b>Dividends</b>	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	3.9%
<b>Payout Ratio</b>	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	71.4%	67.2%	67.1%	
<b>Average Shares (mm)</b>	103.6	137.6	157.4	170.2	172.9	181.6	189.7	205.9	212.1	
<b>Net Book Value</b>	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.12	\$22.81	\$23.54	
<b>Market Valuation</b>										
Price: High	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	-	-	-	
Price: Low	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	-	-	-	
Price: Current	-	-	-	-	-	-	\$33.90	-	-	
P/E Ratio: High	22.5	23.3	19.2	19.1	21.3	21.2	-	-	-	
P/E Ratio: Low	15.3	19.0	13.2	14.3	16.0	19.7	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	20.3	18.6	17.7	
EV/EBITDA: High	12.3	12.5	10.4	10.9	11.3	11.5	-	-	-	
EV/EBITDA: Low	10.4	11.6	9.1	9.8	10.0	11.1	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	10.9	10.6	10.4	
Yield: High Price	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	-	-	-	
Yield: Low Price	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	-	-	-	
Yield: Current	-	-	-	-	-	-	3.5%	3.7%	3.8%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	182.5	911.0	650.0	639.0	414.0	265.0	71.3	540.7	673.7	
Debt (L-T)	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	6,956.1	7,101.2	
Minority Interest	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	208.0	
Preferred Shares	442.0	442.0	667.0	667.0	912.0	912.0	1,112.0	1,112.0	1,112.0	
Convertible Debentures	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>1,275.7</u>	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>4,025.1</u>	<u>4,814.5</u>	<u>5,018.5</u>	
	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,516.4	13,631.3	14,113.4	
<b>Balance Sheet (%)</b>										
Debt (S-T)	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	0.6%	4.0%	4.8%	
Debt (L-T)	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	51.0%	50.3%	
Minority Interest	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	1.5%	
Preferred Shares	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	9.7%	8.2%	7.9%	
Convertible Debentures	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>27.8%</u>	<u>29.9%</u>	<u>32.4%</u>	<u>32.2%</u>	<u>31.8%</u>	<u>35.4%</u>	<u>35.0%</u>	<u>35.3%</u>	<u>35.6%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income Statement</b>										
Total Revenue	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,778.2	4,593.7	4,745.0	8.3%
EBITDA	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,278.6	1,491.9	1,559.8	10.1%
EBIT	343.6	543.4	713.0	704.0	736.0	750.5	836.9	992.6	1,048.3	11.8%
Net Earnings	143.2	187.4	252.5	262.0	281.0	302.5	318.9	379.9	410.7	10.7%
Cash Flow from Operations	316.3	490.0	622.0	678.0	734.0	795.0	826.8	917.7	961.2	6.5%

Note: Priced as of market close on November 1, 2012.

Source: BMO Capital Markets, Company Reports



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E	DPS \$	Yield %	Payout %	BV \$	P/B	ROE %
1987	0.52	9	0.31	6.5	60	3.92	1.2	13
1988	0.56	9	0.34	6.8	60	4.16	1.2	14
1989	0.59	10	0.36	6.3	60	4.45	1.3	14
1990	0.62	9	0.37	6.8	60	4.71	1.1	13
1991	0.60	10	0.37	6.2	61	5.01	1.2	12
1992	0.64	10	0.38	6.2	60	5.28	1.2	12
1993	0.64	11	0.40	5.6	63	5.53	1.3	12
1994	0.62	10	0.42	6.5	68	5.82	1.1	11
1995	0.63	11	0.43	6.3	68	6.05	1.1	11
1996	0.59	14	0.43	5.1	73	6.21	1.4	10
1997	0.60	18	0.44	4.2	74	6.40	1.6	9
1998	0.45	21	0.45	4.7	>100	6.63	1.4	7
1999	0.56	14	0.45	5.7	80	6.57	1.2	9
2000	0.60	15	0.46	5.1	77	6.97	1.3	9
2001	0.84	14	0.47	4.0	56	7.49	1.6	12
2002	0.96	13	0.49	3.7	50	8.50	1.5	12
2003	1.03	14	0.52	3.5	49	8.82	1.7	12
2004	0.99	16	0.54	3.1	51	10.45	1.7	10
2005	1.10	21	0.64	2.6	55	11.74	2.1	10
2006	1.33	22	0.76	2.6	55	12.19	2.4	11
2007	1.29	21	0.84	2.9	61	16.69	1.7	9
2008	1.56	15	1.00	4.1	62	20.05	1.2	8
2009	1.51	19	1.04	3.6	68	18.65	1.5	8
2010	1.60	21	1.12	3.3	69	19.03	1.8	9
2011	1.66	20	1.16	3.5	69	20.73	1.6	8
Current*	1.68	20	1.20	3.6	71	20.67	1.6	8
Average:		15		4.7	65		1.5	10.5
Growth(%):								
5 Year:	6.2		7.4			11.1		
10 Year:	6.0		9.4			10.7		
20 Year:	5.0		6.1			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2012.

FTS - Rating as of 20-Nov-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Price ( October 31, 2012): \$ND

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

#### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

#### Prior BMO Capital Markets Ratings Systems

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

#### Dissemination of Research

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

#### Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

#### General Disclaimer

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

#### Additional Matters

To Canadian Residents: BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée./Ltd., affiliates of BMO Capital Markets Corp., furnish this report to Canadian residents and accept responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc. and/or BMO Nesbitt Burns Ltée./Ltd.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. (Member Canadian Investor Protection Fund) in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

November 30, 2012  
Research Fact Sheet  
Power & Utilities

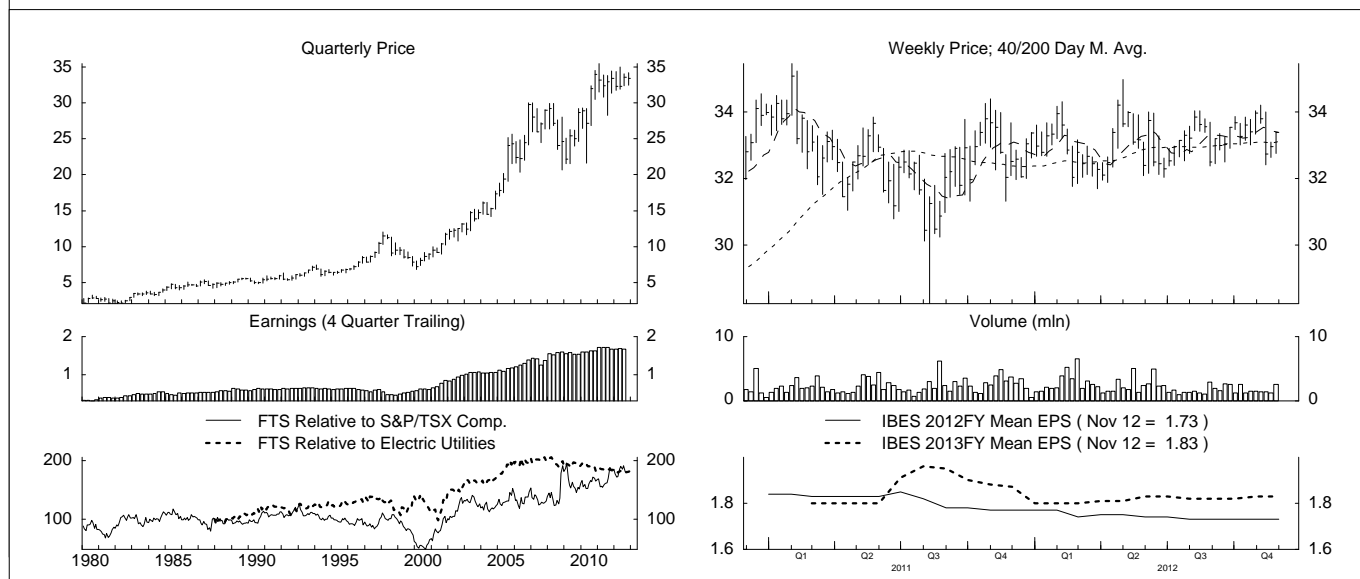
Stock Rating: **Outperform**  
Industry Rating: **Market Perform**

**Ben Pham, CFA**  
(416) 359-4061  
ben.pham@bmo.com  
Assoc: Adam Johnson, CA

Price (30-Nov)	\$33.38	52-Week High	\$34.98
Target Price	\$35.50	52-Week Low	\$31.70
Dividend	\$1.20	Book Value	\$20.63
Yield	3.6%	Price/Book	1.6x
Shares O/S (mm)	190.7	Mkt. Cap (\$mm)	\$6,364
Float O/S (mm)	190.7	Float Cap (\$mm)	\$6,364
Wkly Vol (000s)	2,217	Wkly \$ Vol (mm)	\$73.3
Net Debt (\$mm)	\$5,887	Next Rep. Date	Feb (E)
<b>Quarterly EPS</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
2011A	\$0.67	\$0.32	\$0.24
2012E	\$0.66 a	\$0.33 a	\$0.24 a
2013E	\$0.68	\$0.38	\$0.26

(FY-Dec.)	2011A	2012E	2013E	2014E
EPS	\$1.66	\$1.67	\$1.83	\$1.91
P/E		20.0x	18.2x	17.5x
CFPS	\$4.38	\$4.26	\$4.41	\$4.53
P/CFPS		7.8x	7.6x	7.4x
Div.	\$1.16	\$1.20	\$1.24	\$1.30
EV (\$mm)	\$12,996	\$13,826	\$15,685	\$16,170
EBITDA (\$mm)	\$1,169.5	\$1,278.4	\$1,491.9	\$1,563.0
EV/EBITDA	11.1x	10.8x	10.5x	10.3x
ROE (%)	7.8%	7.9%	7.9%	8.2%
Book Value (\$)	\$20.53	\$21.12	\$22.81	\$23.54
D/Tot. Cap. (%)	54.3%	53.6%	55.0%	55.1%
Reg. ROE (%)	na	na	na	na

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%), Fortis Ontario (100%), Caribbean Utilities (59.5%), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%). *Website:* fortisinc.com

**Recent Results** – Fortis reported Q3/12 financial results that were generally in line with expectations and those of the Street (EPS of \$0.24 vs. our estimate and consensus of \$0.26), reflective of higher-than-expected corporate costs,

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

which more than offset strong performance from regulated electric utilities FortisAlberta and FortisBC.

**Corporate Developments** – On November 13, Fortis closed an offering of \$200 million in Series J preferred shares at 4.75%. The funds will be used to repay borrowings under the company's credit facility as well as for the construction of the Waneta dam expansion project, which has a target in-service date of 2015.

The company announced that another milestone was attained in the proposed CH Energy acquisition as the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 was satisfied in October. The transaction continues to await approval from the New York State Public Service Commission; the company maintains its expectation for the transaction to close by the end of Q1/13.

In September 2012, the Alberta Utilities Commission (AUC) issued a generic decision outlining a new

Performance-Based Regulation (PBR) framework, which will be applicable to all distribution utilities (gas and electric) in Alberta over a five-year period commencing January 1, 2013. PBR proceedings continue in Alberta with the company filing its compliance application in November. We expect that more insight with respect to the company-specific impacts of PBR will become available in early 2013.

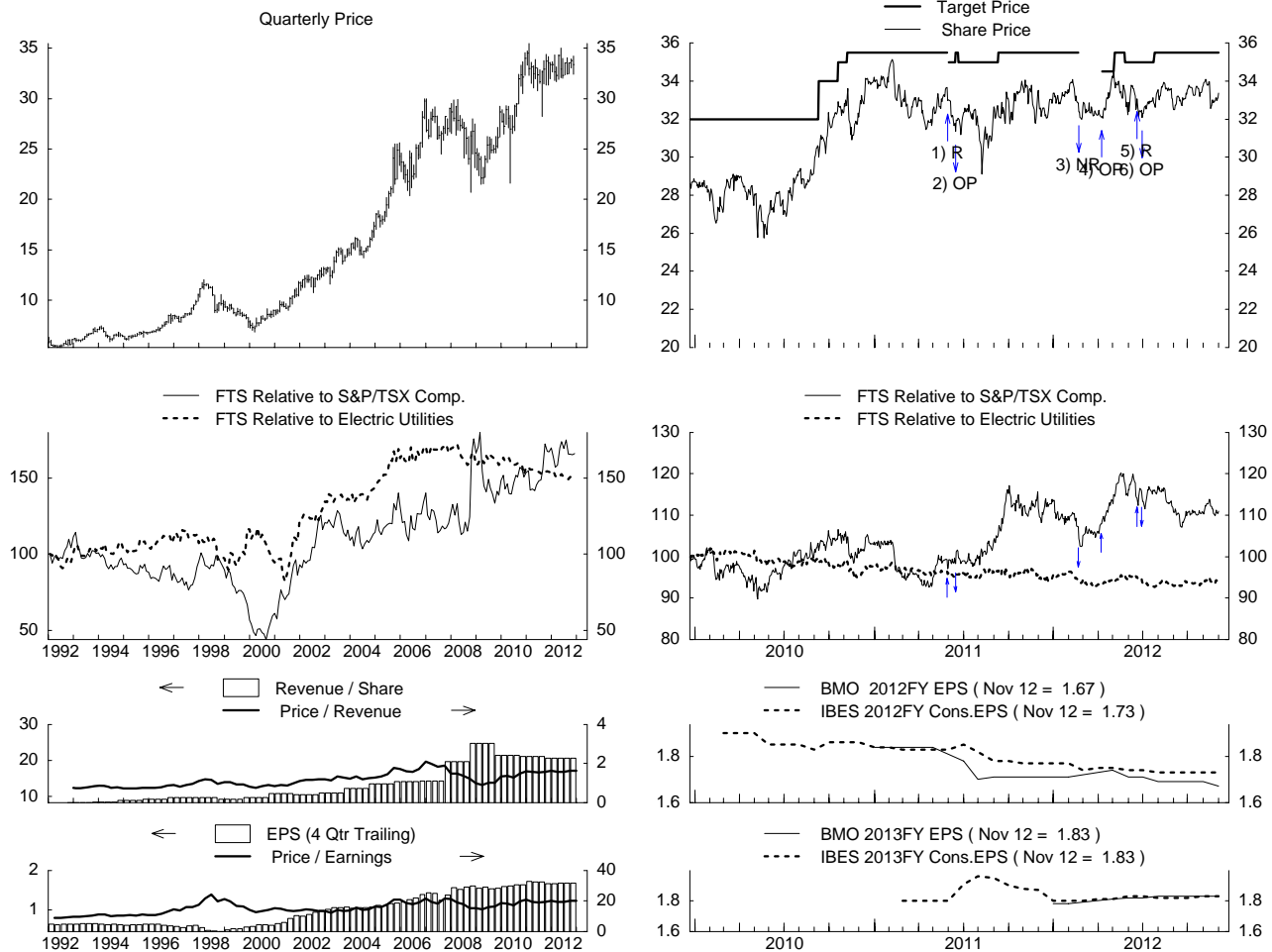
**Forecasts** – We are forecasting EPS (f.d.) of \$1.67, \$1.83 and \$1.91 for 2012, 2013 and 2014, respectively.

**Valuation** – Our target price of \$35.50 is based on 18.5x 2014E EPS.

**Recommendation** – At current levels, we believe the shares of Fortis are attractively valued. We rate Fortis Outperform.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	7
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0  
 Current\* 1.68 19.9 1.20 3.6 72 20.6 1.6 8

Growth(%):  
 5 Year: 6.1 7.4 11.1  
 10 Year: 6.0 9.4 10.7  
 20 Year: 5.0 5.9 7.3

\* Current EPS is the 4 Quarter Trailing to Q3/2012.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 22-Dec-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Price ( November 30, 2012): \$ND  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (September 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion)

Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

“Nesbitt Burns” is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. “BMO Capital Markets” is a trademark of Bank of Montreal, used under license. “BMO (M-Bar roundel symbol)” is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Outperform  
**Stock Price:** \$33.28  
**Target Price:** \$35.50

**Member of:** Top 15 Income Stock Selections

**December 11, 2012**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CA  
BMO Nesbitt Burns Inc.

## Quarterly Dividend Increased by 3.3%

---

### Impact

Neutral

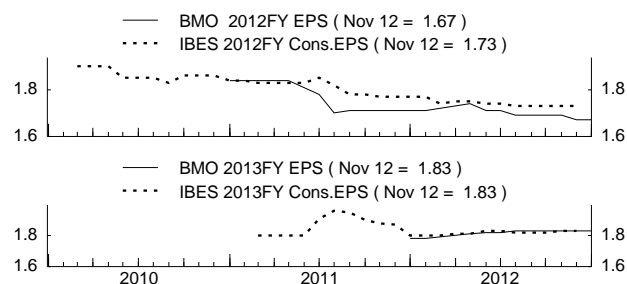
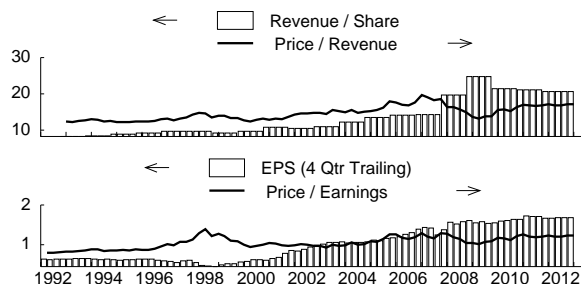
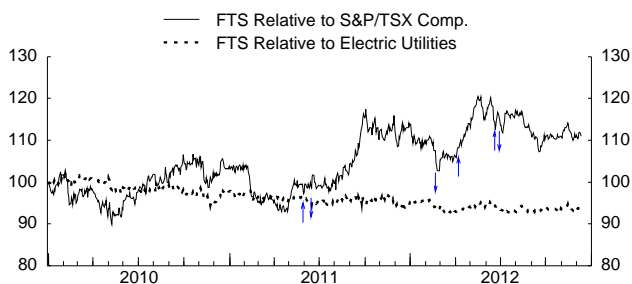
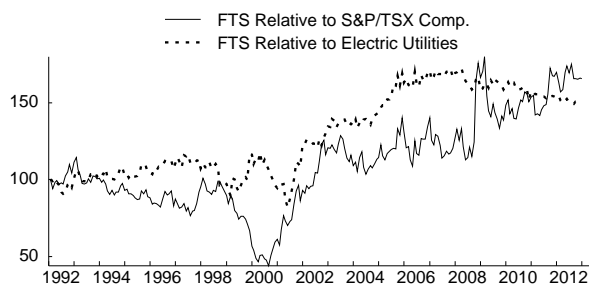
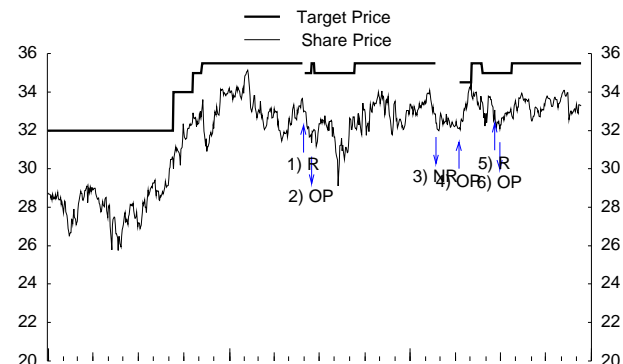
---

### Details & Analysis

Fortis Inc. announced that its board of directors has approved an increase in the company's quarterly common share dividend to \$0.31/share from the current quarterly rate of \$0.30/share (~3.3% increase), marking the company's 40th consecutive year of dividend increases. As a result of this announcement, the new annualized common share dividend will be \$1.24 (vs. \$1.20 previously). The dividend is payable on March 1, 2013, to common shareholders of record at the close of business on February 14, 2013. The dividend increase is consistent with our estimates and, as such, we view the impact of the announcement as neutral.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0

Current\* 1.68 19.9 1.20 3.6 72 20.6 1.6 8

Growth(%):

5 Year:	6.1	7.4	11.1
10 Year:	6.0	9.4	10.7
20 Year:	5.0	5.9	7.3

\* Current EPS is the 4 Quarter Trailing to Q3/2012.  
\* Valuation metrics are based on high and low for the fiscal year.  
\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 30-Dec-09 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Price ( December 10, 2012): \$33.28  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2012 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform↓  
**Industry Rating:** Market Perform

**January 8, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CA

## Could Be a Range-Bound Year; Downgrading to Market Perform

### Event

We are downgrading our rating on Fortis to Market Perform from Outperform.

### Impact

Neutral.

### Forecasts

There are no changes to our EPS forecast (f.d.) of \$1.67 in 2012E, \$1.83 in 2013E, and \$1.91 in 2014E.

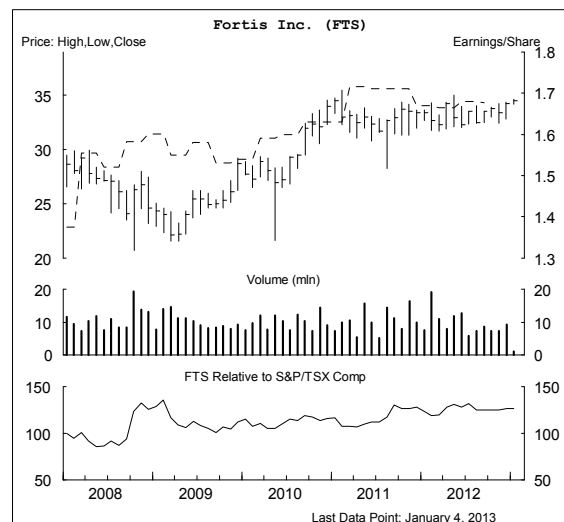
### Valuation

Our unchanged target price of \$35.50 reflects 18.5x our 2014E EPS forecast.

### Recommendation

We believe owning FTS in the long-term should pay off due to robust rate base expansion and consistent dividend growth. Nevertheless, the stock has performed relatively well, is facing near-term regulatory headwinds, and in our view, has limited M&A catalysts this year. As a result, we now think it will trade in line with the group over the next 12 months. There is no change to our target price of \$35.50, but we are downgrading our rating to Market Perform.

**Price (7-Jan)** \$34.52      **52-Week High** \$34.98  
**Target Price** \$35.50      **52-Week Low** \$31.70



(FY-Dec.)	2011A	2012E	2013E	2014E
<b>EPS</b>	\$1.66	\$1.67	\$1.83	\$1.91
<b>P/E</b>		20.7x	18.9x	18.1x
<b>CFPS</b>	\$4.38	\$4.26	\$4.41	\$4.53
<b>P/CFPS</b>		8.1x	7.8x	7.6x
<b>Div.</b>	\$1.16	\$1.20	\$1.24	\$1.30
<b>EV (\$mm)</b>	\$12,996	\$14,025	\$15,903	\$16,395
<b>EBITDA (\$mm)</b>	\$1,169.5	\$1,278.4	\$1,489.1	\$1,557.0
<b>EV/EBITDA</b>	11.1x	11.0x	10.7x	10.5x
<b>Quarterly EPS</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2011A</b>	\$0.67	\$0.32	\$0.24	\$0.45
<b>2012E</b>	\$0.66a	\$0.33a	\$0.24a	\$0.46
<b>2013E</b>	\$0.68	\$0.38	\$0.26	\$0.58
<b>Dividend</b>	\$1.24	<b>Yield</b>		3.6%
<b>Book Value</b>	\$20.63	<b>Price/Book</b>		1.7x
<b>Shares O/S (mm)</b>	190.7	<b>Mkt. Cap (mm)</b>		\$6,582
<b>Float O/S (mm)</b>	190.7	<b>Float Cap (mm)</b>		\$6,582
<b>Wkly Vol (000s)</b>	2,222	<b>Wkly \$ Vol (mm)</b>		\$73.7
<b>Net Debt (\$mm)</b>	\$5,887	<b>Next Rep. Date</b>		Feb (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.73; 2013E: \$1.83; 2014E: \$1.92

### Changes

**Rating**  
 OP to Mkt

## Could Be a Range-Bound Year; Downgrading to Market Perform

- **There is no change to our target price but we are downgrading the shares of Fortis to Market Perform.** Fortis has performed well relative to our coverage universe since April 2012 (10.2% total return vs. 5.3% for the S&P/TSX Utility Index) in recognition of its solid growth prospects, high quality management team and a track record of dividend growth. Low interest rates have also supported the stock, in our view. We do not envision any meaningful change in interest rates to move the stock's valuation sharply higher or lower, while we doubt EPS growth will accelerate beyond 5%. We believe owning FTS in the long-term should pay off due to robust rate base expansion and consistent dividend growth. Nevertheless, the stock has performed relatively well, is facing near-term regulatory headwinds, and in our view, has limited M&A catalysts this year. As a result, we now think it will trade in line with the group over the next 12 months. There is no change to our target price of \$35.50, but we are downgrading our rating to Market Perform.
- **In the spring of 2012, Fortis shares were suffering from a lack of appreciation of its growth profile and from an overhang of an equity issue to finance the proposed acquisition of CH Energy Group.** Concerns also lingered over downside to B.C. regulated returns. Steady progress on its organic capital program and the 3.3% dividend increase in December removed the overhang, in our view. Furthermore, although B.C.-regulated returns will likely move lower for 2013E, there will not be a retroactive adjustment to allowed returns for 2012 as initially feared.
- **Acquisition upside is still possible, but we see limited M&A catalysts this year.** In the United States, Fortis is well positioned to grow through acquisitions. Having said that, should Fortis pay 50%+ premiums for rate base, we believe it may be more difficult for the company to execute on further U.S. acquisitions in an accretive manner (Exhibit 1). For example, the pending CH Energy acquisition was probably at least initially \$0.05/sh accretive, but is now likely more \$0.02–0.03/sh accretive in light of the revised financing structure (more common equity than planned).

**Exhibit 1: Accretion Sensitivity of a Potential U.S. Utility Transaction**

		Multiple of Rate Base				
		1.1x	1.2x	1.3x	1.4x	1.5x
Acquired Rate Base (\$mm)	1,000	\$0.08	\$0.06	\$0.04	\$0.02	\$0.00
	1,500	\$0.11	\$0.08	\$0.06	\$0.03	\$0.00
	2,000	\$0.14	\$0.11	\$0.07	\$0.04	\$0.00
	2,500	\$0.18	\$0.13	\$0.09	\$0.05	\$0.00
	3,000	\$0.21	\$0.15	\$0.10	\$0.05	\$0.01

Note: Assumes similar financing structure as pending CH Energy acquisition, allowed ROE of 10%, and deemed equity of 50%

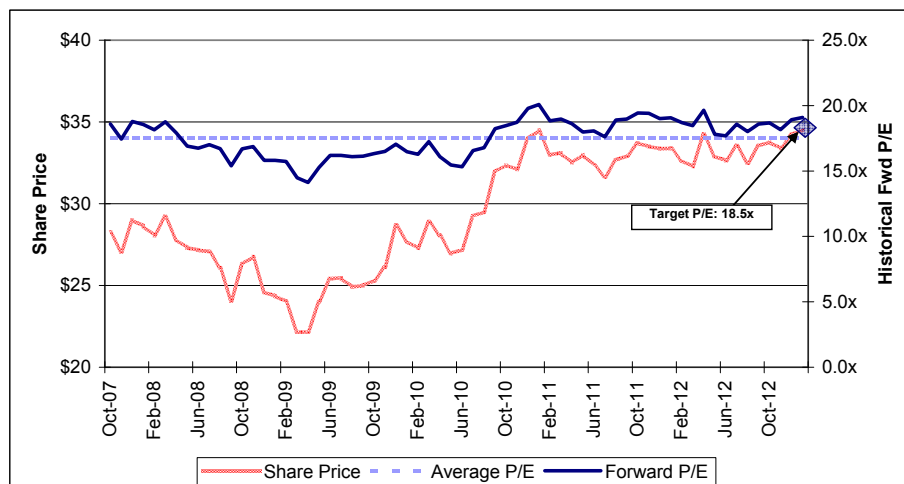
Source: BMO Capital Markets

- **We maintain our view that the company's organic growth initiatives will continue to drive earnings and dividend increases.** In its Q3/12 earnings report, Fortis reaffirmed a 2012–2016 capital spending program of \$5.5 billion. In particular, the company's flagship 335 MW Waneta dam expansion (51% FTS) is proceeding on time and on budget and is

anticipated to be in-service in spring 2015. FTS's investment in Waneta of about \$459 million is relatively small as a percentage of its overall capital program, but is still meaningful. We believe it could add ~\$0.10 in EPS in 2015E. Our outlook assumes a dividend increase in December 2013 to \$1.30 per annum from \$1.24, which equates to a reasonable 67.4% payout ratio.

- **Fortis is the most vulnerable in our coverage universe to a reduction in the B.C.-allowed ROE.** It has been widely known for some time that there could be downside to 2013 B.C.-regulated returns, but the degree of the decline remains uncertain. Our view has been for a roughly 50 bps decline in the benchmark ROE to ~9% (or \$0.05 EPS impact). The 2013 generic cost of capital hearing recently ended and we expect a cost of capital decision within the next three months.
- **Regulatory risk could be emerging in Alberta.** In September 2012, the Alberta Utilities Commission issued its decision on distribution performance-based regulation (PBR) over a five-year period commencing January 1, 2013. Our view is that PBR is more risky than cost-of-service regulation and could result in capex deferral at FortisAlberta (~23% of Fortis's earnings). That is because this form of regulation limits annual rate increases to a fixed formula that is linked largely to inflation escalators. For a utility with no growth (or growing at inflation), this is generally not a concern; however, for a company with above-average rate base growth like FortisAlberta, there is a risk that should capital spending exceed what is incorporated in performance-based rates, it would be shareholders and not ratepayers that would absorb the cost overruns. The good news is Fortis could mitigate this risk via a capital tracker or through cost efficiencies and productivity enhancements, or simply defer capex. Moreover, FortisAlberta could receive regulatory relief either through higher deemed equity ratios (we see this as more likely) or a higher allowed ROE (8.75% currently), as part of the Commission's 2013 Generic Cost of Capital proceeding. Whatever the outcome, we think it should be acknowledged that there is higher risk to FortisAlberta's capital program and earnings profile than previously; our preliminary view is for a potential \$0.03/\$0.04 per share drag to 2013E/2014E earnings.
- **Valuation:** There is no change to our target price of \$35.50, but we are downgrading our recommendation to Market Perform. Our target price reflects 18.5x our 2014E EPS (Exhibit 2). Fortis shares currently trade at a P/E multiple of 18.1x our 2014 EPS estimate, which is towards the upper end of its five-year historical trading range. We maintain our belief that this valuation premium is currently justified, given the company's superior earnings visibility (~90% of Fortis's earnings arise from utility operations, the highest among its peers) and the persistence of historically low 10-year government of Canada bond yields.



**Exhibit 2: FTS – P/E, Share Price and Target P/E**

Source: Thomson One, Bloomberg

**Exhibit 3: Upcoming Events/Catalysts**

Early 2013	Expected New York Commission approval of CH Energy transaction
Early 2013	Expected decision on BCUC Cost of Capital Proceeding
Early 2013	Commencement of AUC 2013 Generic Cost of Capital
Feb/Mar 2013	Expected release of 2012 year-end financial results
During Q1/13	Expected hearing on Newfoundland Power 2013 general rate application
End of Q1/13	Expected closing of CH Energy transaction
End of Q1/13	Expected closing of Kelowna distribution asset acquisition
2H/2013	Expected completion of Newfoundland office building
Spring 2015	Expected commissioning of Waneta hydro facility

Source: BMO Capital Markets; Company Reports

## Exhibit 4: Consolidated Summary Sheet



## Fortis Inc. (FTS)

## Market Perform

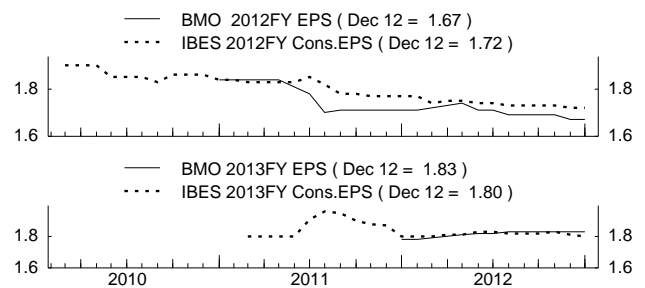
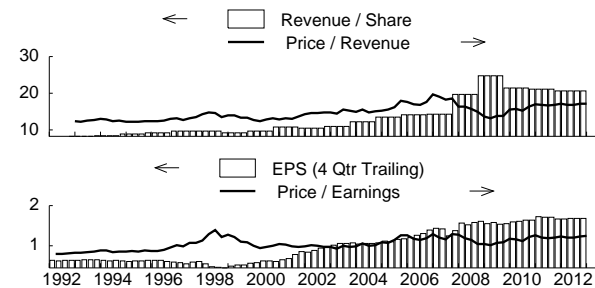
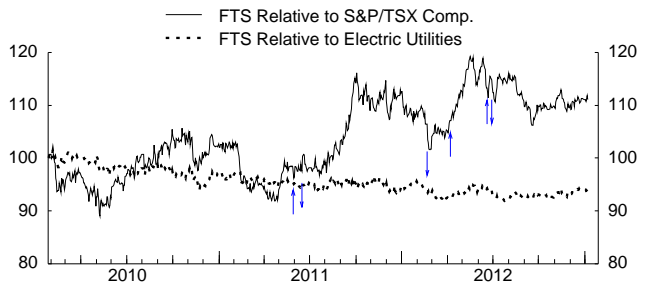
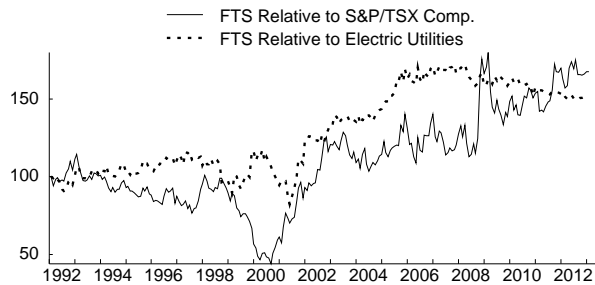
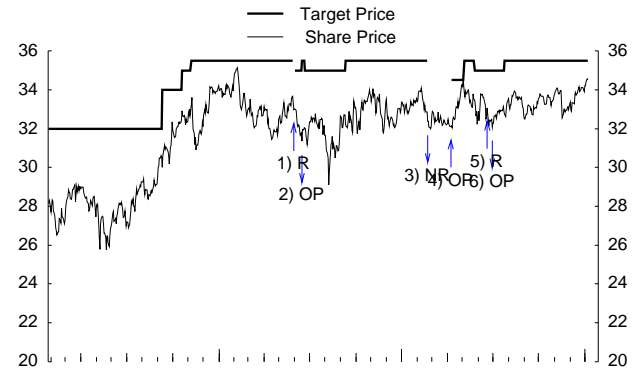
12-Month Target Price: \$35.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$34.52  
 ROR: 6.4%

	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	CAGR 2011A- 2014E
<b>Total Basic Earnings Per Share</b>	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.68	\$1.84	\$1.94	5.1%
<b>Total Diluted Earnings Per Share</b>	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.67	\$1.83	\$1.91	4.9%
<b>First Call Consensus</b>							\$1.72	\$1.80	\$1.89	
<b>Segmented EPS</b>										
Newfoundland Power	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.18	\$0.18	
Other Canadian	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.11	\$0.11	\$0.11	
Fortis Properties	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.13	\$0.14	
Fortis Generation	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.10	\$0.09	\$0.09	
Fortis Caribbean	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	\$0.11	
FortisAlberta	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.48	\$0.44	\$0.45	
FortisBC	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.26	\$0.25	\$0.26	
Terasen Inc.	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.77	\$0.74	\$0.74	
U.S. Utilities	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.21	\$0.21	
Other/Corporate	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.36)	
<b>Dividends</b>	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	3.9%
<b>Payout Ratio</b>	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	71.4%	67.2%	67.1%	
<b>Average Shares (mm)</b>	103.6	137.6	157.4	170.2	172.9	181.6	189.7	205.9	212.1	
<b>Net Book Value</b>	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$21.12	\$22.81	\$23.54	
<b>Market Valuation</b>										
Price: High	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	
Price: Low	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.52	-	
P/E Ratio: High	22.5	23.3	19.2	19.1	21.3	21.2	20.7	-	-	
P/E Ratio: Low	15.3	19.0	13.2	14.3	16.0	19.7	19.2	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	18.9	18.0	
EV/EBITDA: High	12.3	12.5	10.4	10.9	11.3	11.5	11.0	-	-	
EV/EBITDA: Low	10.4	11.6	9.1	9.8	10.0	11.1	10.6	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.7	10.5	
Yield: High Price	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	3.5%	-	-	
Yield: Low Price	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	3.8%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.8%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	182.5	911.0	650.0	639.0	414.0	265.0	73.8	535.2	668.0	
Debt (L-T)	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	6,100.0	6,956.1	7,101.2	
Minority Interest	130.0	115.0	145.0	123.0	162.0	208.0	208.0	208.0	208.0	
Preferred Shares	442.0	442.0	667.0	667.0	912.0	912.0	1,112.0	1,112.0	1,112.0	
Convertible Debentures	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>1,275.7</u>	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>4,025.2</u>	<u>4,814.5</u>	<u>5,018.4</u>	
	4,588.1	8,691.7	9,391.7	9,902.7	10,402.0	10,941.0	11,519.0	13,625.8	14,107.6	
<b>Balance Sheet (%)</b>										
Debt (S-T)	4.0%	10.5%	6.9%	6.5%	4.0%	2.4%	0.6%	3.9%	4.7%	
Debt (L-T)	54.4%	52.7%	51.5%	52.9%	53.5%	51.9%	53.0%	51.1%	50.3%	
Minority Interest	2.8%	1.3%	1.5%	1.2%	1.6%	1.9%	1.8%	1.5%	1.5%	
Preferred Shares	9.6%	5.1%	7.1%	6.7%	8.8%	8.3%	9.7%	8.2%	7.9%	
Convertible Debentures	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>27.8%</u>	<u>29.9%</u>	<u>32.4%</u>	<u>32.2%</u>	<u>31.8%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>35.3%</u>	<u>35.6%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income Statement</b>										
Total Revenue	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,776.2	4,584.8	4,731.6	8.2%
EBITDA	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,278.4	1,489.3	1,557.2	10.0%
EBIT	343.6	543.4	713.0	704.0	736.0	750.5	836.9	987.4	1,043.1	11.6%
Net Earnings	143.2	187.4	252.5	262.0	281.0	302.5	319.0	379.8	410.7	10.7%
Cash Flow from Operations	316.3	490.0	622.0	678.0	734.0	795.0	827.0	917.5	961.5	6.5%

Note: Priced as of market close on January 7, 2013.

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0

Current\*: 1.68 20.4 1.20 3.5 72 20.6 1.7 8

Growth(%):  
 5 Year: 4.0 7.4 4.3  
 10 Year: 5.6 9.4 9.3  
 20 Year: 5.0 5.9 7.1

\* Current EPS is the 4 Quarter Trailing to Q3/2012.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 26-Jan-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09

Last Price ( January 4, 2013): \$34.51  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp. are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group



# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$34.38**  
**Target Price:**      **\$35.50**

**January 28, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CA  
BMO Nesbitt Burns Inc.

## CH Acquisition Now Expected to Close in Q2/13

---

### Impact

Slightly Negative

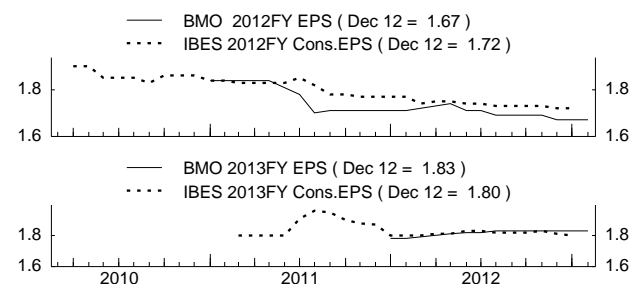
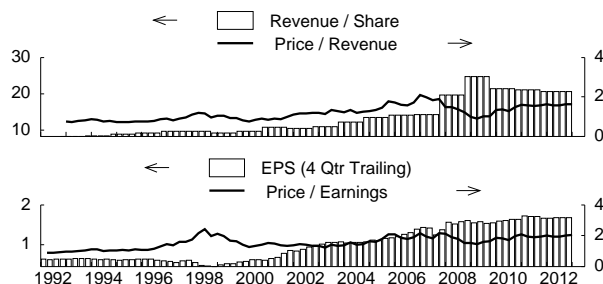
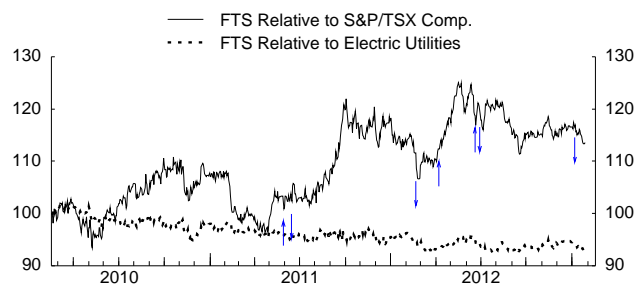
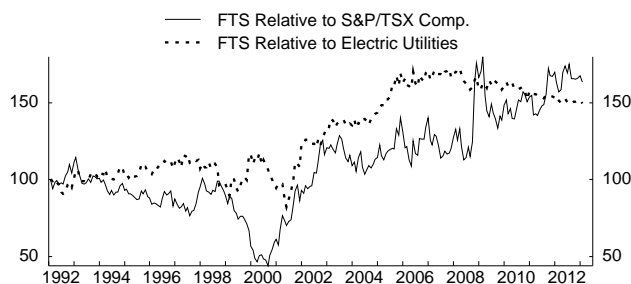
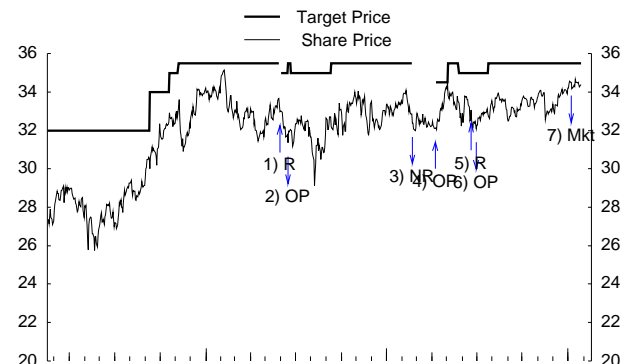
---

### Details & Analysis

Fortis and Central Hudson Gas & Electric Corporation (100% CH Energy Group) have jointly filed a [settlement agreement](#) with the New York State Public Service Commission with respect to the proposed acquisition of CH Energy by Fortis. Among the key elements of the settlement agreement include nearly US\$50 million in customer and community benefits (vs. US\$20 million as was proposed previously); a freeze on electric and natural gas distribution rates for customers until July 1, 2014 (as expected); and certain provisions protecting Central Hudson's autonomy to continue as a stand-alone utility company (as expected). The settlement agreement indicates that the acquisition is in the public interest under New York State Public Service Law, and has support from Fortis and CH Energy as well as the Staff of the New York State Department of Public Service and the Utility Intervention Unit of the New York State Department of State. Subject to Commission approval, Fortis now expects that the acquisition of CH Energy will close during Q2/13 (vs. its prior expectation that the acquisition would close by the end of Q1/13).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	20.4	1.20	3.5	72	20.6	1.7	8

Growth(%)				
5 Year:	4.0		7.4	4.3
10 Year:	5.6		9.4	9.3
20 Year:	5.0		5.9	7.1

\* Current EPS is the 4 Quarter Trailing to Q3/2012.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 16-Feb-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( January 25, 2013): \$34.38

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**  
**Stock Price:**  
**Target Price:**

**Market Perform**  
**\$34.60**  
**\$35.50**

**February 7, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CA  
BMO Nesbitt Burns Inc.

## Q4/12 Results Slightly Lower Than Expected; Capital Program of \$1.3B in 2013

---

### Impact

Neutral

---

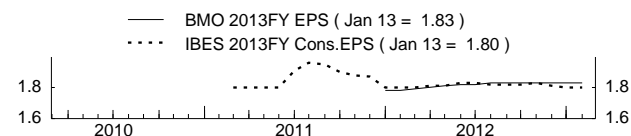
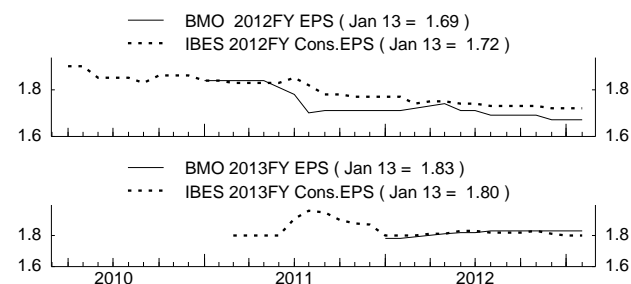
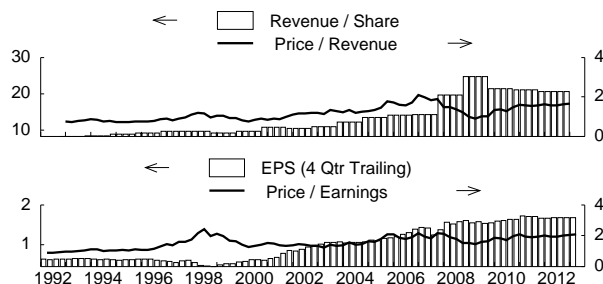
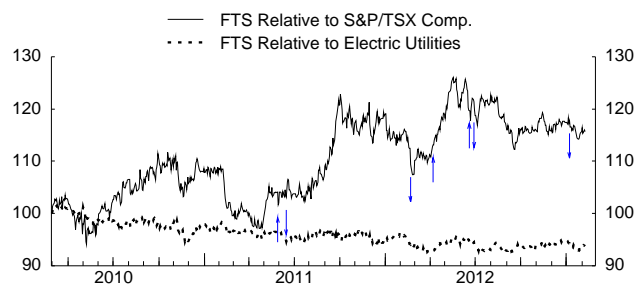
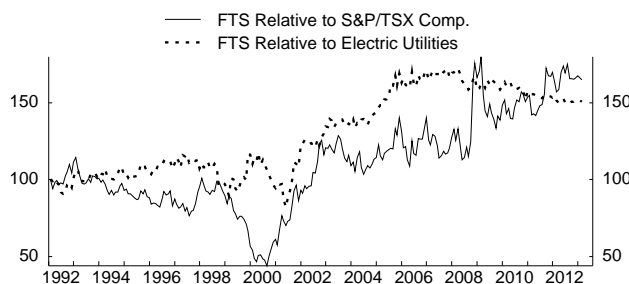
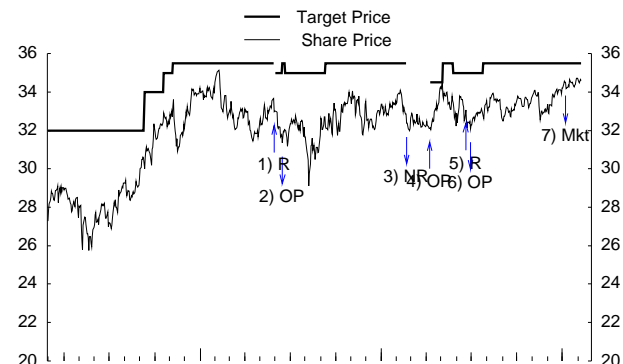
### Details & Analysis

Fortis reported Q4/12 EPS of \$0.46, slightly lower than our estimate of \$0.48 and consensus of \$0.49 per share. The variance vs. our estimate was largely due to lower-than-expected earnings from FortisBC Energy and lower non-regulated hydroelectric power generation, partially offset by stronger-than-expected performance from FortisAlberta. Key-takeaways: (1) FTS's capital expenditure budget is \$1.3 billion in 2013 (vs. \$1.1 billion in 2012) and \$6.0 billion during 2013-2017. Notably, its \$900 million 335 MW Waneta hydroelectric project (51% Fortis) in B.C. is still on track for an expected in-service date of spring 2015; (2) as previously disclosed, the US\$1.5 billion CH Energy Group acquisition is now expected to close during Q2/13 (vs. end of Q1/13 previously), subject to approval by the New York Public Service Commission; and (3) on the regulatory front, the BCUC has determined that a second phase will be added to the 2013 Generic Cost of Capital Hearing to determine an appropriate allowed ROE and capital structure for all other regulated utilities in B.C. once the benchmark utility has been established in the first phase. A decision on the benchmark utility (FortisBC Energy) is expected mid-2013. In Alberta, FortisAlberta has filed a 2013 Capital Tracker Application with the AUC for specific categories of capital expenditures; a decision is expected in Q3/13. We continue to review the release.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	20.7	1.20	3.5	72	20.6	1.7	8

Growth(%)				
5 Year:	4.0		7.4	4.3
10 Year:	5.6		9.4	9.3
20 Year:	5.0		5.9	7.1

\* Current EPS is the 4 Quarter Trailing to Q3/2012.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 26-Feb-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( February 6, 2013): \$34.60

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### **Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### **Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

### **Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**February 8, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CA

## Q4 – Regaining Momentum

### Event

Fortis' fourth-quarter results were a few pennies shy of our expectations amid weaker-than-expected earnings from its B.C. regulated gas utility and lower non-regulated hydroelectric power generation, partially offset by higher-than-expected earnings contribution from its Alberta regulated utility. While growth was slow during 2012, continued rate base expansion and, to a lesser extent, the pending CH Energy acquisition should bring some earnings growth back into the company for 2013 and beyond. It is unfortunate a slowdown in other areas of the enterprise is partially offsetting the regulated utility growth, such as Fortis Generation and its real estate segment. Furthermore, potentially lower allowed returns in B.C. should further pressure earnings growth at its regulated gas utility. As a result, we continue to believe the stock will perform in line but may deliver modest total returns pending approval of CH Energy and outcome of regulatory proceedings.

### Impact

Neutral.

### Forecasts

Our 2013 EPS estimate was lowered to \$1.80 (f.d.) from \$1.83 (f.d.), while our 2014E EPS of \$1.91 (f.d.) is unchanged.

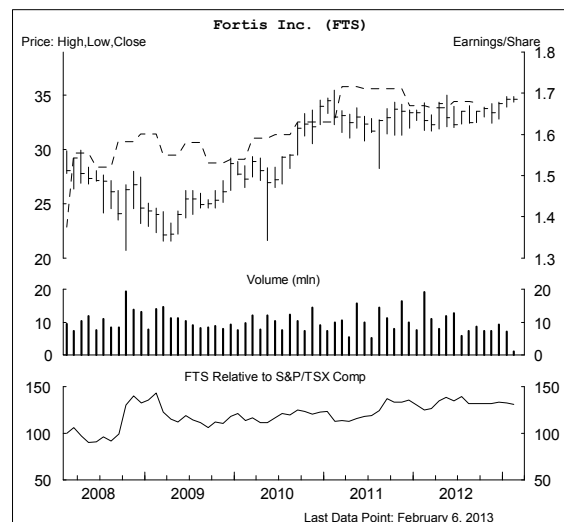
### Valuation

We are maintaining our target price of \$35.50, which represents 18.5x our 2014E EPS forecast.

### Recommendation

We continue to rate the shares of Fortis Market Perform.

**Price (7-Feb)** \$34.24 **52-Week High** \$34.98  
**Target Price** \$35.50 **52-Week Low** \$31.70



(FY-Dec.)	2011A	2012A	2013E	2014E
EPS	\$1.66	\$1.69	\$1.80↓	\$1.91
P/E			19.0x	17.9x
CFPS	\$4.38	\$4.73	\$4.68↑	\$4.81↑
P/CFPS			7.3x	7.1x
Div.	\$1.16	\$1.20	\$1.24	\$1.30
EV (\$mm)	\$12,907	\$13,602	\$15,710	\$16,341
EBITDA (\$mm)	\$1,169.5	\$1,264.0	\$1,456.2	\$1,564.2
EV/EBITDA	11.0x	10.8x	10.8x	10.4x
Quarterly EPS	Q1	Q2	Q3	Q4
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013E	\$0.68	\$0.36↓	\$0.27↑	\$0.56↓
Dividend	\$1.24		Yield	3.6%
Book Value	\$20.84		Price/Book	1.6x
Shares O/S (mm)	191.6		Mkt. Cap (mm)	\$6,560
Float O/S (mm)	191.6		Float Cap (mm)	\$6,560
Wkly Vol (000s)	2,195		Wkly \$ Vol (mm)	\$72.9
Net Debt (\$mm)	\$5,882		Next Rep. Date	May (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.72; 2013E: \$1.80; 2014E: \$1.88

### Changes

**Annual EPS**  
 2013E \$1.83 to \$1.80

**Annual CFPS**  
 2013E \$4.46 to \$4.68  
 2014E \$4.53 to \$4.81

**Quarterly EPS**  
 Q2/13E \$0.38 to \$0.36  
 Q3/13E \$0.26 to \$0.27  
 Q4/13E \$0.58 to \$0.56

## Q4 – Regaining Momentum

- **We are maintaining a Market Perform rating and 12-month target price of \$35.50 on Fortis shares.** Fortis' fourth-quarter results were a few pennies shy of our expectations amid weaker-than-expected earnings from its B.C regulated gas utility and lower non-regulated hydroelectric power generation, partially offset by higher-than-expected earnings contribution from its Alberta regulated utility. While growth was slow during 2012, continued rate base expansion and, to a lesser extent, the pending CH Energy acquisition should bring some earnings growth back into the company for 2013 and beyond. It is unfortunate a slowdown in other areas of the enterprise is partially offsetting the regulated utility growth, such as Fortis Generation and its real estate segment. Furthermore, potentially lower allowed returns in B.C. should further pressure earnings growth at its regulated gas utility. As a result, we continue to believe the stock will perform in line but may deliver modest total returns pending approval of CH Energy and outcome of regulatory proceedings. We are maintaining our Market Perform rating and \$35.50 target price, which reflects 18.5x our 2014E EPS forecast.
- **2013 capital spending guidance.** Our capital spending outlook of \$1.3 billion in 2013 (vs. our prior estimate of \$1.1 billion) is now consistent with Fortis' guidance, with \$1.2 billion in 2014 and 2015. Over the five years 2013–2017, the company's capital program (including Central Hudson) is expected to be ~\$6 billion, with ~59% of the total capital spending to Canadian regulated electric activities, ~11% to Central Hudson; ~19% to Canadian regulated gas utilities and the remaining ~11% to non-regulated operations. Fortis also reaffirmed its intention to pursue additional electric and natural gas utility acquisitions in the U.S. and Canada as well as grow its non-regulated businesses to support its regulated utility growth strategy.

**Exhibit 1: Actual and Forecast Capital Expenditures - 2012A and 2013E (\$mm)**

	2012A	2013E	Change (%)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	206.0	229.0	11.2%
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	442.0	437.0	-1.1%
FortisBC	69.0	133.0	92.8%
Newfoundland Power	86.0	86.0	0.0%
Other Canadian	48.0	54.0	12.5%
<b>Regulated Electric Utilities - Caribbean</b>	48.0	69.0	43.8%
<b>Non-Regulated - Fortis Generation</b>	196.0	229.0	16.8%
<b>Non-Regulated - Fortis Properties</b>	35.0	113.0	222.9%
<b>Total</b>	<b>1,130.0</b>	<b>1,350.0</b>	<b>19.5%</b>

Source: Company Reports

- **Waneta expansion:** Fortis remains on track for first production at its \$900 million 335 MW Waneta dam expansion (51% interest) in spring 2015. As it stands now, excavation of the intake, powerhouse and power tunnels have been completed, with construction of the intake and tailrace structures and installation of the stationary imbedded turbine and generator components under way. Overall, the project is ~50% complete at this juncture. A total of \$436 million has been spent to date since construction began in late 2010, with



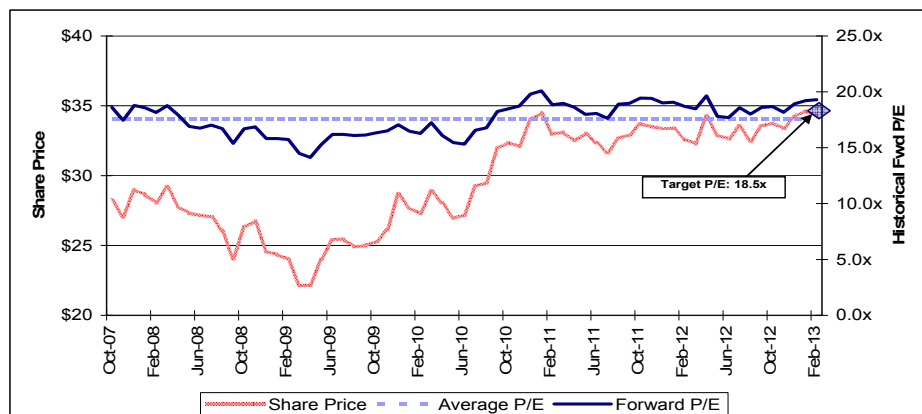
\$227 million planned for 2013 (\$192 million was spent in 2012). We believe the project could add \$0.10/sh in EPS in 2015E.

- **CH Energy acquisition expected to close during Q2/13:** As previously disclosed, Fortis expects the acquisition of CH Energy to close during Q2/13 (vs. end of Q1/13 prior). A settlement agreement was filed in January 2013 with the New York State Public Service Commission, which include nearly US\$50 million in customer and community benefits, a freeze on electric and natural gas distribution rates for customers until July 1, 2014, and certain provisions protecting Central Hudson's autonomy to continue as a stand-alone utility company. While timing risk remains, we believe the New York State Public Service Commission (last remaining significant hurdle) will approve the settlement agreement. Recall that this acquisition is fully funded given the company's issuance of ~\$600 million in subscription receipts at the end of June 2012.
- **Key regulatory updates:**
  - In December 2012, the BCUC held a public oral hearing for the first phase of its 2013 Generic Cost of Capital proceeding. The first phase of the proceeding will establish an allowed ROE and capital structure for FortisBC Energy Inc. (FEI), which will serve as a benchmark utility for the allowed rates of return and capital structures of other regulated utility companies in B.C. The BCUC has decided to hold a second phase of the proceeding to determine ROEs and capital structures for the other utility companies after it reaches a decision on the first phase, which is not expected until mid-2013. In the meantime, the Commission has ordered that the current allowed ROE and capital structures are to be maintained and made interim.
  - In November 2012, FortisBC Electric filed an application with the BCUC requesting approval to acquire electrical utility assets owned by the City of Kelowna for \$55 million and to include these assets in its rate base. Regulatory approval is expected end of Q1/13.
  - A decision with respect to FortisAlberta's compliance application to the AUC with respect to its performance-based regulation (PBR) framework is expected in Q1/13. In the meantime, FortisAlberta has also filed a review and variance application as well as a 2013 capital tracker application for specific categories of capital expenses to be allowed. The company expects a decision for both the review and variance application and the capital tracker application to be made during Q3/13.
  - In November 2012, the AUC reopened the Utility Asset Disposition Proceeding, which will address the issue of the sharing of cost responsibility between utilities and customers for stranded assets. FortisAlberta is "fully participating" in the proceeding, having filed common-utility evidence and retained experts. A decision is expected by the end of Q2/13.
  - A public hearing currently being held on Newfoundland Power's 2013/2014 General Rate Application is expected to conclude in February 2013. The rate

application filed by Newfoundland Power requested an increase in customer electricity rates of 6% effective March 1, 2013.

- In November 2012, the OEB approved, as filed, a settlement agreement regarding FortisOntario's cost of service application for electricity rates effective January 1, 2013 in Fort Erie, Port Colborne and Gananoque. The agreement provides for an allowed ROE of 8.93% (vs. 9.12% initially requested). As a result of the decisions, customers in Fort Erie, Gananoque and Port Colborne will receive average rate increases of 6.8%, 5.9% and 7.4%, respectively.
- **Liquidity and capital resources:** Fortis has an A-rated balance sheet and possesses a strong liquidity position heading into 2013: As of December 31, 2012, the company had \$154 million of cash and consolidated credit facilities of roughly \$2.5 billion, of which ~\$2.1 billion was available. The company's capital structure (excluding capital lease and finance obligations) at year-end 2012 was 53.6% debt, 10.1% preferred shares and 36.3% common equity vs. 55.3% debt, 8.6% preferred shares and 36.1% common equity at year-end 2011. The improvement in the capital structure was largely due to the issuance of \$194 million of preferred shares in November 2012 that were used to repay short-term debt and the issuance of common shares under the company's dividend reinvestment program.
- **Revised estimates:** We have updated our outlook to reflect 2012 financial performance and the information contained in the quarterly release. Our 2013 EPS estimate was lowered to \$1.80 (f.d.) from \$1.83 (f.d.) largely reflecting the delay in closing of the pending CH Energy acquisition and lower revenue growth at FTS Properties, partially offset by lower corporate expenses and higher growth at FortisAlberta. Our 2014E EPS of \$1.91 (f.d.) is unchanged.
- **Valuation premium warranted:** We are maintaining a Market Perform rating and 12-month target price of \$35.50 on Fortis shares. Fortis shares currently trade at a P/E multiple of 18x our 2014 EPS estimate, which is towards the upper end of its five-year historical trading range. We reiterate our belief that this valuation premium is justified, given the company's superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the persistence of historically low 10-year government of Canada bond yields.

**Exhibit 2: FTS – P/E, Share Price and Target P/E**



Source: Thomson One, Bloomberg

**Exhibit 3: Upcoming Events/Catalysts**

Feb-13	Conclusion of public hearing on Newfoundland Power 2013/14 GRA
End of Q1/13	Expected regulatory approval on Kelowna distribution asset acquisition
Q1/13	Expected decision on Alberta PBR compliance filing
During Q2/13	Expected closing of CH Energy transaction
Q2/13	Expected decision on Utility Asset Disposition Proceeding
Mid-2013	Expected decision on first phase of BCUC 2013 GCOC
Q3/13	Expected decision on Alberta PBR review and variance application/capital tracker application
2H/2013	Expected completion of Newfoundland office building
Spring 2015	Expected commissioning of Waneta hydro facility

Source: BMO Capital Markets, Company Reports

- **Fourth-quarter results:** Please see Exhibit 4 for a further run-down of Fortis' fourth-quarter results. Our annual estimates are set out in Exhibit 5.

**Exhibit 4: Earnings by Business Segment – Q4/12**

	Q4/12 (\$mm)	Q4/12E (\$mm)	Q4/11 (\$mm)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	49.0	56.4	51.0
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	23.0	17.9	16.0
FortisBC	12.0	11.5	10.0
Newfoundland Power	9.0	8.0	8.0
Other Canadian	6.0	3.5	2.0
	50.0	40.9	36.0
<b>Regulated Electric Utilities - Caribbean</b>	3.0	3.2	4.0
<b>Non-Regulated - Fortis Generation</b>	2.0	5.0	5.0
<b>Non-Regulated - Fortis Properties</b>	5.0	6.2	5.0
<b>Corporate and Other</b>	(22.0)	(20.8)	(19.0)
<b>Net Earnings Applicable to Common Shares</b>	<b>87.0</b>	<b>91.0</b>	<b>82.0</b>
Average Shares	191.0	190.2	188.1
<b>Adjusted EPS (basic)</b>	<b>\$0.46</b>	<b>\$0.48</b>	<b>\$0.44</b>

Note: Q4/11 has been restated

Source: BMO Capital Markets, Company Reports

**Exhibit 5: Summary of Financial Forecasts**

	2011	2012	Q1/13E	Q2/13E	Q3/13E	Q4/13E	2013E	2014E
Newfoundland Power	34.0	37.0	7.5	12.8	8.8	8.6	37.7	39.0
Other Canadian	22.0	24.0	8.5	6.5	6.5	4.4	25.9	26.9
FortisAlberta	73.0	96.0	25.9	28.4	24.9	20.4	99.6	111.3
FortisBC	48.0	50.0	16.6	9.6	12.4	11.8	50.4	55.1
Fortis Caribbean	20.0	19.0	3.4	5.9	7.6	4.2	21.2	23.1
Fortis Generation	18.0	17.0	4.7	4.7	6.0	3.4	18.7	19.4
Fortis Properties	23.0	22.0	2.0	8.1	7.8	6.6	24.4	25.1
Terasen Inc.	139.0	138.0	81.4	14.5	(4.9)	54.3	145.3	147.6
U.S. Utilities				4.0	6.4	21.7	32.2	44.7
Corporate	(74.5)	(80.6)	(20.0)	(20.0)	(20.0)	(20.0)	(79.8)	(81.3)
Earnings	302.5	322.4	130.0	74.5	55.5	115.5	375.6	410.8
Average Shares (Basic)	181.6	190.0	191.0	206.9	206.9	206.9	206.9	213.1
Net Earnings to Common (Basic)	\$1.67	\$1.70	\$0.68	\$0.36	\$0.27	\$0.56	\$1.81	\$1.93
Net Earnings to Common (Diluted)	\$1.66	\$1.69	\$0.66	\$0.36	\$0.27	\$0.55	\$1.80	\$1.91

## Exhibit 6: Consolidated Summary Sheet



## Market Perform

12-Month Target Price: \$35.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$34.24  
 ROR: 7.3%

## Fortis Inc. (FTS)

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	CAGR 2012A- 2014E
Total Basic Earnings Per Share	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.81	\$1.93	6.6%
Total Diluted Earnings Per Share	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.80	\$1.91	6.3%
First Call Consensus								\$1.80	\$1.88	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.18	\$0.18	
Other Canadian	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.13	\$0.13	\$0.13	
Fortis Properties	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.12	\$0.12	
Fortis Generation	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.09	\$0.09	\$0.09	
Fortis Caribbean	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	
FortisAlberta	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.51	\$0.48	\$0.52	
FortisBC	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.26	\$0.24	\$0.26	
Terasen Inc.	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.73	\$0.70	\$0.69	
CH Energy	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.16	\$0.21	
Other/Corporate	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.42)	(\$0.39)	(\$0.38)	
Dividends	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	4.1%
Payout Ratio	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	70.7%	68.3%	67.4%	
Average Shares (mm)	103.6	137.6	157.4	170.2	172.9	181.6	190.0	206.9	213.1	
Net Book Value	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.52	\$23.25	
<b>Market Valuation</b>										
Price: High	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	
Price: Low	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.24	-	
P/E Ratio: High	22.5	23.3	19.2	19.1	21.3	21.2	20.5	-	-	
P/E Ratio: Low	15.3	19.0	13.2	14.3	16.0	19.7	19.0	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.0	18.0	
EV/EBITDA: High	12.2	12.4	10.4	10.9	11.2	11.4	11.0	-	-	
EV/EBITDA: Low	10.3	11.5	9.0	9.7	9.9	11.0	10.6	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.8	10.4	
Yield: High Price	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	3.5%	-	-	
Yield: Low Price	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	3.8%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.8%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	141.5	853.0	584.0	554.0	305.0	176.0	99.0	533.4	807.2	
Debt (L-T)	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,672.6	6,817.7	
Minority Interest	130.0	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	
Preferred Shares	442.0	442.0	667.0	667.0	912.0	912.0	1,108.0	1,108.0	1,108.0	
Convertible Debentures	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	1,275.7	2,600.7	3,045.7	3,192.7	3,305.0	3,877.0	3,992.0	4,776.1	4,979.2	
	4,547.2	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,400.2	14,022.1	
<b>Balance Sheet (%)</b>										
Debt (S-T)	3.1%	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	4.0%	5.8%	
Debt (L-T)	54.9%	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	49.8%	48.6%	
Minority Interest	2.9%	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.2%	
Preferred Shares	9.7%	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	8.3%	7.9%	
Convertible Debentures	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	28.1%	30.1%	32.7%	32.5%	32.1%	35.7%	35.4%	35.6%	35.5%	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income Statement</b>										
Total Revenue	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,370.4	4,611.1	12.3%
EBITDA	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,456.2	1,564.2	11.2%
EBIT	343.6	543.4	713.0	704.0	736.0	750.5	794.0	964.0	1,040.0	14.4%
Net Earnings	143.2	187.4	252.5	262.0	281.0	302.5	322.4	375.6	410.8	12.9%
Cash Flow from Operations	316.3	490.0	622.0	678.0	734.0	795.0	898.0	967.9	1,024.3	6.8%

Note: Priced as of market close on February 7, 2013.

Source: BMO Capital Markets, Company Reports

## Exhibit 7: Power &amp; Utility Coverage Universe

			Price	Target	Dividend		ROR	High	Low	Shares	Market	Adjusted EPS			CAGR	FFO per share			CAGR				
	Ticker	Rating <sup>(1)</sup>	07-Feb-13	Price	Rate	Yield	Target	52 Wk	52 Wk	O/S (mm)	Cap. (mm)	2012E	2013E	2014E	('12-'14)	2012E	2013E	2014E	('12-'14)				
Utilities																							
Canadian Utilities Ltd.	CU	OP	\$74.10	\$78.00	\$1.94	2.6%	7.9%	\$76.25	\$61.26	127.6	\$9,458.0	\$3.92	\$4.17	\$4.59	8.2%	\$10.70	\$11.07	\$11.83	5.2%				
Caribbean Utilities <sup>(2)</sup>	CUP.U	Und	\$9.92	\$9.50	\$0.66	6.7%	2.4%	\$10.60	\$9.17	28.7	\$285.0	\$0.61	\$0.70	\$0.72	8.5%	\$1.42	\$1.53	\$1.56	5.0%				
Emera Inc.	EMA	Mkt	\$36.05	\$36.00	\$1.40	3.9%	3.7%	\$36.49	\$32.29	123.9	\$4,466.2	\$1.72	\$1.81	\$1.94	6.1%	\$3.45	\$3.52	\$3.52	1.0%				
Fortis Inc.	FTS	Mkt	\$34.24	\$35.50	\$1.24	3.6%	7.3%	\$34.98	\$31.70	190.0	\$6,505.6	\$1.69	\$1.80	\$1.91	6.3%	\$4.73	\$4.68	\$4.81	0.8%				
Average					4.2%		5.3%															3.0%	
Commodity Sensitive																							
Capital Power Corp.	CPX	OP	\$23.18	\$24.50	\$1.26	5.4%	11.1%	\$25.50	\$20.75	97.5	\$2,260.1	\$1.42	\$1.40	\$1.42	0.1%	\$3.93	\$4.04	\$4.10	2.2%				
TransAlta Corp.	TA	Mkt	\$16.34	\$15.50	\$1.16	7.1%	2.0%	\$21.20	\$13.96	246.3	\$4,023.7	\$0.59	\$0.69	\$0.63	3.1%	\$3.38	\$3.20	\$3.21	-2.5%				
Average					6.3%		6.5%															-0.2%	
			Price	Target	Dividend		ROR	High	Low	Shares	Market	AFFO per share			CAGR	FFO per share			CAGR				
	Ticker	Rating	07-Feb-13	Price	Rate	Yield	Target	52 Wk	52 Wk	O/S (mm)	Cap. (mm)	2012E	2013E	2014E	('12-'14)	2012E	2013E	2014E	('12-'14)				
Alternative Energy																							
Algonquin Power & Utilities	AQN	OP	\$7.35	\$8.00	\$0.31	4.2%	13.1%	\$7.60	\$5.62	159.1	\$1,169.3	\$0.28	\$0.59	\$0.85	73.3%	\$0.44	\$0.81	\$1.10	58.4%				
Atlantic Power Corporation <sup>(3)</sup>	ATP	Und	\$12.08	\$12.00	\$1.15	9.5%	8.9%	\$15.12	\$10.57	119.3	\$1,441.1	\$1.15	\$0.95	\$1.05	-4.3%	\$1.50	\$1.21	\$1.28	-7.5%				
Boralex Inc.	BLX	Mkt	\$9.40	\$11.00	\$0.00	0.0%	17.0%	\$10.01	\$7.41	37.7	\$354.7	na	na	na	na	\$1.15	\$1.29	\$1.82	25.6%				
Capstone Infrastructure	CSE	OP	\$4.34	\$5.00	\$0.30	6.9%	22.1%	\$4.74	\$3.68	75.3	\$326.8	\$0.53	\$0.60	\$0.62	8.7%	\$1.57	\$1.50	\$1.55	-0.7%				
Innervex Renewable Energy	INE	Mkt	\$10.64	\$11.50	\$0.58	5.5%	13.5%	\$11.27	\$9.69	81.3	\$864.8	\$0.38	\$0.60	\$0.66	31.9%	\$0.80	\$0.98	\$1.02	13.2%				
Northland Power Inc.	NPI	Mkt	\$19.36	\$20.00	\$1.08	5.6%	8.9%	\$19.82	\$16.67	119.6	\$2,314.9	\$0.49	\$1.09	\$1.21	56.3%	\$0.97	\$1.56	\$1.77	35.1%				
Average					5.3%		13.9%															20.7%	

Notes: (1) Ratings Key: Outperform – OP; Market Perform – Mkt; Underperform – Und.; Not Rated – NR; Restricted - R.

(2) All figures in US dollars.

(3) ATP's share price, target price, market cap, and dividend are shown in Canadian dollars; all other figures shown in US dollars.

Source: BMO Capital Markets, Thomson One

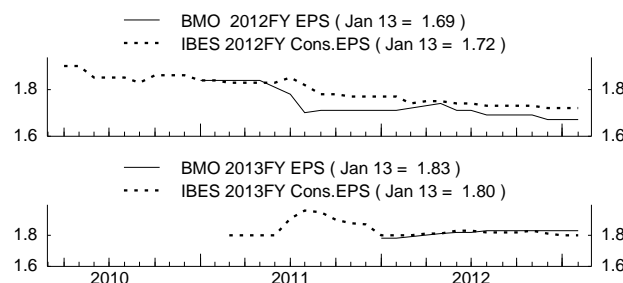
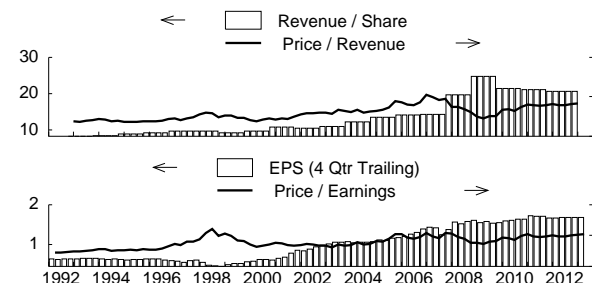
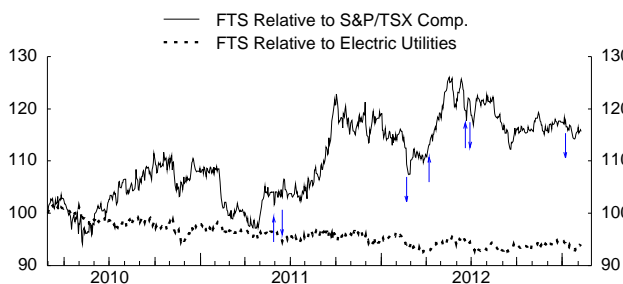
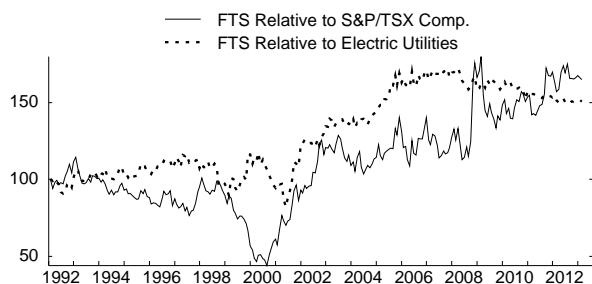
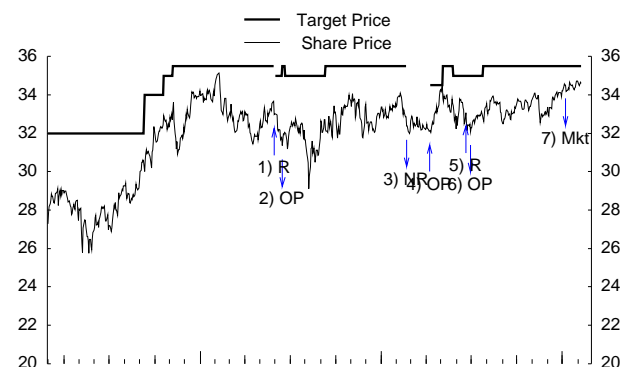
## Exhibit 8: Comparative Valuation of Coverage Universe

		P/E			P/FFO			EV/EBITDA			Debt/EBITDA		
	Ticker	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Utilities													
Canadian Utilities Ltd.	CU	17.0x	17.8x	16.1x	6.2x	6.7x	6.3x	10.0x	10.6x	9.8x	3.4x	3.6x	3.3x
Caribbean Utilities	CUP.U	16.1x	14.3x	13.9x	6.9x	6.5x	6.4x	10.9x	10.2x	10.2x	4.7x	4.4x	4.3x
Emera Inc.	EMA	19.8x	19.9x	18.6x	9.9x	10.2x	10.3x	13.6x	13.6x	14.0x	5.8x	5.4x	5.8x
Fortis Inc.	FTS	19.7x	19.0x	18.0x	7.0x	7.3x	7.1x	10.8x	10.8x	10.4x	4.7x	4.9x	4.9x
Average		18.1x	17.7x	16.6x	7.5x	7.7x	7.5x	11.3x	11.3x	11.1x	4.6x	4.6x	4.6x
Commodity Sensitive													
Capital Power Corp.	CPX	16.3x	16.6x	16.3x	5.9x	5.7x	5.7x	8.8x	8.4x	8.5x	3.5x	3.4x	3.7x
TransAlta Corp.	TA	28.7x	23.8x	25.8x	5.0x	5.1x	5.1x	9.3x	9.0x	8.7x	3.8x	3.6x	3.3x
Average		22.5x	20.2x	21.1x	5.5x	5.4x	5.4x	9.0x	8.7x	8.6x	3.6x	3.5x	3.5x
		Free Cash Flow Yield			P/FFO			EV/EBITDA			Debt/EBITDA		
	Ticker	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Alternative Energy													
Algonquin Power & Utilities	AQN	4.4%	8.1%	11.6%	14.8x	9.1x	6.7x	18.9x	12.5x	10.1x	6.9x	4.7x	4.3x
Atlantic Power Corporation	ATP	8.3%	7.8%	8.7%	9.2x	10.0x	9.4x	11.0x	11.8x	11.1x	7.5x	7.9x	7.1x
Boralex Inc.	BLX	na	na	na	7.4x	7.3x	5.2x	13.0x	15.9x	10.5x	9.1x	11.9x	7.9x
Capstone Infrastructure	CSE	12.7%	13.8%	14.3%	2.6x	2.9x	2.8x	7.3x	7.1x	6.9x	4.6x	4.3x	4.1x
Innervex Renewable Energy	INE	3.6%	5.6%	6.2%	13.2x	10.8x	10.4x	16.8x	16.5x	15.4x	8.9x	8.5x	8.2x
Northland Power Inc.	NPI	2.7%	5.6%	6.2%	18.7x	12.4x	10.9x	19.4x	15.8x	13.6x	6.1x	5.5x	5.3x
Average		6.3%	8.2%	9.4%	11.0x	8.8x	7.6x	14.4x	13.3x	11.3x	7.2x	7.1x	6.2x

Priced as of February 7, 2013.

Source: BMO Capital Markets, Thomson One

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	20.7	1.20	3.5	72	20.6	1.7	8

Growth(%):

5 Year:	4.0	7.4	4.3
10 Year:	5.6	9.4	9.3
20 Year:	5.0	5.9	7.1

\* Current EPS is the 4 Quarter Trailing to Q3/2012.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 26-Feb-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( February 6, 2013): \$34.60

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (December 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

February 28, 2013  
Research Fact Sheet  
Power & Utilities

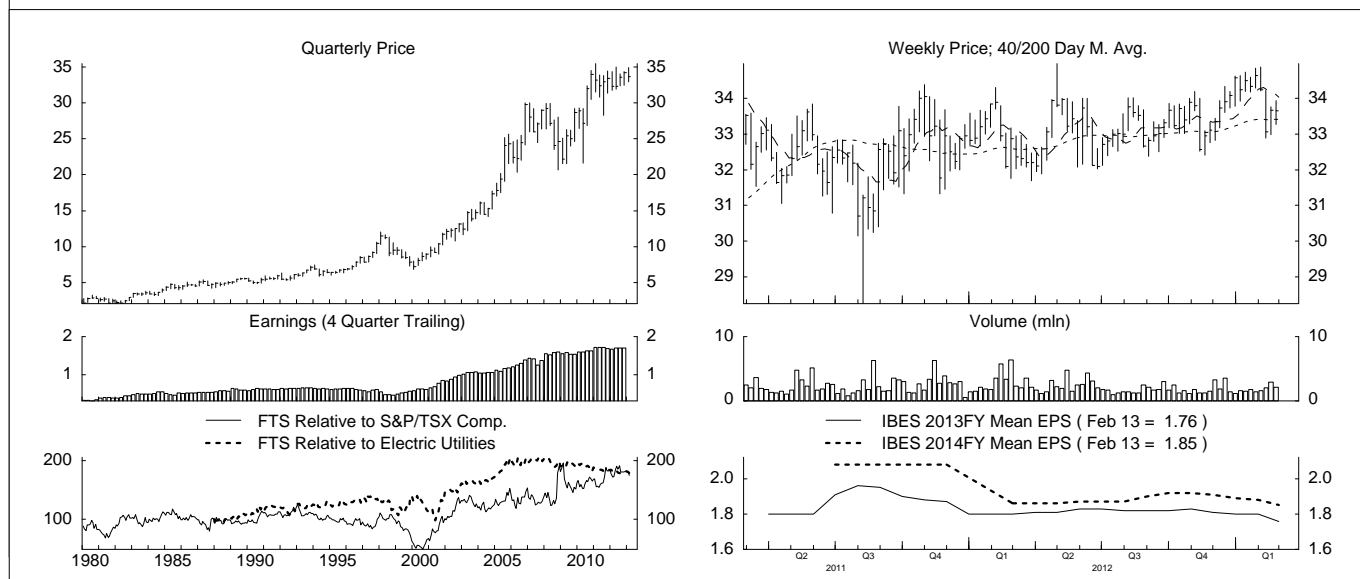
Stock Rating: Market Perform  
Industry Rating: Market Perform

Ben Pham, CFA  
(416) 359-4061  
ben.pham@bmo.com  
Assoc: Adam Johnson, CA

Price (28-Feb)	\$33.66	52-Week High	\$34.98
Target Price	\$35.50	52-Week Low	\$31.70
Dividend	\$1.24	Book Value	\$20.84
Yield	3.7%	Price/Book	1.6x
Shares O/S (mm)	191.6	Mkt. Cap (\$mm)	\$6,449
Float O/S (mm)	191.6	Float Cap (\$mm)	\$6,449
Wkly Vol (000s)	2,081	Wkly \$ Vol (mm)	\$69.2
Net Debt (\$mm)	\$5,882	Next Rep. Date	May (E)
<b>Quarterly EPS</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
2011A	\$0.67	\$0.32	\$0.24
2012A	\$0.66	\$0.34	\$0.24
2013E	\$0.68	\$0.36	\$0.27

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS	\$1.66	\$1.69	\$1.80	\$1.91
P/E			18.7x	17.6x
CFPS	\$4.38	\$4.73	\$4.68	\$4.81
P/CFPS			7.2x	7.0x
Div.	\$1.16	\$1.20	\$1.24	\$1.30
EV (\$mm)	\$12,907	\$13,602	\$15,590	\$16,216
EBITDA (\$mm)	\$1,169.5	\$1,264.0	\$1,455.4	\$1,564.6
EV/EBITDA	11.0x	10.8x	10.7x	10.4x
ROE (%)	7.8%	8.1%	7.9%	8.3%
Book Value (\$)	\$20.53	\$20.84	\$22.52	\$23.25
D/Tot. Cap. (%)	54.0%	52.1%	53.8%	54.4%
Reg. ROE (%)	na	na	na	na

Notes: All values in C\$; EPS estimates are diluted; Quarterly numbers are basic Disclosures: 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%), FortisOntario (100%), Caribbean Utilities (59.5%), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%) and the FortisBC Energy Companies (100%). *Website:* fortisinc.com

**Recent Results** – Fortis reported Q4/12 earnings that were a few pennies shy of our expectations (\$0.46 vs. \$0.48) amid weaker-than-expected earnings from its B.C. regulated gas utility and lower non-regulated hydroelectric power

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

generation, partially offset by higher-than-expected earnings from its Alberta regulated utility.

**Corporate Developments** – On January 28, 2013, Fortis filed a settlement agreement with the New York State Public Service Commission regarding its previously announced acquisition of CH Energy. Subject to the proposed settlement agreement receiving approval from the Commission, Fortis now expects that this transaction will close in Q2/13 (vs. end of Q1/13 previously).

In December 2012, the BC Utilities Commission held a public oral hearing for the first phase of its Generic Cost of Capital Proceeding, the outcome of which is not expected until at least mid-2013. The BCUC has ordered that the current allowed ROE and capital structures are to be maintained in the interim.

On November 13, 2012, Fortis closed an offering of \$200 million in Series J preferred shares at 4.75%. The funds will be used to repay borrowings under the company's credit facility as well as for the construction of the Waneta dam expansion project, which has a target in-service date of 2015.

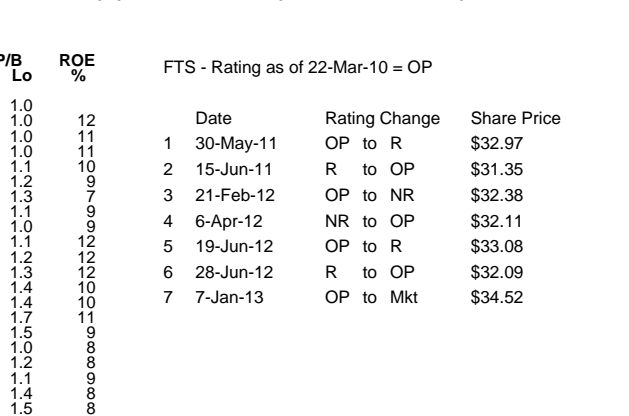
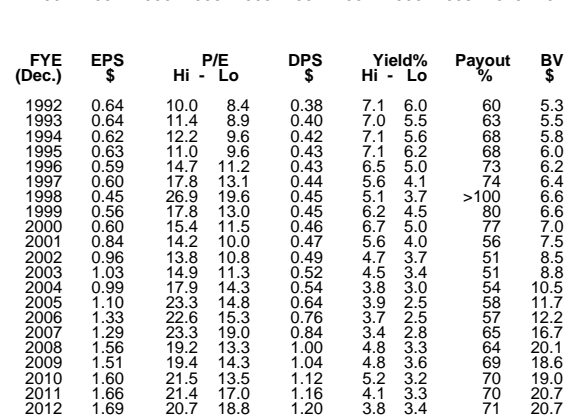
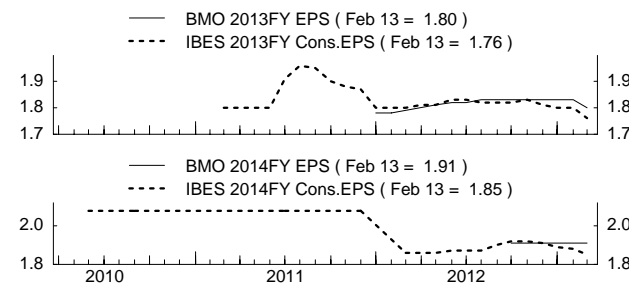
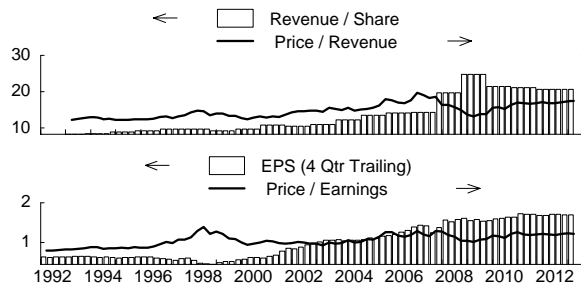
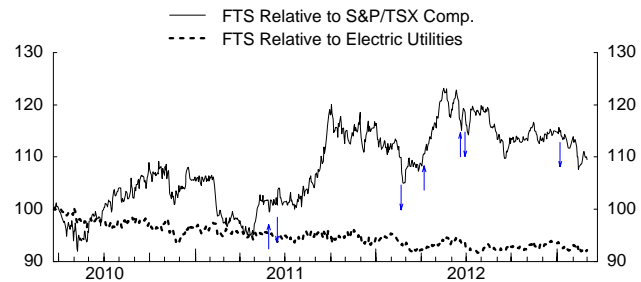
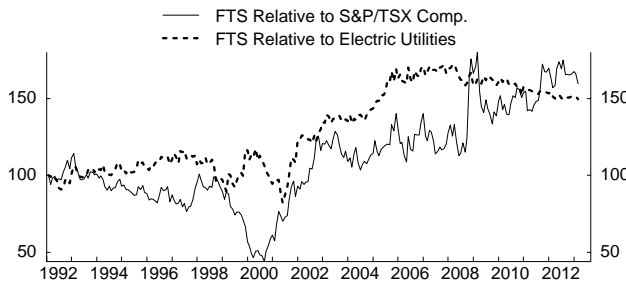
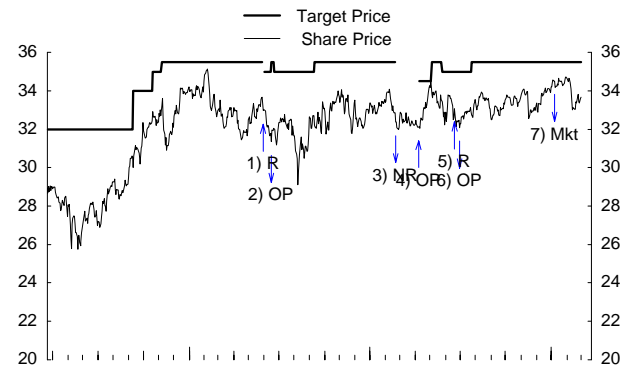
In September 2012, the Alberta Utilities Commission issued a generic decision outlining a new Performance-Based Regulation (PBR) framework, which will be applicable to all distribution utilities (gas and electric) in Alberta over a five-year period commencing January 1, 2013. As required, FortisAlberta has filed a compliance application, for which a decision is expected in Q1/13. A review and variance application and capital tracker application (for specific categories of capex) have also been filed, with a decision expected to be made during Q3/13.

**Forecasts** – We are forecasting EPS (f.d.) of \$1.80 and \$1.91 for 2013 and 2014, respectively.

**Valuation** – Our target price of \$35.50 is based on 18.5x 2014E EPS.

**Recommendation** – At current levels, we believe the shares of Fortis are reasonably valued. Our rating is Market Perform.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	FTS - Rating as of 22-Mar-10 = OP		
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0				
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12			
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11			
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11			
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10			
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9			
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7			
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9			
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9			
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12			
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12			
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12			
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10			
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10			
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11			
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9			
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8			
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8			
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9			
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8			
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.7	1.7 1.5	8			
Range*		26.9 8.4		7.1 2.5			2.5 1.0				
Current*	1.70	19.8	1.24	3.7	73	20.8	1.6	8			
Growth(%):											
5 Year:	4.3		4.4			4.5					
10 Year:	5.7		9.1			9.4					
20 Year:	5.0		6.1			7.1					

\* Current EPS is the 4 Quarter Trailing to Q4/2012.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price ( February 28, 2013): \$ND  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (December 31, 2012)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Ratings and Sector Key**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Prior BMO Capital Markets Ratings Systems**

[http://researchglobal.bmocapitalmarkets.com/documents/2009/prior\\_rating\\_systems.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf)

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Services Authority (FSA) in the United Kingdom. FSA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion)

Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

“Nesbitt Burns” is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. “BMO Capital Markets” is a trademark of Bank of Montreal, used under license. “BMO (M-Bar roundel symbol)” is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$34.88**  
**Target Price:**      **\$35.50**

**May 5, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CA  
BMO Nesbitt Burns Inc.

## Administrative Law Judges Recommend Against Fortis-CH Energy Transaction; Commission Decision Expected June 2013

---

### Impact

Potentially Negative

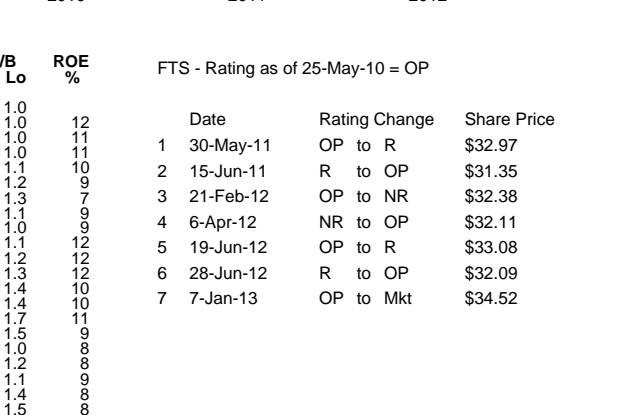
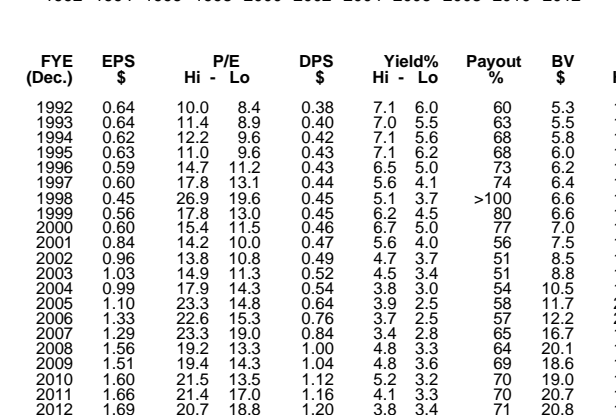
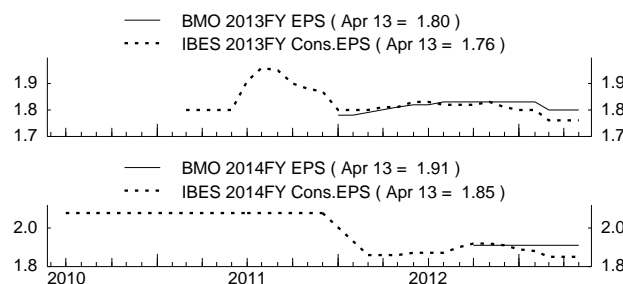
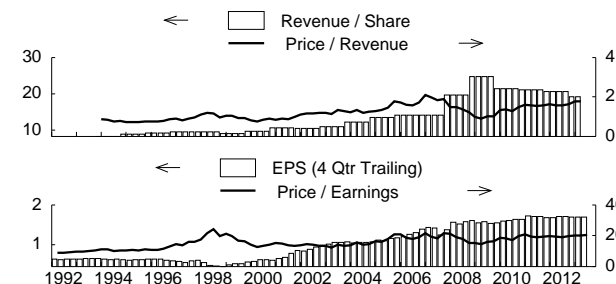
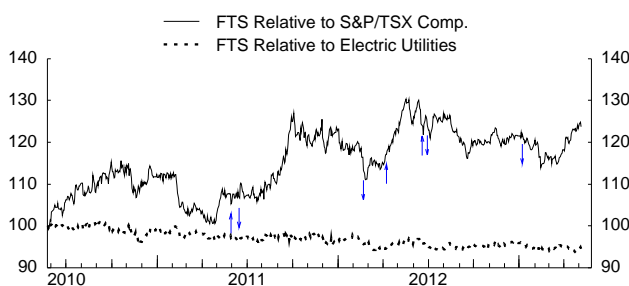
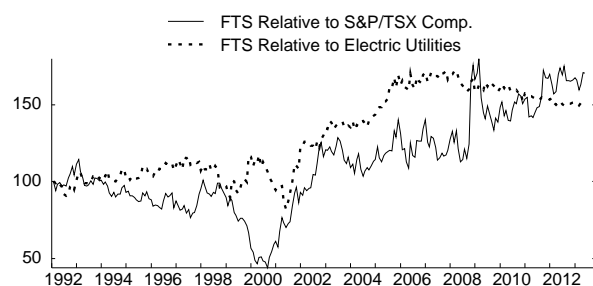
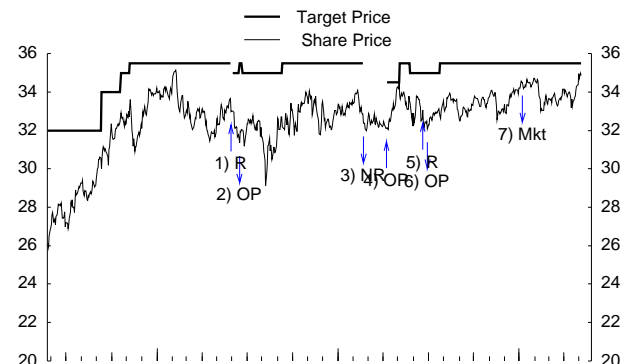
---

### Details & Analysis

On May 3, two administrative law judges (ALJ) wrote in a [recommended decision](#) to the New York State Public Service Commission that the benefits of Fortis' proposed takeover of CH Energy Group "are outweighed by the detriments". The judges noted "an extraordinarily intense degree of public opposition to change in Central Hudson's ownership among customers, their elected officials, and labor representatives and other public organizations in the service territory". While the judges held open an option that the Commission may want to approve the deal with modifications that would improve the balance of risks and benefits, they suggested that requiring more economic benefits still might not make the deal palatable to the public. Keep in mind that the recommended decision is an advisory opinion only and it will be up to the Commission to determine whether to approve or deny the transaction. Next steps: submissions responding to the recommended decision are due by May 17, 2013 with responses to submissions due by May 24, 2013. Fortis expects the Commission to issue its decision in June 2013. We still assume transaction approval will not be unreasonably withheld and that it will be received in such time for a mid-year transaction close, but the risk of delay/cancellation is no doubt escalating.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.70	20.6	1.24	3.5	73	20.8	1.7	8

Growth(%):

5 Year:

10 Year:

20 Year:

1.8	4.4	4.5
5.3	9.1	9.4
5.0	6.1	7.1

\* Current EPS is the 4 Quarter Trailing to Q4/2012.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 25-May-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( May 3, 2013): \$34.88

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%



- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$35.01**  
**Target Price:**      **\$35.50**

**May 7, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CA  
BMO Nesbitt Burns Inc.

## Q1/13 Results in Line

---

### Impact

Neutral

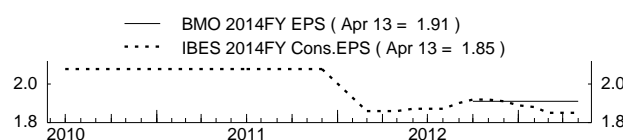
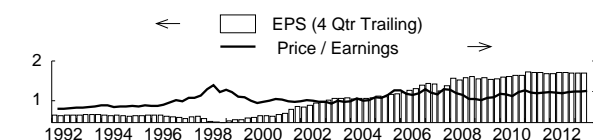
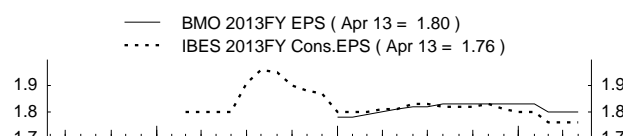
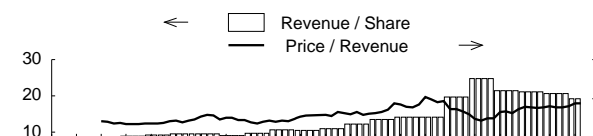
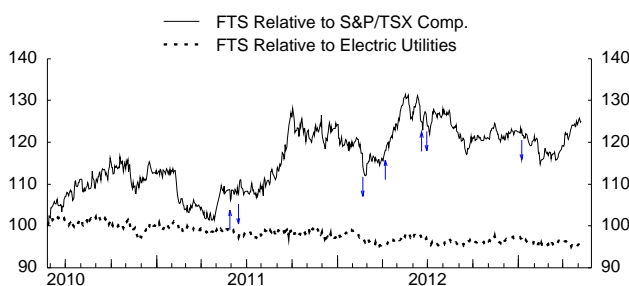
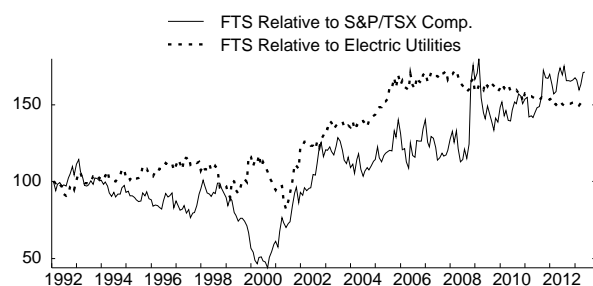
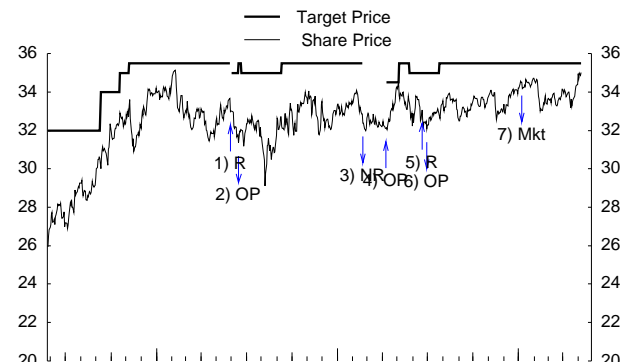
---

### Details & Analysis

Fortis reported in-line Q1/13 results. After normalizing for a \$0.12 after-tax gain relating to the settlement of a 2008 expropriation of hydro assets in Newfoundland, EPS were \$0.67 vs. our estimate of \$0.68 and spot on with Street consensus of \$0.67. Key highlights: (1) Fortis maintains its expectation to close the acquisition of CH Energy in June 2013. Approval authority ultimately rests with the New York State Public Service Commission; while an unfavourable recommended decision was issued by administrative law judges on May 3 based on the current terms of the transaction, this represents an “advisory decision” only and is among several factors the Commission will consider in its final decision. (2) Fortis Alberta received a decision from the AUC in March 2013 permitting an interim rate increase on distribution rates, which includes approval of 60% of the revenue requirement of certain capex in 2013 not otherwise recovered under performance-based rates (PBR). A final PBR decision is expected in H2/13. (3) FortisBC Electric completed its acquisition of the City of Kelowna’s electrical utility assets during Q1/13, for \$55 million, as planned. (4) The company’s outlook for \$1.3 billion in capital spending for 2013 and \$6 billion over the five years 2013–2017 is unchanged. Construction of the \$900 million, 335-MW Waneta hydro expansion project remains on track for on-time and on-budget commissioning during spring 2015. We continue to review the release.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.70	20.6	1.24	3.5	73	20.8	1.7	8
Growth(%):								
5 Year:	1.8		4.4			4.5		
10 Year:	5.3		9.1			9.4		
20 Year:	5.0		6.1			7.1		

\* Current EPS is the 4 Quarter Trailing to Q4/2012.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 26-May-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price (May 6, 2013): \$35.01

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Rating and Sector Key (as of April 5, 2013):

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

### Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

### Other Important Disclosures

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

### Dissemination of Research

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

### Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

### General Disclaimer

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are



accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

#### **Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**May 7, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CA

## Q1 – Smooth Sailing

### Event

Fortis reported Q1/13 adjusted EPS of \$0.67 vs. our estimate of \$0.68 and consensus of \$0.67. Capital spending guidance was reaffirmed.

### Impact

Neutral. With its 2013 capital spending outlook generally intact, FTS's major catalysts revolve around: (1) regulatory approval of its CH Energy acquisition; (2) the outcomes of regulatory proceedings (i.e., B.C. ROE, Alberta PBR); and (3) a potential dividend increase in Q4/13. Despite more challenged growth prospects in its real estate and non-regulated power generation segments, FTS's outlook for its regulated utilities businesses remains in great shape (especially Alberta).

### Forecasts

We have updated our outlook to reflect Q1/13 financial performance and the information contained in the quarterly release. Our 2013 EPS estimate was lowered to \$1.78 (f.d.) from \$1.80 (f.d.), while our 2014E EPS of \$1.91 (f.d.) is unchanged.

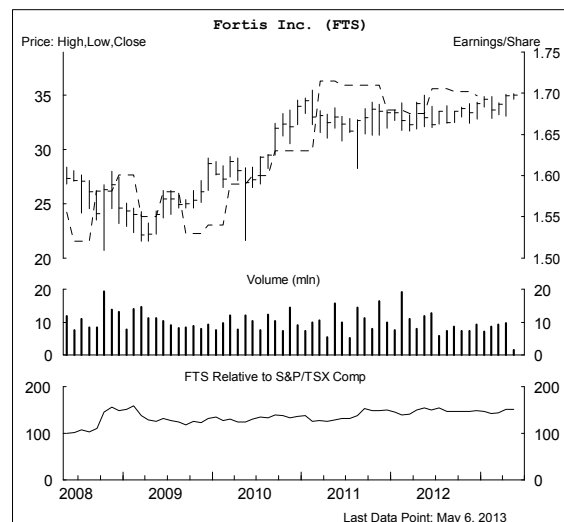
### Valuation

We are maintaining our target price of \$35.50, which represents 18.5x our 2014E EPS forecast.

### Recommendation

We continue to rate the shares of Fortis Market Perform.

**Price (7-May)** \$34.97 **52-Week High** \$35.14  
**Target Price** \$35.50 **52-Week Low** \$32.03



(FY-Dec.)	2011A	2012A	2013E	2014E
EPS	\$1.66	\$1.69	\$1.78↓	\$1.91
P/E			19.6x	18.3x
CFPS	\$4.38	\$4.73	\$4.68	\$4.81
P/CFPS			7.5x	7.3x
Div.	\$1.16	\$1.20	\$1.24	\$1.30
EV (\$mm)	\$12,907	\$13,602	\$15,650	\$16,421
EBITDA (\$mm)	\$1,169.5	\$1,264.0	\$1,434.7	\$1,563.2
EV/EBITDA	11.0x	10.8x	10.9x	10.5x
Quarterly EPS	Q1	Q2	Q3	Q4
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013E	\$0.67a	\$0.35↓	\$0.25↓	\$0.54↓
Dividend	\$1.24			3.5%
Book Value	\$21.36			Price/Book
Shares O/S (mm)	192.6			1.6x
Float O/S (mm)	192.6			Mkt. Cap (mm)
Wkly Vol (000s)	2,002			\$6,735
Net Debt (\$mm)	\$5,935			Float Cap (mm)
				\$6,735
				Wkly \$ Vol (mm)
				\$67.0
				Next Rep. Date
				Jul (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2012E: \$1.72; 2013E: \$1.80; 2014E: \$1.88

### Changes

**Annual EPS**  
 2013E \$1.80 to \$1.78

### Quarterly EPS

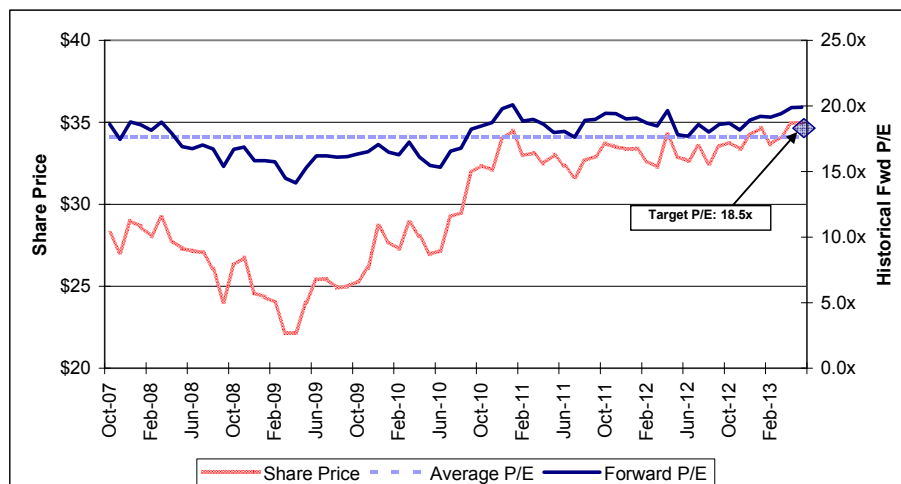
Q2/13E \$0.36 to \$0.35  
 Q3/13E \$0.27 to \$0.25  
 Q4/13E \$0.56 to \$0.54

## Q1 – Smooth Sailing

- **We are maintaining a Market Perform rating and 12-month target price of \$35.50 on Fortis shares.** Fortis' first quarter results were largely in line with our expectations (adjusted EPS of \$0.67 vs. our estimate of \$0.68 and consensus of \$0.67). With its 2013 capital spending outlook generally intact, FTS's major catalysts revolve around: (1) regulatory approval of its CH Energy acquisition; (2) the outcomes of regulatory proceedings (i.e., B.C. ROE, Alberta PBR); and (3) a potential dividend increase in Q4/13. Despite more challenged growth prospects in its real estate and non-regulated power generation segments, FTS's outlook for its regulated utilities businesses remains in great shape (especially Alberta). We are maintaining our Market Perform rating and \$35.50 target price, which reflects 18.5x our 2014E EPS forecast.
- **2013 capital spending guidance remains unchanged at \$1.3 billion.** Over the five years 2013–2017, the company's capital program is expected to be \$6 billion, with ~54% of the total capital spending to Canadian regulated electric activities, ~11% to Central Hudson; ~20% to Canadian regulated gas utilities; 4% to Caribbean regulated electric utilities; and the remaining ~11% to non-regulated operations.
- **Management still targeting a June 2013 close for the CH Energy acquisition:** the pending US\$1.5 billion acquisition of CH Energy, an electric utility in the Hudson Valley region in central New York, continues to await final approval from the New York State Public Service Commission (PSC) before it can be completed. A settlement agreement was filed in January 2013, which was signed by Fortis and CH Energy, and was supported by PSC Staff and the Utility Intervention Unit of the New York State Department of State. However, there has been an intense degree of opposition to the deal from ratepayers, elected officials, labour representatives and other public organizations. Moreover, on May 3, two administrative law judges issued a recommended decision opposing the current terms of the transaction. It is important to note that this recommended decision is non-binding and serves as an advisory decision only, and will be one of several factors that the PSC considers in its final decision. Comments responding to this recommended decision are due by May 17, with responses to such submissions due by May 24. Fortis has indicated that it "intends to engage in further discussions to obtain PSC approval of the transaction" and still expects to close the transaction in June.
- **Waneta expansion:** Fortis remains on track for first production at its \$900-million 335 MW Waneta dam expansion (51% interest) in spring 2015. Construction activities during Q1/13 included ongoing placement of concrete in the powerhouse and intake, ongoing installation of the powerhouse roof and turbine components, and intake-channel excavation work. A total of \$483 million has been spent to date since construction began in late 2010. We believe the project could add \$0.10 in EPS in 2015E.
- **Key regulatory updates:**
  - A decision on the first phase of the BCUC's Generic Cost of Capital (GCOC) proceeding is still expected to occur in mid-2013; this phase will establish an allowed ROE and capital structure for FortisBC Energy Inc. (FEI), which will serve as a benchmark utility for determining the allowed rates of return and capital

structures of other regulated utility companies in B.C. (which will take place under the second phase of the proceeding that commenced in April 2013).

- In March 2013, the BCUC approved FortisBC Electric's acquisition of \$55 million of electrical utility assets from the City of Kelowna. However, only \$38 million was approved for inclusion in the company's rate base.
  - In March 2013, the AUC issued an interim decision on the first compliance applications filed by Fortis' distribution utility in Alberta. The decision approved, among other items, a combined inflation and productivity factor of 1.71% and 60% of the revenue requirement associated with the utilities' 2013 capital tracker application (which allows recovery of capex not otherwise included in performance-based rates). A hearing for the capital tracker application will be held in June 2013; Fortis expects the AUC to rule on this matter in the second half of 2013. Meanwhile, a final decision on the compliance application is expected in Q3/13.
  - In April 2013, the AUC recommenced its 2013 GCOC proceeding, the purpose of which will be to establish allowed ROE and capital structures for Alberta utilities for 2013–2014 (and 2015, on an interim basis). The AUC has indicated that it does not, at this point in time, intend to re-establish a formulaic automatic adjustment mechanism to determine allowed ROE. The 2013 GCOC proceeding is set to commence in Q2/13 with a hearing in early 2014.
  - FortisAlberta will file reply arguments in the Utility Asset Distribution ("stranded cost") proceeding in June 2013. A decision from the AUC is expected during Q3/13.
  - The Board of Commissioners of Public Utilities of Newfoundland and Labrador (PUB) issued a decision on Newfoundland Power's 2013/2014 General Rate Application in April 2013. The decision sets Newfoundland Power's allowed ROE and deemed common equity component at 8.8% and 45%, respectively, for 2013–2015.
- **Revised estimates:** We have updated our outlook to reflect Q1/13 financial performance and the information contained in the quarterly release. Our 2013 EPS estimate was lowered to \$1.78 (f.d.) from \$1.80 (f.d.), while our 2014E EPS of \$1.91 (f.d.) is unchanged.
  - **Valuation premium warranted:** We are maintaining a Market Perform rating and 12-month target price of \$35.50 on Fortis shares. Fortis shares currently trade at a P/E multiple of 18.3x our 2014 EPS estimate, which is towards the upper end of its five-year historical trading range. We reiterate our belief that this valuation premium is justified, given the company's superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the persistence of historically low 10-year government of Canada bond yields.

**Exhibit 1: FTS – P/E, Share Price and Target P/E**

Source: Thomson One, Bloomberg

**Exhibit 2: Upcoming Events/Catalysts**

Jul-13	Q2/13 results
June 2013	Expected closing of CH Energy transaction
Mid-2013	Expected decision on first phase of BCUC 2013 GCOC
Q3/13	Expected decision on Alberta PBR compliance filing
Q3/13	Expected decision on Utility Asset Disposition (UAD) proceeding
2H/13	Expected decision on Alberta PBR review and variance application/capital tracker application
Early 2014	Planned hearing for AUC 2013 GCOC (2013, 2014 and 2015 interim)
Spring 2015	Expected commissioning of Waneta hydro facility

Source: BMO Capital Markets, Company Reports

- First quarter results:** Fortis reported in-line Q1/13 results. After normalizing for a \$0.12 after-tax gain relating to the settlement of a 2008 expropriation of hydro assets in Newfoundland, EPS were \$0.67 vs. our estimate of \$0.68 and spot on with Street consensus of \$0.67. Please see Exhibit 3 for a further run down of Fortis' first quarter results. Our quarterly and annual estimates are set out in Exhibit 4 and 5.

## Exhibit 3: Earnings by Business Segment – Q1/13

	Q1/13 (\$mm)	Q1/13E (\$mm)	Q1/12 (\$mm)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	85.0	81.4	82.0
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	26.0	25.9	21.0
FortisBC	18.0	16.6	16.0
Newfoundland Power	7.0	7.5	7.0
Other Canadian	6.0	8.5	7.0
<b>Regulated Electric Utilities - Caribbean</b>	57.0	58.6	51.0
<b>Non-Regulated - Fortis Generation<sup>(1)</sup></b>	3.0	3.5	3.0
<b>Non-Regulated - Fortis Properties</b>	2.0	4.7	5.0
<b>Corporate and Other<sup>(2)</sup></b>	0.0	2.0	1.0
<b>Net Earnings Applicable to Common Shares</b>	(18.0)	(20.1)	(17.0)
<b>Net Earnings Applicable to Common Shares</b>	<b>129.0</b>	<b>130.0</b>	<b>125.0</b>
Average Shares	192.0	191.0	189.0
<b>Adjusted EPS (basic)</b>	<b>\$0.67</b>	<b>\$0.68</b>	<b>\$0.66</b>

Notes:

(1) Q1/13 results exclude a \$22 million after-tax gain resulting from the settlement of a 2008 government expropriation of hydro assets in Newfoundland.

(2) Corporate expenses for Q1/12 exclude approximately \$4 million in acquisition costs relating to the planned CH Energy transaction.

Source: BMO Capital Markets, Company Reports

## Exhibit 4: Summary of Financial Forecasts

	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012	Q1/13	Q2/13E	Q3/13E	Q4/13E	2013E	2014E
Newfoundland Power	34.0	7.0	12.0	9.0	9.0	37.0	7.0	12.3	9.2	9.2	37.7	39.0
Other Canadian	22.0	7.0	5.0	6.0	6.0	24.0	6.0	5.2	6.1	6.1	23.4	26.9
FortisAlberta	73.0	21.0	26.0	26.0	23.0	96.0	26.0	25.9	25.1	22.6	99.6	111.3
FortisBC	48.0	16.0	9.0	13.0	12.0	50.0	18.0	9.1	12.7	12.0	51.8	55.1
Fortis Caribbean	20.0	3.0	6.0	7.0	3.0	19.0	3.0	6.5	7.8	4.3	21.6	24.1
Fortis Generation	18.0	5.0	5.0	5.0	2.0	17.0	2.0	5.0	5.6	3.5	16.1	18.9
Fortis Properties	23.0	1.0	8.0	8.0	5.0	22.0	0.0	8.4	8.1	5.5	22.0	24.4
Terasen Inc.	139.0	82.0	13.0	(6.0)	49.0	138.0	85.0	14.5	(6.5)	52.3	145.3	147.6
U.S. Utilities	0.0								4.7	18.9	23.6	44.7
Corporate	(74.5)	(17.0)	(18.6)	(23.0)	(22.0)	(80.6)	(18.0)	(20.3)	(20.3)	(20.1)	(78.7)	(79.8)
Earnings	302.5	125.0	65.4	45.0	87.0	322.4	129.0	66.5	52.6	114.3	362.4	412.2
Average Shares (Basic)	181.6	189.0	189.6	190.2	191.0	190.0	192.0	192.0	210.5	210.5	201.8	213.1
Net Earnings to Common (Basic)	\$1.67	\$0.66	\$0.34	\$0.24	\$0.46	\$1.70	\$0.67	\$0.35	\$0.25	\$0.54	\$1.80	\$1.93
Net Earnings to Common (Diluted)	\$1.66	\$0.64	\$0.34	\$0.24	\$0.45	\$1.69	\$0.66	\$0.35	\$0.25	\$0.54	\$1.78	\$1.91

Source: BMO Capital Markets, Company Reports



## Exhibit 5: Consolidated Summary Sheet



## Market Perform

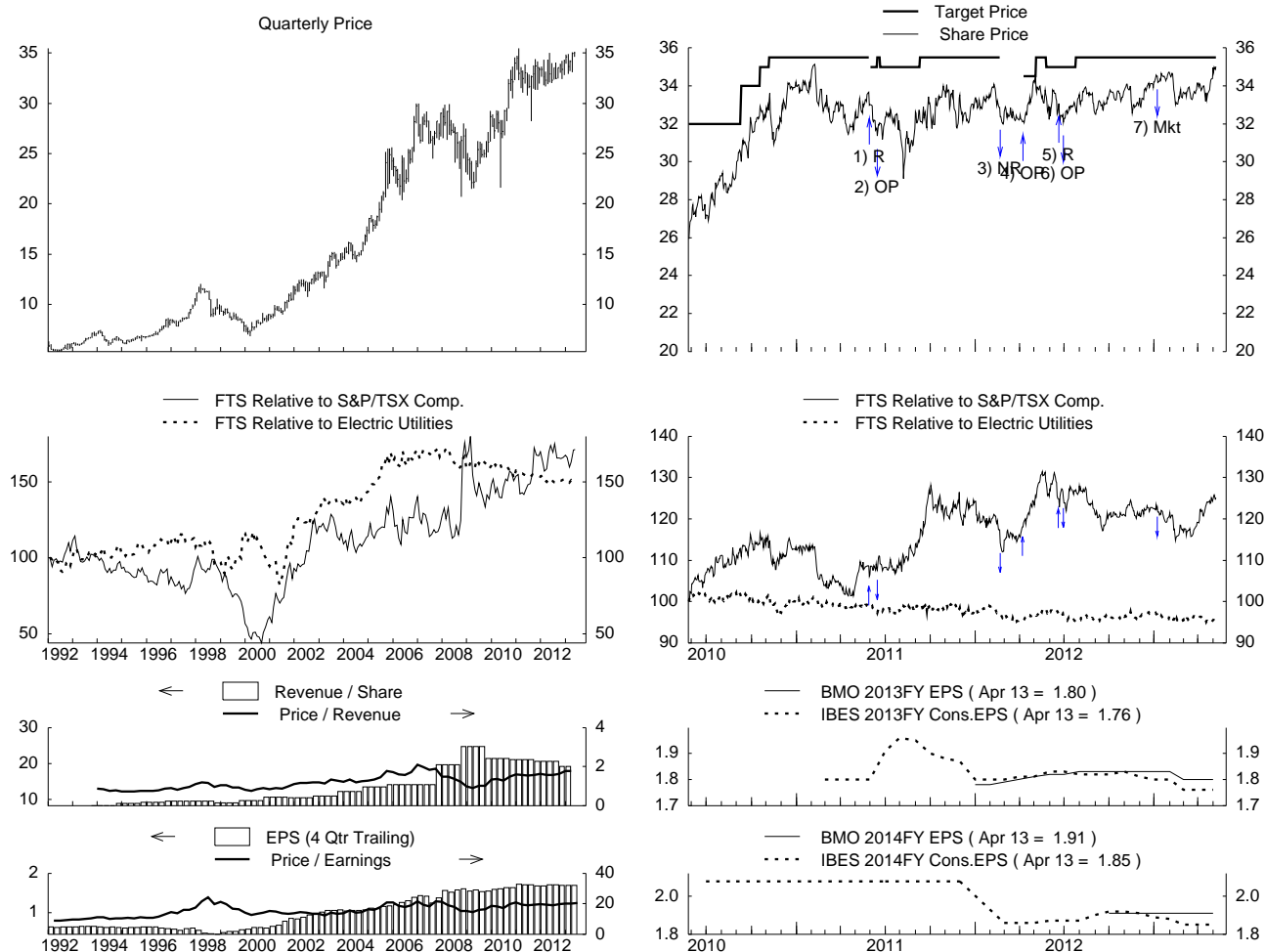
12-Month Target Price: \$35.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$34.97  
 ROR: 5.1%

## Fortis Inc. (FTS)

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	CAGR 2012A- 2014E
Total Basic Earnings Per Share	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.80	\$1.93	6.8%
Total Diluted Earnings Per Share	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.78	\$1.91	6.5%
First Call Consensus								\$1.76	\$1.85	
Segmented EPS										
Newfoundland Power	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.19	\$0.18	
Other Canadian	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.13	\$0.12	\$0.13	
Fortis Properties	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.11	\$0.11	
Fortis Generation	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.09	\$0.08	\$0.09	
Fortis Caribbean	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	\$0.11	
FortisAlberta	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.51	\$0.49	\$0.52	
FortisBC	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.26	\$0.26	\$0.26	
Terasen Inc.	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.73	\$0.72	\$0.69	
CH Energy	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.12	\$0.21	
Corporate	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.42)	(\$0.39)	(\$0.37)	
Dividends	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	4.1%
Payout Ratio	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	70.7%	69.0%	67.2%	
Average Shares (mm)	103.6	137.6	157.4	170.2	172.9	181.6	190.0	201.8	213.1	
Net Book Value	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.49	\$23.22	
Market Valuation										
Price: High	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	
Price: Low	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.97	-	
P/E Ratio: High	22.5	23.3	19.2	19.1	21.3	21.2	20.5	-	-	
P/E Ratio: Low	15.3	19.0	13.2	14.3	16.0	19.7	19.0	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.6	18.3	
EV/EBITDA: High	12.2	12.4	10.4	10.9	11.2	11.4	11.0	-	-	
EV/EBITDA: Low	10.3	11.5	9.0	9.7	9.9	11.0	10.6	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.9	10.5	
Yield: High Price	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	3.5%	-	-	
Yield: Low Price	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	3.8%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.5%	3.7%	
Balance Sheet (\$mm)										
Debt (S-T)	141.5	853.0	584.0	554.0	305.0	176.0	99.0	501.8	734.2	
Debt (L-T)	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,672.6	6,817.7	
Minority Interest	130.0	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	
Preferred Shares	442.0	442.0	667.0	667.0	912.0	912.0	1,108.0	1,108.0	1,108.0	
Convertible Debentures	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>1,275.7</u>	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,767.8</u>	<u>4,972.2</u>	
	4,547.2	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,360.2	13,942.1	
Balance Sheet (%)										
Debt (S-T)	3.1%	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	3.8%	5.3%	
Debt (L-T)	54.9%	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	49.9%	48.9%	
Minority Interest	2.9%	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.2%	
Preferred Shares	9.7%	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	8.3%	7.9%	
Convertible Debentures	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>28.1%</u>	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>35.7%</u>	<u>35.7%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Income Statement										
Total Revenue	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,343.3	4,598.4	12.2%
EBITDA	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,434.7	1,563.2	11.2%
EBIT	343.6	543.4	713.0	704.0	736.0	750.5	794.0	942.3	1,039.2	14.4%
Net Earnings	143.2	187.4	252.5	262.0	281.0	302.5	322.4	362.4	412.2	13.1%
Cash Flow from Operations	316.3	490.0	622.0	678.0	734.0	795.0	898.0	994.7	1,065.7	8.9%

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0

Current\* 1.70 20.6 1.24 3.5 73 20.8 1.7 8

Growth(%):

5 Year:	1.8	4.4	4.5
10 Year:	5.3	9.1	9.4
20 Year:	5.0	6.1	7.1

\* Current EPS is the 4 Quarter Trailing to Q4/2012.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 26-May-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( May 6, 2013): \$35.01

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf).

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its’ affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Services Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$34.48**  
**Target Price:**      **\$35.50**

**May 13, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CPA, CA  
BMO Nesbitt Burns Inc.

## BCUC Issues Stage 1 Decision in Generic Cost of Capital Proceeding

---

### Impact

Slightly Negative

---

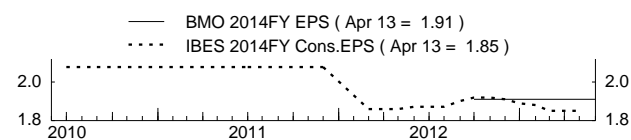
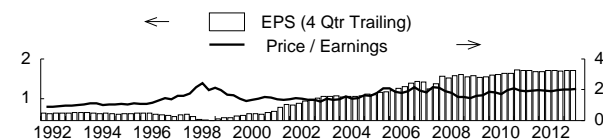
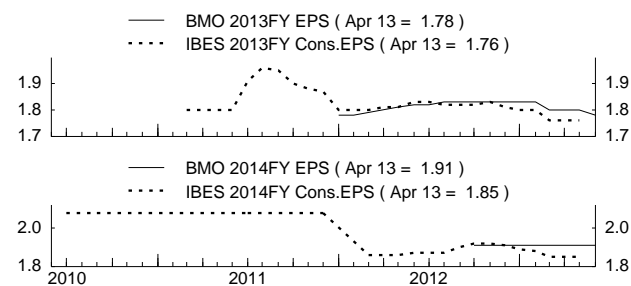
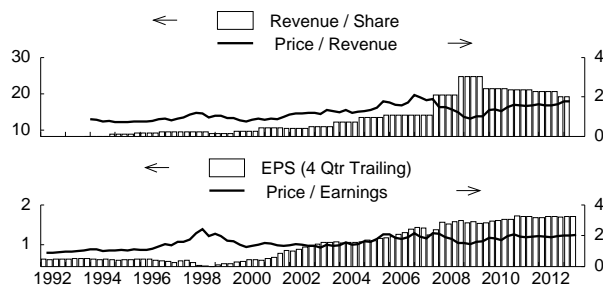
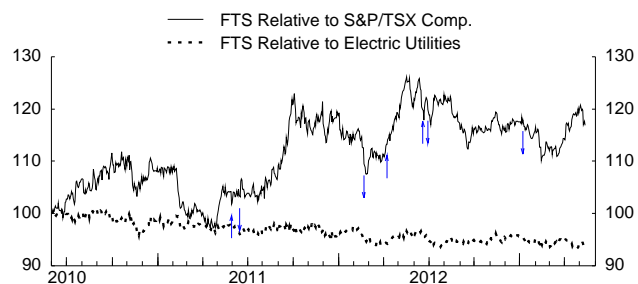
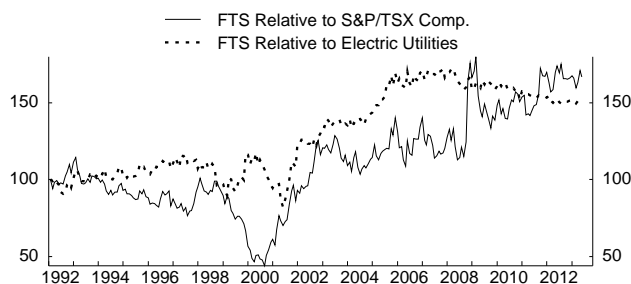
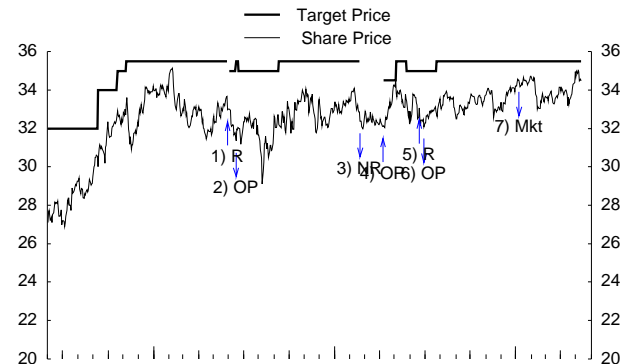
### Details & Analysis

The British Columbia Utilities Commission (BCUC) issued a decision on the first phase of its Generic Cost of Capital (GCOC) proceeding. The decision set out the allowed ROE and deemed equity component of total capital structure for FortisBC Energy Inc. at 8.75% and 38.5%, effective from January 1, 2013, to December 31, 2015, which are down from 9.5% and 40.0% in 2012. The allowed ROE of 8.75% was slightly below our expectation of 9%, but is comparable to current allowed returns in other provinces within Canada, such as Alberta. As well, the BCUC's decision also includes the reintroduction of an automatic adjustment mechanism (AAM) that takes effect on January 1, 2014, which enables the resetting of the ROE on an annual basis when the actual long-term Government of Canada bond yield exceeds 3.8%; accordingly, this mechanism provides for incremental upside in allowed returns in the event of rising interest rates. A second phase of the GCOC proceeding is now under way which will determine an appropriate risk premium and deemed capital structure for other regulated utility companies in B.C. (i.e., FortisBC), using the decision from Phase 1 as a benchmark. We estimate a \$0.02–0.03 EPS drag relative to our current 2013/2014 EPS estimates as a result of the Stage 1 decision.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.71	20.5	1.24	3.5	73	21.4	1.6	8
Growth(%):								
5 Year:	1.9		4.4			5.1		
10 Year:	5.3		9.1			9.7		
20 Year:	5.1		6.1			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 1-Jun-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( May 10, 2013): \$34.48

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**May 13, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CPA, CA

## BCUC Decreases Benchmark ROE

### Event

The British Columbia Utilities Commission (BCUC) issued a [decision](#) on the first phase of its Generic Cost of Capital (GCOC) proceeding.

### Impact

Slightly Negative. The decision set out the allowed ROE and deemed equity component of total capital structure for FortisBC Energy at 8.75% and 38.5%, effective from January 1, 2013, to December 31, 2015, which are down from 9.5% and 40.0% in 2012. The allowed ROE of 8.75% was slightly below our expectation of 9%, but is comparable to current allowed returns in other provinces within Canada. As well, the BCUC's decision also includes the reintroduction of an automatic adjustment mechanism that takes effect on January 1, 2014, which enables the resetting of the ROE on an annual basis but only when the actual long-term GoC bond yield exceeds 3.8%. A second phase of the GCOC proceeding is now under way which will determine an appropriate risk premium and deemed equity for other regulated utility companies in B.C. (i.e., FortisBC), using the decision from Phase 1 as a benchmark.

### Forecasts

We have updated our model to reflect the change in B.C. ROE and deemed equity. Our diluted 2013 and 2014 EPS estimates decrease to \$1.75 and \$1.89, respectively, from \$1.78 and \$1.91 previously.

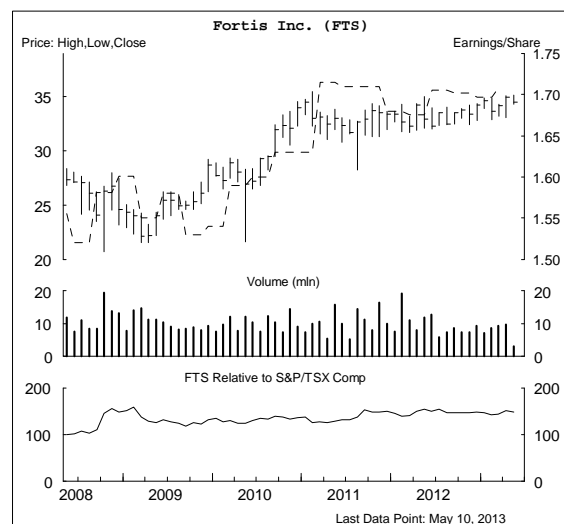
### Valuation

We have reduced our target price to \$35 from \$35.50/sh in connection with our revised estimates. Our target price is still based on 18.5x 2014E EPS.

### Recommendation

We continue to rate the Fortis shares Market Perform.

**Price (10-May)** \$34.48  
**Target Price** \$35.00↓  
**52-Week High** \$35.14  
**52-Week Low** \$32.03



(FY-Dec.)	2011A	2012A	2013E	2014E
EPS	\$1.66	\$1.69	\$1.75↓	\$1.89↓
P/E			19.7x	18.3x
CFPS	\$4.38	\$4.73	\$4.68	\$4.81
P/CFPS			7.4x	7.2x
Div.	\$1.16	\$1.20	\$1.24	\$1.30
EV (\$mm)	\$12,907	\$13,602	\$15,456	\$16,225
EBITDA (\$mm)	\$1,169.5	\$1,264.0	\$1,432.2	\$1,550.3
EV/EBITDA	11.0x	10.8x	10.8x	10.5x
<b>Quarterly EPS</b>				
	Q1	Q2	Q3	Q4
2011A	\$0.67	\$0.32	\$0.24	\$0.46
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013E	\$0.67a	\$0.33↓	\$0.24↓	\$0.53↓
Dividend	\$1.24	Yield		3.6%
Book Value	\$21.36	Price/Book		1.6x
Shares O/S (mm)	192.6	Mkt. Cap (mm)		\$6,641
Float O/S (mm)	192.6	Float Cap (mm)		\$6,641
Wkly Vol (000s)	2,006	Wkly \$ Vol (mm)		\$67.2
Net Debt (\$mm)	\$5,935	Next Rep. Date		Jul (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2013E: \$1.76; 2014E: \$1.86

#### Changes

**Annual EPS**  
 2013E \$1.78 to \$1.75  
 2014E \$1.91 to \$1.89

#### Quarterly EPS

Q2/13E \$0.35 to \$0.33  
 Q3/13E \$0.25 to \$0.24  
 Q4/13E \$0.54 to \$0.53

#### Target

\$35.50 to \$35.00

## BCUC Decreases Benchmark ROE

- We are maintaining our Market Perform rating on Fortis shares and decreasing our target price by \$0.50 to \$35 in connection with our revised estimates as a result of the lower ROE and deemed equity ratio in B.C.
- Key highlights from the decision:
  - The decision set out the allowed ROE and deemed equity component of total capital structure for FortisBC Energy Inc. (benchmark utility) at 8.75% and 38.5%, effective from January 1, 2013, to December 31, 2015, which are down from 9.5% and 40.0% in 2012. The allowed ROE of 8.75% was slightly below our expectation of 9%, but is comparable to current allowed returns in other provinces within Canada, such as Alberta (Exhibit 1). The Commission noted that a lower common equity ratio was warranted as it believes there has been some reduction in the company's level of business risk due to the improved competitive position of natural gas relative to electricity and that the revised ratio falls within the upper end of the range of 36–39% for comparable gas utilities in our Canadian jurisdictions (i.e., Enbridge Gas, Union Gas, Gaz Metro).

### Exhibit 1: 2010-2013E ROE and Deemed Equity Across Canada

Company	Regulator	Return on Equity				Deemed Equity			
		2010	2011	2012	2013E	2010	2011	2012	2013E
Altalink L.P.	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	36.0%	37.0%	37.0%	37.0%
AltaGas Utilities	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	43.0%	43.0%	43.0%	43.0%
CU Inc. - ATCO Transmission	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	36.0%	37.0%	37.0%	37.0%
ATCO Distribution	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	39.0%	39.0%	39.0%	39.0%
ATCO Gas	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	39.0%	39.0%	39.0%	39.0%
Enbridge Gas Distribution	Ontario Energy Board	8.39%	8.39%	8.39%	8.93%	36.0%	36.0%	36.0%	36.0%
EPCOR Utilities - Distribution	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	41.0%	41.0%	41.0%	41.0%
Transmission	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	37.0%	37.0%	37.0%	37.0%
FortisAlberta	Alberta Utilities Commission	9.00%	9.00%	8.75%	8.75%	41.0%	41.0%	41.0%	41.0%
FortisBC	British Columbia Utilities Commission	9.90%	9.90%	9.90%	9.15%	40.0%	40.0%	40.0%	38.5%
FortisBC Energy	British Columbia Utilities Commission	9.50%	9.50%	9.50%	8.75%	40.0%	40.0%	40.0%	38.5%
Gaz Metro L.P.	Regie de l'Energie	9.20%	9.09%	8.90%	8.90%	38.5%	38.5%	38.5%	38.5%
Hydro One - Transmission	Ontario Energy Board	8.39%	9.58%	9.12%	8.93%	40.0%	40.0%	40.0%	40.0%
Distribution	Ontario Energy Board	9.85%	9.66%	9.42%	8.98%	40.0%	40.0%	40.0%	40.0%
Newfoundland Power	Newfoundland and Labrador Board of Commissioners of Public Utilities	9.00%	8.38%	8.80%	8.80%	45.0%	45.0%	45.0%	45.0%
Toronto Hydro Corporation	Ontario Energy Board	9.85%	9.58%	9.58%	9.58%	40.0%	40.0%	40.0%	40.0%
Union Gas	Ontario Energy Board	8.54%	8.54%	8.54%	8.93%	36.0%	36.0%	36.0%	36.0%
<b>Average</b>		<b>9.10%</b>	<b>9.10%</b>	<b>8.95%</b>	<b>8.88%</b>	<b>39.3%</b>	<b>39.4%</b>	<b>39.4%</b>	<b>39.2%</b>

Source: BMO Capital Markets, Regulatory Documents

- The BCUC's decision also includes the reintroduction of an automatic adjustment mechanism (AAM) that takes effect on January 1, 2014, which enables the resetting of the ROE on an annual basis but only when the actual long-term Government of Canada bond yield exceeds 3.8%. Following in the foot steps of Ontario and Quebec, the Commission has decided to adopt a two variable AAM (vs. the previous one-factor model) that will link the ROE to changes in utility bond spreads and the "risk-free" long-term Canada bond yield. Accordingly, this mechanism provides for incremental upside in allowed returns in the event of rising interest rates and/or utility credit spreads, although we note that current bond yields are at ~2.5% (below the 3.8% threshold). The formula as set out in the BCUC stage 1 decision is set out below:

$$ROE_t = \text{Base ROE (8.75\%)} + 0.50 \times (LCBF_t - \text{BaseLCBF}) + 0.50 \times (\text{UtilBondSpread}_t - \text{BaseUtilBondSpread})$$

Where:

$LCBF_t$  is the Long Canada Bond Forecast for the test year, with a floor of 3.8 percent. The Base LCBF is 3.8%.

$UtilBondSpread_t$  is the average spread of 30 year A-rated Canadian Utility bond yields over 30 year Government of Canada bond yields and BaseUtilBondSpread will be determined.



- A second phase of the GCOC proceeding is now under way which will determine an appropriate risk premium and deemed capital structure for all other regulated utility companies in B.C. (i.e., FortisBC), using the decision from Phase 1 as a benchmark. The BCUC held a procedural conference for the second phase on April 25; we expect a decision in early 2014. In connection with the Commission's reaffirmation of the stand-alone principle, we believe a 40 bps premium for FortisBC (9.15%) and 50 bps for FortisBC (Vancouver Island) (9.25%) relative to the benchmark utility is still warranted but have lowered our deemed equity assumption to 38.5% vs. 40% previously to be consistent with FortisBC Energy.
- The Commission asserted "that there is sufficient evidence to conclude that the maintenance of an "A" category credit rating is desirable, but not at all costs." This is a negative development, in our view - if we are interpreting it right, while the Commission believes that continued access to debt capital at an attractive price is an important element which benefits shareholders and ratepayers, it appears to be placing less importance on credit ratings in its determination of allowed ROE and deemed equity. We would not be surprised to see marginally negative commentary about this decision from the credit rating agencies in the near term: FortisBC Energy is rated "A" by DBRS and A3 by Moody's.

## Exhibit 2: Summary of Financial Forecasts

	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012	Q1/13	Q2/13E	Q3/13E	Q4/13E	2013E	2014E
Newfoundland Power	34.0	7.0	12.0	9.0	9.0	37.0	7.0	12.3	9.2	9.2	37.7	39.0
Other Canadian	22.0	7.0	5.0	6.0	6.0	24.0	6.0	5.2	6.1	6.1	23.4	26.9
FortisAlberta	73.0	21.0	26.0	26.0	23.0	96.0	26.0	25.9	25.1	22.6	99.6	111.3
FortisBC	48.0	16.0	9.0	13.0	12.0	50.0	18.0	8.1	12.0	11.1	49.3	53.8
Fortis Caribbean	20.0	3.0	6.0	7.0	3.0	19.0	3.0	6.4	7.7	4.3	21.3	23.7
Fortis Generation	18.0	5.0	5.0	5.0	2.0	17.0	2.0	5.3	6.0	3.8	17.1	19.5
Fortis Properties	23.0	1.0	8.0	8.0	5.0	22.0	0.0	8.8	8.6	5.8	23.2	24.5
Terasen Inc.	139.0	82.0	13.0	(6.0)	49.0	138.0	85.0	11.6	(8.3)	49.3	137.6	139.9
U.S. Utilities	0.0								4.7	18.9	23.6	44.7
Corporate	(74.5)	(17.0)	(18.6)	(23.0)	(22.0)	(80.6)	(18.0)	(19.8)	(19.8)	(19.3)	(77.0)	(76.9)
Earnings	302.5	125.0	65.4	45.0	87.0	322.4	129.0	63.7	51.3	111.8	355.8	406.3
Average Shares (Basic)	181.6	189.0	189.6	190.2	191.0	190.0	192.0	192.0	210.5	210.5	201.8	213.1
Net Earnings to Common (Basic)	\$1.67	\$0.66	\$0.34	\$0.24	\$0.46	\$1.70	\$0.67	\$0.33	\$0.24	\$0.53	\$1.76	\$1.91
Net Earnings to Common (Diluted)	\$1.66	\$0.64	\$0.34	\$0.24	\$0.46	\$1.69	\$0.66	\$0.33	\$0.24	\$0.52	\$1.75	\$1.89

Source: BMO Capital Markets, Company Reports

## Exhibit 3: Consolidated Summary Sheet



## Market Perform

12-Month Target Price: \$35.00

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$34.21

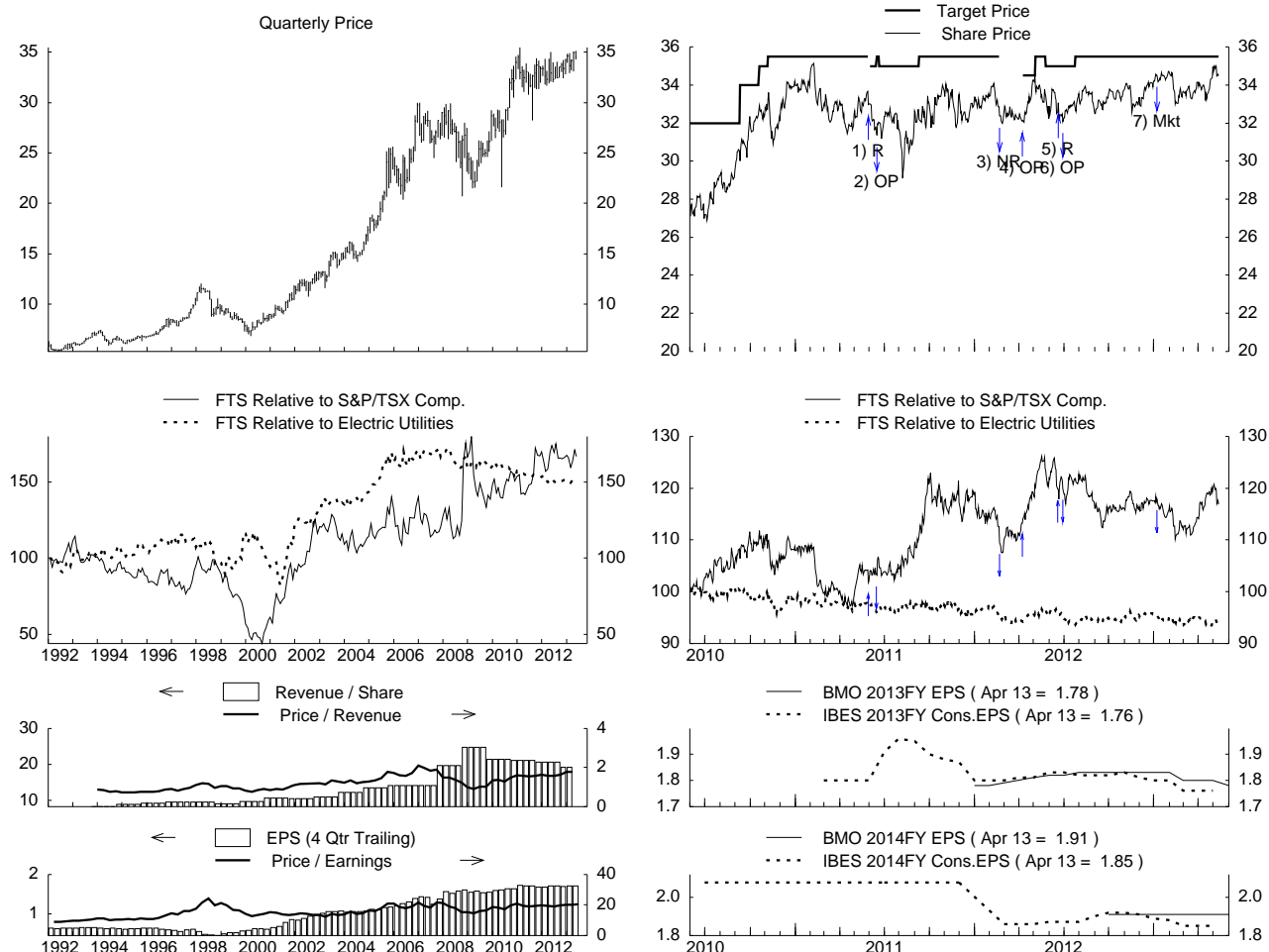
ROR: 5.9%

## Fortis Inc. (FTS)

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	CAGR 2012A- 2014E
<b>Total Basic Earnings Per Share</b>	\$1.38	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.76	\$1.91	6.0%
<b>Total Diluted Earnings Per Share</b>	\$1.33	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.75	\$1.89	5.8%
<b>First Call Consensus</b>								\$1.76	\$1.86	
<b>Segmented EPS</b>										
Newfoundland Power	\$0.29	\$0.22	\$0.20	\$0.19	\$0.20	\$0.19	\$0.19	\$0.19	\$0.18	
Other Canadian	\$0.13	\$0.11	\$0.10	\$0.10	\$0.11	\$0.12	\$0.13	\$0.12	\$0.13	
Fortis Properties	\$0.15	\$0.15	\$0.15	\$0.14	\$0.15	\$0.13	\$0.12	\$0.12	\$0.11	
Fortis Generation	\$0.25	\$0.17	\$0.19	\$0.09	\$0.12	\$0.10	\$0.09	\$0.08	\$0.09	
Fortis Caribbean	\$0.23	\$0.24	\$0.19	\$0.15	\$0.13	\$0.11	\$0.10	\$0.11	\$0.11	
FortisAlberta	\$0.40	\$0.35	\$0.29	\$0.35	\$0.39	\$0.40	\$0.51	\$0.49	\$0.52	
FortisBC	\$0.26	\$0.23	\$0.22	\$0.22	\$0.24	\$0.26	\$0.26	\$0.24	\$0.25	
Terasen Inc.	\$0.00	\$0.31	\$0.71	\$0.72	\$0.73	\$0.77	\$0.73	\$0.68	\$0.66	
CH Energy	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.12	\$0.21	
Corporate	(\$0.33)	(\$0.41)	(\$0.45)	(\$0.42)	(\$0.45)	(\$0.41)	(\$0.42)	(\$0.38)	(\$0.36)	
<b>Dividends</b>	\$0.67	\$0.82	\$1.03	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	4.1%
<b>Payout Ratio</b>	48.4%	60.2%	64.2%	67.6%	68.9%	69.6%	70.7%	70.3%	68.2%	
<b>Average Shares (mm)</b>	103.6	137.6	157.4	170.2	172.9	181.6	190.0	201.8	213.1	
<b>Net Book Value</b>	\$12.26	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.46	\$23.16	
<b>Market Valuation</b>										
Price: High	\$30.00	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	
Price: Low	\$20.36	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.21	-	
P/E Ratio: High	22.5	23.3	19.2	19.1	21.3	21.2	20.5	-	-	
P/E Ratio: Low	15.3	19.0	13.2	14.3	16.0	19.7	19.0	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.6	18.1	
EV/EBITDA: High	12.2	12.4	10.4	10.9	11.2	11.4	11.0	-	-	
EV/EBITDA: Low	10.3	11.5	9.0	9.7	9.9	11.0	10.6	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.8	10.5	
Yield: High Price	2.2%	2.7%	3.4%	3.6%	3.3%	3.3%	3.5%	-	-	
Yield: Low Price	3.3%	3.3%	5.0%	4.8%	4.4%	3.6%	3.8%	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.8%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	141.5	853.0	584.0	554.0	305.0	176.0	99.0	586.4	824.6	
Debt (L-T)	2,494.5	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,672.6	6,817.7	
Minority Interest	130.0	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	
Preferred Shares	442.0	442.0	667.0	667.0	912.0	912.0	1,108.0	985.0	985.0	
Convertible Debentures	63.5	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>1,275.7</u>	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,761.2</u>	<u>4,959.7</u>	
	4,547.2	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,315.2	13,897.1	
<b>Balance Sheet (%)</b>										
Debt (S-T)	3.1%	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	4.4%	5.9%	
Debt (L-T)	54.9%	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	50.1%	49.1%	
Minority Interest	2.9%	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.2%	
Preferred Shares	9.7%	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	7.4%	7.1%	
Convertible Debentures	1.4%	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>28.1%</u>	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>35.8%</u>	<u>35.7%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income Statement</b>										
Total Revenue	1,460.1	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,333.3	4,560.4	11.7%
EBITDA	521.1	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,432.2	1,550.3	10.7%
EBIT	343.6	543.4	713.0	704.0	736.0	750.5	794.0	937.7	1,024.2	13.6%
Net Earnings	143.2	187.4	252.5	262.0	281.0	302.5	322.4	355.8	406.3	12.3%
Cash Flow from Operations	316.3	490.0	622.0	678.0	734.0	795.0	898.0	984.8	1053.1	8.3%

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	FTS - Rating as of 1-Jun-10 = OP		
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0				
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12			
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11	1	30-May-11	OP to R
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11			
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10	2	15-Jun-11	R to OP
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9			
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7	3	21-Feb-12	OP to NR
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9			
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9	4	6-Apr-12	NR to OP
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12			
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12	5	19-Jun-12	OP to R
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12			
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10	6	28-Jun-12	R to OP
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10			
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11	7	7-Jan-13	OP to Mkt
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9			
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8			
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8			
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9			
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8			
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8			
Range*		26.9 8.4		7.1 2.5			2.5 1.0				
Current*	1.71	20.5	1.24	3.5	73	21.4	1.6	8			
Growth(%):											
5 Year:	1.9		4.4			5.1					
10 Year:	5.3		9.1			9.7					
20 Year:	5.1		6.1			7.2					

\* Current EPS is the 4 Quarter Trailing to Q1/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price ( May 10, 2013): \$34.48  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---



# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Stock Price:** \$33.63  
**Target Price:** \$35.00

**May 30, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CPA, CA  
BMO Nesbitt Burns Inc.

## Additional Enhancements Improve the Odds of CH Energy Commission Approval

---

### Impact

Slightly Positive

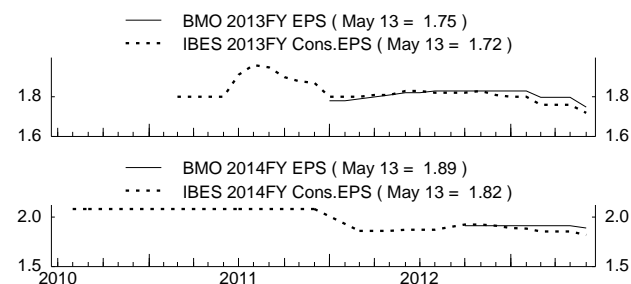
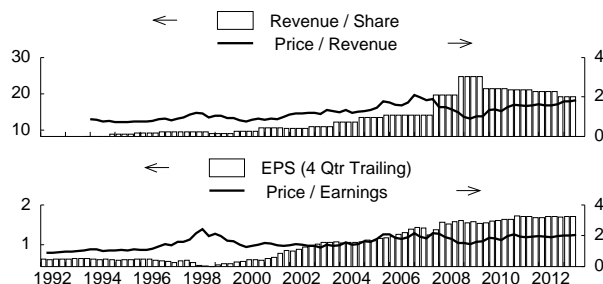
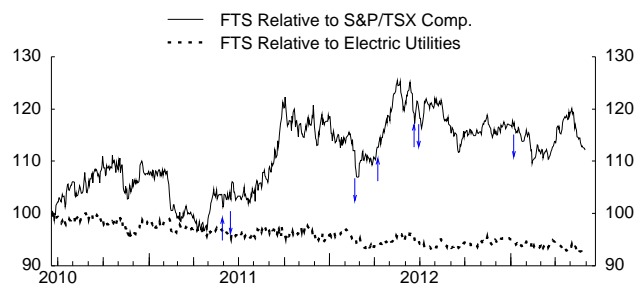
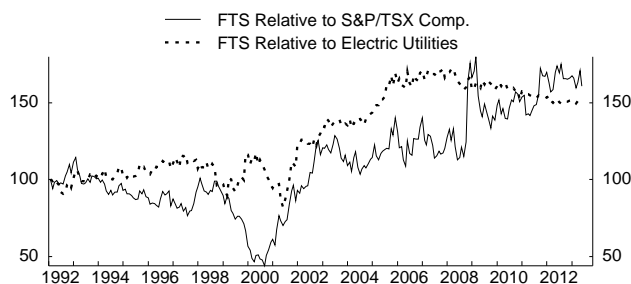
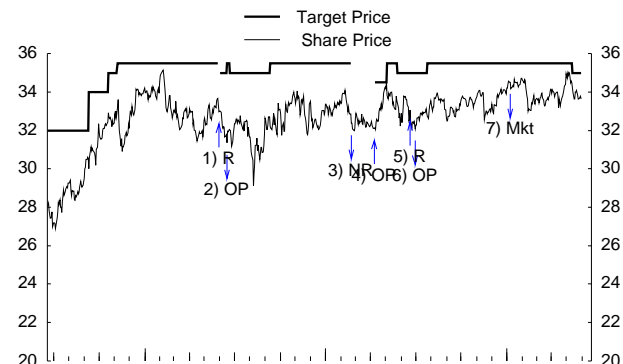
---

### Details & Analysis

In response to public input and the Judges Recommended Decision (May 3), Fortis today filed a [letter](#) with the Commission offering additional enhancements to its proposed acquisition of CH Energy. In addition to ~\$50mm of “hard-dollar” benefits that were already on the table, FTS is also offering: (1) an additional one-year rate freeze, implying that rates will not change for a 3-year period from July 1, 2012 through July 1, 2015; (2) a 1-year labour agreement extension to April 1, 2017 that provides four years of job security and creation of additional 35 jobs. The 4-year “no layoff” commitment has also been offered to non-unionized employees. IBEW Local 320 membership has recently ratified the contract extension and now supports the transaction; (3) to maintain strong community relations support for a minimum of 10 years vs. 5 years previously; and (4) to increase the minimum number of independent directors who reside or do business in the service territory from one to two members. The letter requests the Commission to approve the transaction at its next scheduled meeting on June 13, 2013. Bottom line, nothing is certain in a regulatory approval process, but we remain convinced of transaction approval especially following these additional enhancements and continue to expect full value recognition for CH Energy -- eventually - even if the exact timing remains in flux.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.71	20.5	1.24	3.5	73	21.4	1.6	8
Growth(%):								
5 Year:	1.9		4.4			5.1		
10 Year:	5.3		9.1			9.7		
20 Year:	5.1		6.1			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 18-Jun-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( May 29, 2013): \$33.63

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$31.77**  
**Target Price:**      **\$35.00**

**June 13, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CPA, CA  
BMO Nesbitt Burns Inc.

## Acquisition of CH Energy Approved by New York State Public Service Commission

---

### Impact

Positive

---

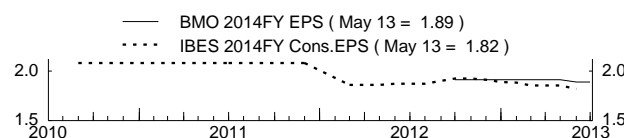
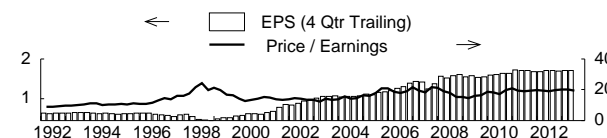
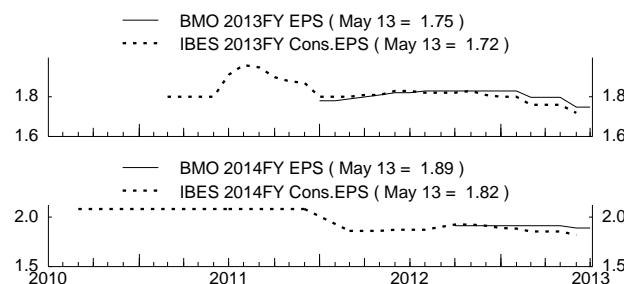
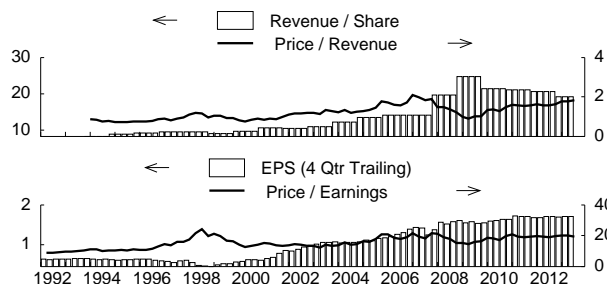
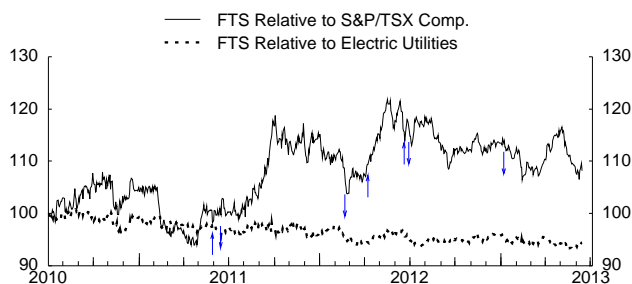
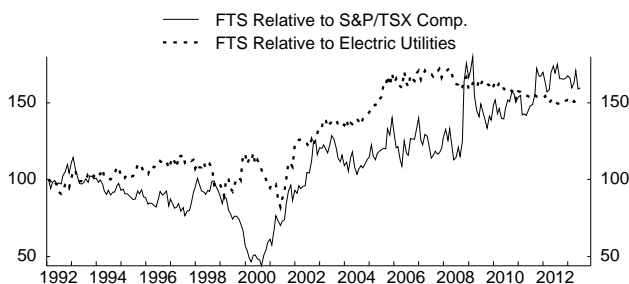
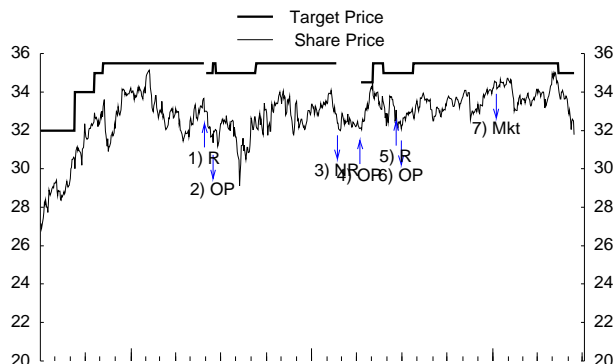
### Details & Analysis

The New York State Public Service Commission (NYSPSC) has unanimously approved Fortis' proposed acquisition of CH Energy Group, Inc., the parent company of Central Hudson Gas & Electric Corporation, after concluding that the net public benefits of the acquisition outweighed the risks to ratepayers. Fortis will pay US\$65.00/sh for CH Energy, representing an aggregate purchase price of US\$1.5 billion, including the assumption of US\$500 million of debt at closing. This transaction was previously announced on February 21, 2012; NYSPSC approval is the last significant regulatory hurdle needed to complete the deal. Fortis now expects that the acquisition will close shortly after the receipt, review and acceptance of the official written order of the NYSPSC. Our current financial estimates assume that the transaction will be completed by the end of June.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.71	19.3	1.24	3.8	73	21.4	1.5	8
Growth(%):								
5 Year:	1.9		4.4			5.1		
10 Year:	5.3		9.1			9.7		
20 Year:	5.1		6.1			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 2-Jul-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( June 12, 2013): \$31.77

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (March 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

#### **Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

#### **Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

#### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

#### **Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

#### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

#### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Stock Price:** \$32.29  
**Target Price:** \$35.00

**August 1, 2013**  
Brief Research Note  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com

Assoc: Adam Johnson, CPA, CA  
BMO Nesbitt Burns Inc.

## Q2/13 Results in Line; Busy Regulatory Calendar Ahead

---

### Impact

Neutral

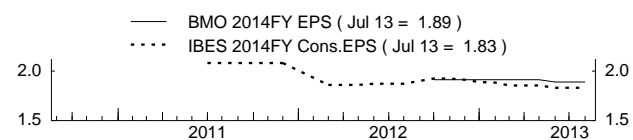
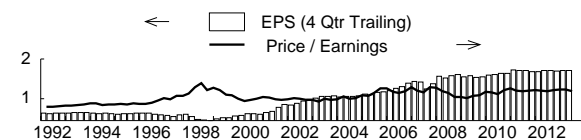
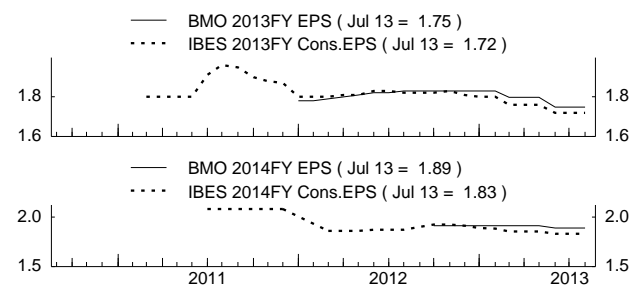
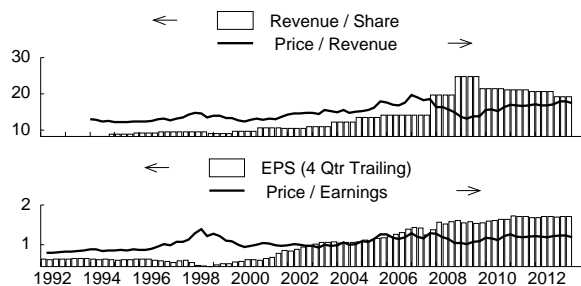
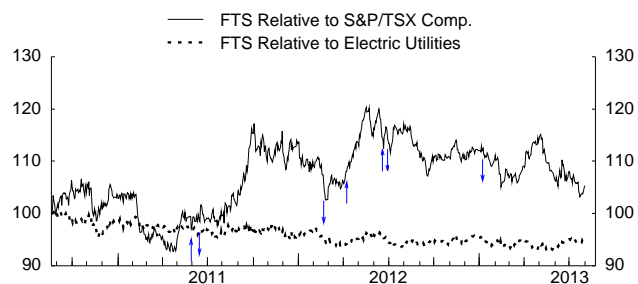
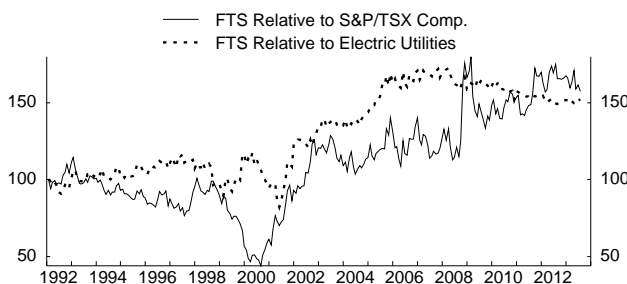
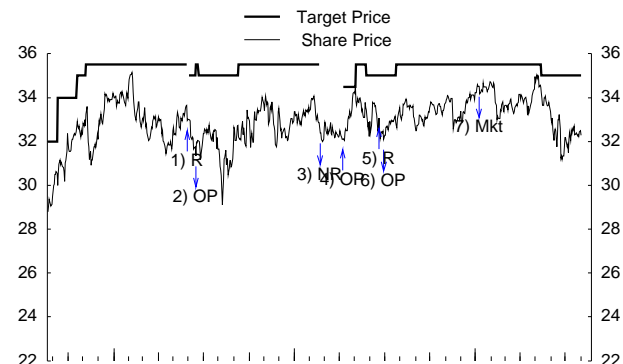
---

### Details & Analysis

Fortis reported adjusted EPS of \$0.32, largely in line with our estimate of \$0.33 and consensus of \$0.32. Reported EPS of \$0.28 included a \$25 million income tax recovery (\$0.13/share) along with \$32 million (\$0.17/share) of acquisition-related expenses and customer and community benefits offered to close the acquisition of CH Energy. Overall, results from Canadian Regulated Utilities were slightly below expectations, mostly driven by FortisBC Energy and FortisAlberta, and partially offset by lower-than-expected corporate costs. Key takeaways: (1) FTS' capital expenditure budget remains at \$1.3 billion in 2013 (\$548 million spent in H1/13) and \$6 billion during 2013-2017. Notably, its \$900 million Waneta hydroelectric project (51% FTS) in B.C. is still on track for an expected in-service date of spring 2015; (2) on June 27, FTS closed the acquisition of CH Energy for ~US\$1.5 billion, including the assumption of US\$518 million of debt. The company signalled that the acquisition is expected to be accretive to EPS beginning in 2015; (3) on the regulatory front, the second phase of the BCUC's Generic Cost of Capital Hearing is under way, with a decision expected in H1/14. Also, FortisBC Energy and FortisBC Electric recently filed applications for multi-year performance-based ratemaking plans for 2014-2018. In Alberta, a decision on FortisAlberta's capital tracker application is expected in H2/13, while a hearing for the AUC's cost of capital proceeding is scheduled for early 2014.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.71	18.8	1.24	3.9	73	21.4	1.5	8
Growth(%):								
5 Year:	2.4		4.4			5.1		
10 Year:	5.0		9.1			9.7		
20 Year:	5.0		6.1			7.2		

\* Current EPS is the 4 Quarter Trailing to Q1/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 20-Aug-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( July 31, 2013): \$32.29

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (June 30, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

- \* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
- \*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
- \*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.
- \*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.
- \*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are

accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**August 2, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CPA, CA

## Q2 – Life After CH

### Event

Fortis reported an in-line second quarter (adjusted EPS of \$0.32 compared to our estimate of \$0.33 and consensus of \$0.32/sh). \$1.3 billion capital budget for 2013 was reaffirmed.

### Impact

Neutral. With the CH Energy acquisition now in the rear-view mirror, Fortis' \$6 billion in growth initiatives (including Waneta) through 2017 should move into sharper focus. To be sure, integration costs (related to CH Energy) and lower allowed returns at its B.C.-based utilities should weigh on earnings in the near term; however, earnings growth should accelerate in 2014 and beyond with rate base growth at its core utility franchises, a return to normal hydrology levels in Belize, and the commissioning of the Waneta expansion in early 2015.

### Forecasts

We have updated our outlook to reflect Q2/13 financial performance, higher corporate/integration costs, and lower realized returns at its B.C. utilities (both natural gas and electric). Our EPS estimates (f.d.) are now \$1.71 (vs. \$1.75) in 2013 and \$1.82 (vs. \$1.89) in 2014. We are introducing 2015 EPS (f.d.) of \$1.93/sh.

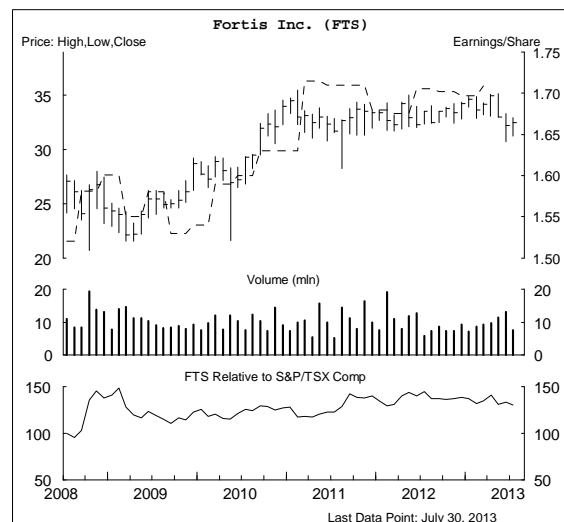
### Valuation

Our unchanged target price of \$35 is based on 18.5x our blended two-year forward EPS estimates.

### Recommendation

We continue to rate the shares of Fortis Market Perform.

**Price (1-Aug)** \$32.01 **52-Week High** \$35.14  
**Target Price** \$35.00 **52-Week Low** \$30.70



(FY-Dec.)	2012A	2013E	2014E	2015E
EPS	\$1.69	\$1.71↓	\$1.82↓	\$1.93
P/E		18.7x	17.6x	16.5x

Div.	\$1.20	\$1.24	\$1.30	\$1.36
EV (\$mm)	\$13,602	\$15,061	\$15,759	\$16,008
EBITDA (\$mm)	\$1,264.0	\$1,439.7	\$1,556.0	\$1,650.3
EV/EBITDA	10.8x	10.5x	10.1x	9.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013E	\$0.67a	\$0.32a	\$0.28↑	\$0.46↓
2014E	na	na	na	na

Dividend	\$1.24	Yield	3.9%
Book Value	\$22.20	Price/Book	1.4x
Shares O/S (mm)	211.7	Mkt. Cap (mm)	\$6,777
Float O/S (mm)	211.7	Float Cap (mm)	\$6,777
Wkly Vol (000s)	2,044	Wkly \$ Vol (mm)	\$68.3
Net Debt (\$mm)	\$7,018	Next Rep. Date	Nov (E)

**Notes:** All values in C\$; EPS estimates are diluted; Quarterly numbers are basic

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INCORPORATED (C\$) 2013E: \$1.72; 2014E: \$1.83

### Changes

**Annual EPS**  
 2013E \$1.75 to \$1.71  
 2014E \$1.89 to \$1.82  
 2015E na to \$1.93

**Quarterly EPS**  
 Q3/13E \$0.24 to \$0.28  
 Q4/13E \$0.53 to \$0.46

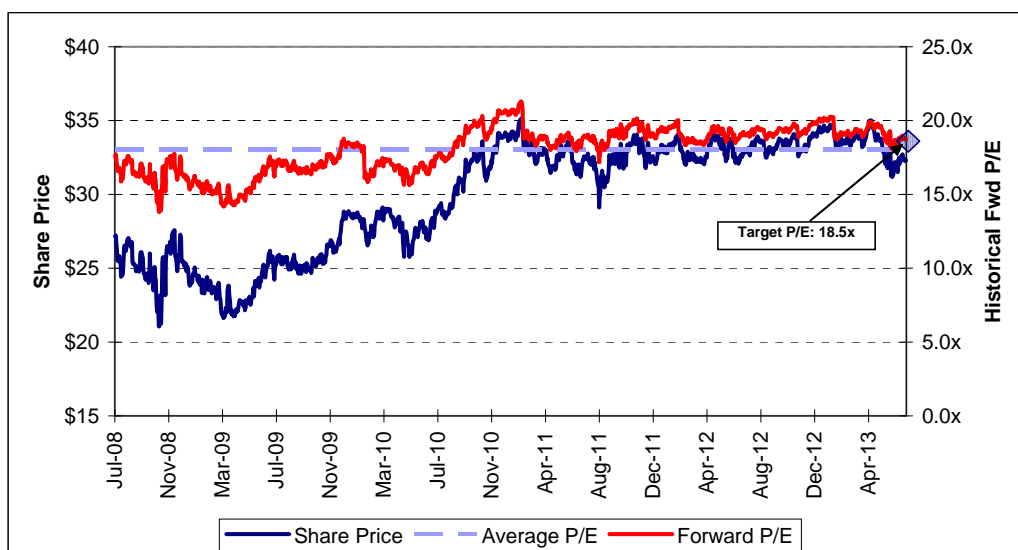
## Q2 – Life After CH

- **We maintain a Market Perform rating and \$35 target price on Fortis shares.** Fortis' second quarter results were generally in line with expectations (adjusted EPS of \$0.32 vs. our estimate of \$0.33 and consensus of \$0.32), reflective of softer results at FortisBC Energy and FortisAlberta, and partially offset by lower-than-expected corporate costs. With the CH Energy acquisition now in the rear-view mirror, Fortis' \$6 billion in growth initiatives (including Waneta) through 2017 should move into sharper focus. To be sure, integration costs (related to CH Energy) and lower allowed returns at its B.C.-based utilities should weigh on earnings in the near term; however, earnings growth should accelerate in 2014 and beyond with rate base growth at its core utility franchises, a return to normal hydrology levels in Belize, and the commissioning of the Waneta expansion in early 2015. We maintain our Market Perform rating and \$35 target price, which reflects 18.5x our blended two-year forward EPS estimates.
- **Growth plans unchanged.** With gross capital expenditures of \$548 million spent in the first six months of the year, Fortis continues to expect \$1.3 billion of capex in 2013. The company also expects a five-year capex program of \$6 billion through to the end of 2017, of which ~55% relates Canadian regulated electric activities, ~11% to Central Hudson; ~20% to Canadian regulated gas utilities; 4% to Caribbean regulated electric utilities; and the remaining ~10% to non-regulated operations.
- **CH Energy acquisition not expected to be accretive until 2015:** On June 27, 2013, FTS closed the acquisition of CH Energy for ~US\$1.5 billion, including the assumption of US\$518 million of debt. The net purchase price was financed through net proceeds of \$567 million of common shares (subscription receipts), with the balance funded through its credit facility. To permanently finance the remaining net purchase price, FTS plans to issue US\$325 million of private unsecured notes on October 1, 2013 to pay off a portion of the credit facility. The company does not expect the transaction to be accretive to EPS until 2015 (likely neutral in 2014), largely due to higher integration costs and the extended rate freeze through June 30, 2015.
- **Waneta expansion on track:** Fortis remains on track for first production at its \$900 million 335 MW Waneta dam expansion (51% interest) in spring 2015. Construction activities during 2013 included ongoing civil construction of the powerhouse and intake, ongoing installation of the powerhouse roof and turbine components, and substantial completion of the intake-channel excavation work. A total of \$513 million has been spent to date since construction began in late 2010.
- **Key regulatory updates:**
  - In May 2013, the BCUC issued its decision on the first phase of the Generic Cost of Capital (GCOC) proceeding, which set out an allowed ROE and capital structure for FortisBC Energy Inc. (designated as the benchmark utility for ratemaking purposes). Effective January 1, 2013, the BCUC's decision set out an ROE for the benchmark utility at 8.75% (vs. 9.50% for 2012) and a deemed equity component of 38.5% (vs. 40% in 2012). The BCUC is introducing an automatic adjustment mechanism, effective January 1, 2014, which will reset the allowed ROE when the long-term Government of

Canada bond yield exceeds 3.8%. Both the automatic adjustment mechanism and the allowed capital structure will remain in effect until the end of 2015.

- Following the first phase of the BCUC GCOC proceeding, the allowed ROE for each of FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc., and FortisBC Electric Inc. decreased by 75 bps effective January 1, 2013, to 9.25%, 9.25%, and 9.15%, respectively, while the allowed capital structures remained unchanged. The allowed ROE or capital structure could change for any of these companies under the second phase of the GCOC proceeding, which is now under way, and for which a decision is expected in H1/14.
- In June, FortisBC Energy Inc. filed a multi-year Performance-Based Ratemaking (PBR) Plan for 2014 through 2018. The application requests a delivery rate increase of ~1% for 2014, with rate increases for subsequent years determined under a formulaic rate-setting methodology for the remaining years. In July, FortisBC Electric filed its own multi-year PBR application for 2014-2018, which includes a request to increase rates by ~3.3% for 2014. Both applications remain under review by the BCUC throughout 2013.
- The AUC's hearing on FortisAlberta's Capital Tracker Application commenced in June 2013, with a decision expected in H2/13. A decision from the AUC regarding the Utility Asset Disposition ("stranded cost") proceeding is now expected in Q4/13 (vs. Q3/13 previously).
- In June, Newfoundland Power filed an application regarding its 2014 capital expenditure plan, requesting total expenditures of ~\$85 million. Similarly, in July, Maritime Electric filed its 2014 capital budget application for ~\$28 million in expenditures.
- Caribbean Utilities (~60% interest) received approval in June from the Electricity Regulatory Authority for its 2013-2017 capital investment plan, totalling US\$123 million, related to non-generation installation capital expenditures.
- **Reduced estimates:** We have updated our outlook to reflect Q2/13 financial performance, higher corporate/integration costs, and lower realized returns at its B.C. utilities (both natural gas and electric). Our EPS estimates (f.d.) are now \$1.71 (vs. \$1.75) in 2013 and \$1.82 (vs. \$1.89) in 2014. We are introducing 2015 EPS (f.d.) of \$1.93/sh.
- **Valuation:** We maintain a Market Perform rating and \$35 target price on Fortis shares. Our target price is based on a forward P/E multiple of 18.5x (unchanged) our blended two-year forward EPS estimates (vs. 2014E EPS previously). The roll-forward of our valuation largely offsets the reduction in our forward estimates. We believe our target multiple is consistent with the company's superior earnings visibility (~90% of Fortis' earnings arise from utility operations, the highest among its peers) and the persistence of historically low 10-year government of Canada bond yields.



**Exhibit 1: FTS – P/E, Share Price and Target P/E**

Source: Thomson One

**Exhibit 2: Upcoming Events**

Nov-13	Q3/13 Results
Q4/13	Expected decision on Utility Asset Disposition (UAD) proceeding
2H/13	Expected decision on Alberta PBR capital tracker application
Early 2014	Planned hearing for AUC 2013 GCOC (2013, 2014 and 2015 interim)
1H/14	Expected decision on second phase of BCUC 2013 GCOC
Spring 2015	Expected commissioning of Waneta hydro facility
During 2015	Expected filing of Newfoundland Power's 2016 GRA

Source: BMO Capital Markets, Company Reports

- Second quarter results:** Fortis reported adjusted EPS of \$0.32, largely in line with our estimate of \$0.33 and consensus of \$0.32. Reported EPS of \$0.28 included a \$25 million income tax recovery (\$0.13/share) along with \$32 million (\$0.17/share) of acquisition-related expenses and customer and community benefits offered to close the acquisition of CH Energy. Overall, results from Canadian Regulated Utilities were slightly below expectations, mostly driven by FortisBC Energy and FortisAlberta, and partially offset by lower-than-expected corporate costs. Please see Exhibit 3 for a further run-down of Fortis' second-quarter results. Our quarterly and annual estimates are set out in Exhibits 4 and 5.

## Exhibit 3: Q2/13 Results vs. BMOCM Expectations

	Q2/13A (\$mm)	Q2/13E (\$mm)	Q2/12A (\$mm)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	6.0	8.8	13.0
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	25.0	27.1	26.0
FortisBC	8.0	8.0	9.0
Newfoundland Power <sup>(1)</sup>	11.0	12.5	12.0
Other Canadian <sup>(1)</sup>	5.0	5.3	5.0
<b>Regulated Electric Utilities - Caribbean</b>	49.0	52.9	52.0
<b>Non-Regulated - Fortis Generation</b>	6.0	6.4	6.0
<b>Non-Regulated - Non-Utility</b>	3.0	5.6	5.0
<b>Corporate and Other <sup>(1) (2)</sup></b>	9.0	8.4	8.0
	(12.0)	(18.5)	(18.6)
<b>Net Earnings Applicable to Common Shares</b>	<b>61.0</b>	<b>63.6</b>	<b>65.4</b>
Average Shares	193.4	192.0	189.6
<b>Adjusted EPS</b>	<b>\$0.32</b>	<b>\$0.33</b>	<b>\$0.34</b>

Notes:

(1) Adjusted for income tax benefit of \$13mm at Newfoundland Power; \$4 million at Other Canadian; and \$8mm in Corporate

(2) Corporate expenses for Q2/13 and Q2/12 exclude approximately \$32mm and \$4mm, respectively, in acquisition costs relating to the CH Energy transaction.

Source: BMO Capital Markets, Company Reports

## Exhibit 4: Summary of Financial Forecasts

	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012	Q1/13	Q2/13	Q3/13E	Q4/13E	2013E	2014E	2015E
Newfoundland Power	34.0	7.0	12.0	9.0	9.0	37.0	7.0	11.0	10.0	10.6	38.6	40.0	40.0
Other Canadian	22.0	7.0	5.0	6.0	6.0	24.0	6.0	5.0	6.2	6.3	23.6	26.0	27.0
FortisAlberta	73.0	21.0	26.0	26.0	23.0	96.0	26.0	25.0	26.0	25.0	102.0	116.6	121.8
FortisBC	48.0	16.0	9.0	13.0	12.0	50.0	18.0	8.0	11.2	8.7	45.9	49.1	50.3
Fortis Caribbean	20.0	3.0	6.0	7.0	3.0	19.0	3.0	6.0	7.7	4.7	21.3	23.7	25.0
Fortis Generation	18.0	5.0	5.0	5.0	2.0	17.0	2.0	3.0	6.1	4.9	16.0	17.3	36.6
Non-Utility Operations	23.0	1.0	8.0	8.0	5.0	22.0	0.0	9.0	8.6	5.6	23.2	24.7	25.1
Terasen Inc.	139.0	82.0	13.0	(6.0)	49.0	138.0	85.0	6.0	(7.5)	41.2	124.7	128.3	130.7
Central Hudson									10.6	13.0	23.6	44.7	46.3
Corporate	(74.5)	(17.0)	(18.6)	(23.0)	(22.0)	(80.6)	(18.0)	(12.0)	(19.2)	(21.8)	(71.0)	(80.4)	(80.4)
Earnings	302.5	125.0	65.4	45.0	87.0	322.4	129.0	61.0	59.8	98.1	347.9	390.0	422.4
Average Shares (Basic)	181.6	189.0	189.6	190.2	191.0	190.0	192.0	193.4	211.9	211.9	201.8	213.1	216.8
Net Earnings to Common (Basic)	\$1.67	\$0.66	\$0.34	\$0.24	\$0.46	\$1.70	\$0.67	\$0.32	\$0.28	\$0.46	\$1.72	\$1.83	\$1.95
Net Earnings to Common (Diluted)	\$1.66	\$0.64	\$0.34	\$0.24	\$0.46	\$1.69	\$0.66	\$0.32	\$0.28	\$0.46	\$1.71	\$1.82	\$1.93

Source: BMO Capital Markets, Company Reports

## Exhibit 5: Consolidated Summary Sheet



## Market Perform

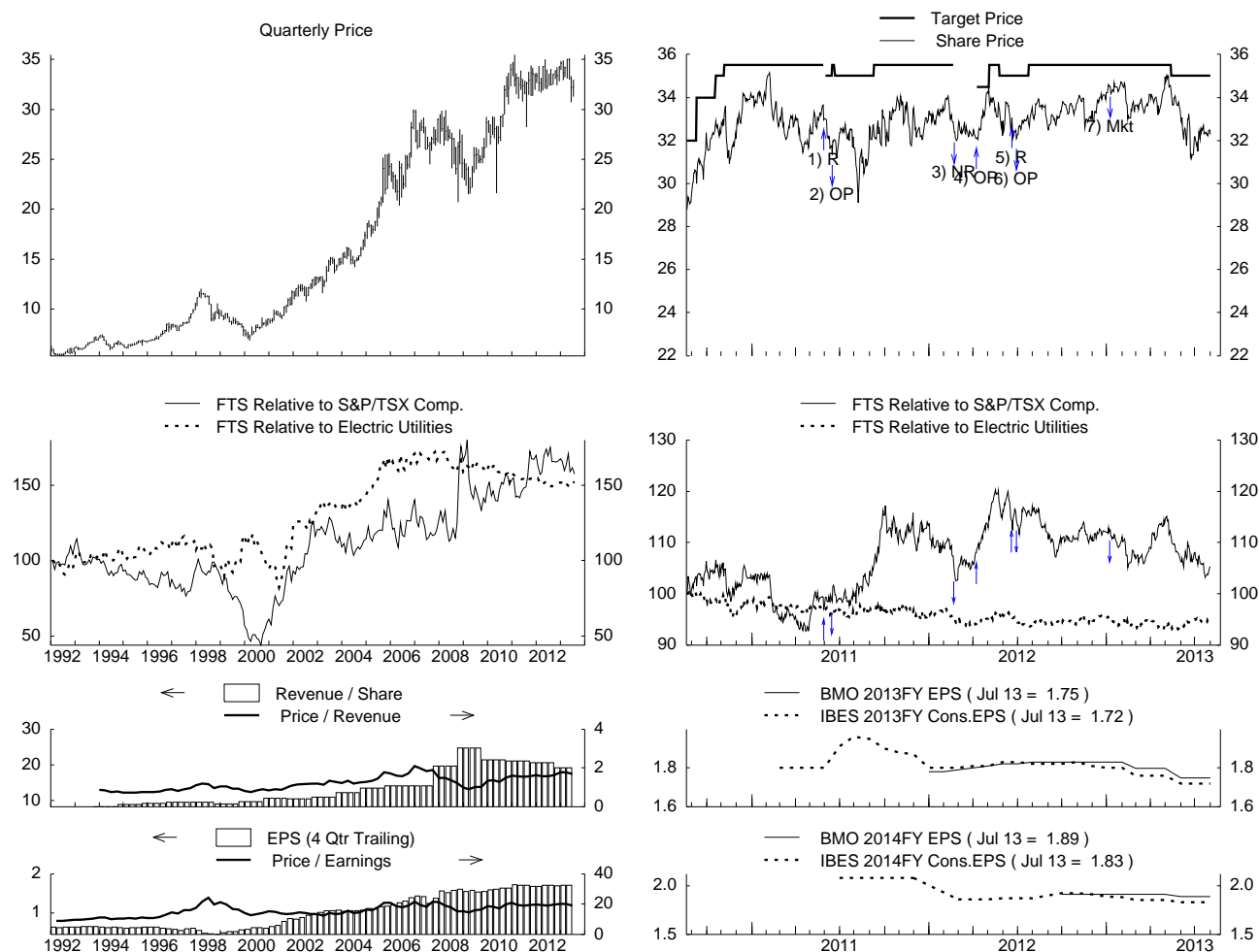
12-Month Target Price: \$35.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$32.01  
 ROR: 13.2%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	CAGR 2012A- 2015E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.72	\$1.83	\$1.95	4.7%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.71</b>	<b>\$1.82</b>	<b>\$1.93</b>	4.6%
<i>First Call Consensus</i>							\$1.72	\$1.83	\$1.91	4.2%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.86	\$4.91	\$5.05	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	\$1.36	4.3%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	71.9%	71.0%	69.8%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	25.5%	26.5%	27.0%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	201.8	213.1	216.8	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	201.1	212.6	221.9	225.6	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.42	\$23.05	\$23.86	
<b>Market Valuation</b>										
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	-	
Price: Current	-	-	-	-	-	-	\$32.01	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	18.7	17.6	16.5	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	10.4	10.1	9.7	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	-	-	-	
Yield: Current	-	-	-	-	-	-	3.9%	4.1%	4.2%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	103.5	345.7	349.7	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,847.6	6,992.7	7,173.0	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	310.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,235.0	1,235.0	1,235.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,753.3</u>	<u>4,935.5</u>	<u>5,236.7</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,249.4	13,818.9	14,304.4	
<b>Balance Sheet (%)</b>										
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	0.8%	2.5%	2.4%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	51.7%	50.6%	50.1%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.2%	2.2%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.3%	8.9%	8.6%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>35.9%</u>	<u>35.7%</u>	<u>36.6%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>										
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,337.0	4,575.6	4,760.7	9.2%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,439.7	1,556.0	1,650.3	9.3%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	347.9	390.0	422.4	9.4%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	981.3	1,045.8	1,094.1	6.8%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,359.1)	(1,156.6)	(1,088.6)	
<b>Financial Leverage</b>										
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	6,951.2	7,338.4	7,522.7	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	4.8x	4.7x	4.6x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	52.5%	53.1%	52.6%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0

Current\* 1.71 18.8 1.24 3.9 73 21.4 1.5 8

Growth(%):

5 Year:	2.4	4.4	5.1
10 Year:	5.0	9.1	9.7
20 Year:	5.0	6.1	7.2

\* Current EPS is the 4 Quarter Trailing to Q1/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 20-Aug-10 = OP

Date	Rating Change	Share Price
1 30-May-11	OP to R	\$32.97
2 15-Jun-11	R to OP	\$31.35
3 21-Feb-12	OP to NR	\$32.38
4 6-Apr-12	NR to OP	\$32.11
5 19-Jun-12	OP to R	\$33.08
6 28-Jun-12	R to OP	\$32.09
7 7-Jan-13	OP to Mkt	\$34.52

Last Price ( July 31, 2013): \$32.29  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 18.5x our 2014E EPS estimate.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (June 30, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.



---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

September 5, 2013  
Research Fact Sheet  
Power & Utilities

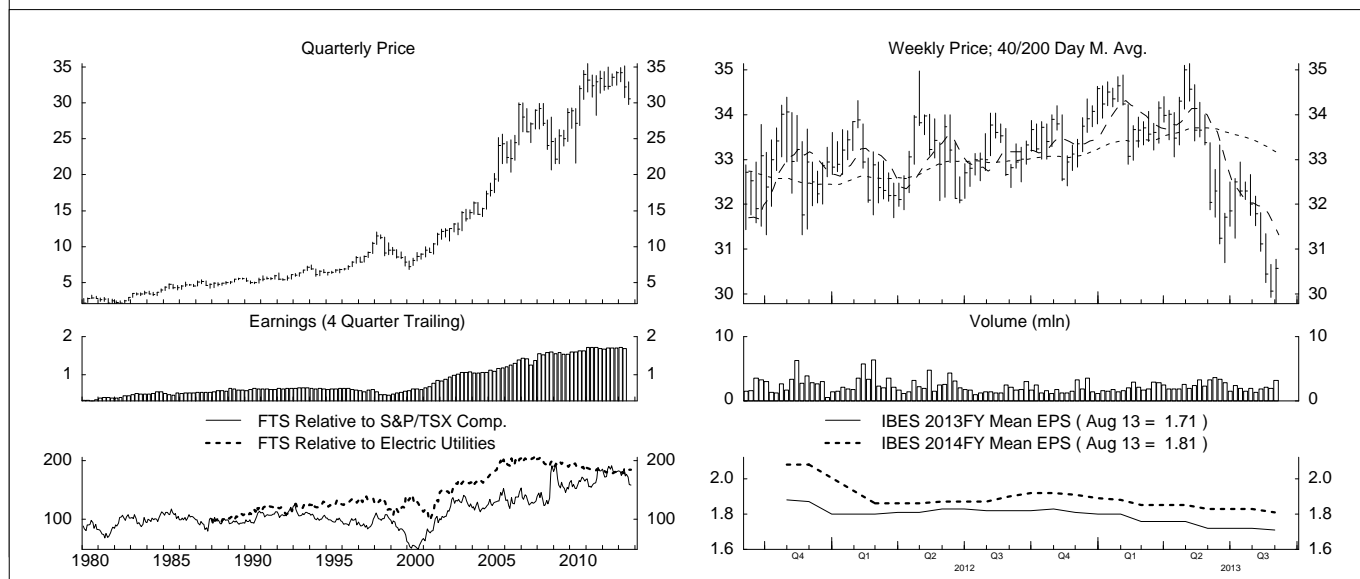
Stock Rating: Market Perform  
Industry Rating: Market Perform

Ben Pham, CFA  
(416) 359-4061  
ben.pham@bmo.com  
Assoc: Adam Johnson, CPA, CA

Price (5-Sep)	\$30.57	52-Week High	\$35.14
Target Price	\$33.00	52-Week Low	\$29.78
Dividend	\$1.24	Book Value	\$22.20
Yield	4.1%	Price/Book	1.4x
Shares O/S (mm)	211.7	Mkt. Cap (\$mm)	\$6,472
Float O/S (mm)	211.7	Float Cap (\$mm)	\$6,472
Wkly Vol (000s)	2,084	Wkly \$ Vol (mm)	\$69.2
Net Debt (\$mm)	\$7,018	Next Rep. Date	Nov (E)
<b>Quarterly EPS</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
2012A	\$0.66	\$0.34	\$0.24
2013E	\$0.67 a	\$0.32 a	\$0.28
2014E	na	na	na

(FY-Dec.)	2012A	2013E	2014E	2015E
EPS	\$1.69	\$1.71	\$1.82	\$1.93
P/E		17.9x	16.8x	15.8x
Div.	\$1.20	\$1.24	\$1.30	\$1.36
EV (\$mm)	\$13,602	\$14,665	\$15,397	\$15,696
EBITDA (\$mm)	\$1,264.0	\$1,440.8	\$1,556.6	\$1,651.0
EV/EBITDA	10.8x	10.2x	9.9x	9.5x
Book Value (\$)	\$20.84	\$22.42	\$23.05	\$23.86
D/Tot. Cap. (%)	52.1%	52.5%	53.1%	52.6%
Debt/EBITDA	4.7x	4.8x	4.7x	4.6x

Notes: All values in C\$ Disclosures: 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%), FortisOntario (100%), Caribbean Utilities (59.5%), Turks

and Caicos (100%), FortisAlberta (100%), FortisBC (100%), the FortisBC Energy Companies (100%), and CH Energy Group (100%). Its regulated utilities account for 90% of the company's total assets and serve ~2.4 million customers. Website: [fortisinc.com](http://fortisinc.com)

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

**Recent Results** – Fortis reported Q2/13 results that were in line with expectations (adjusted EPS of \$0.32 vs. our estimate of \$0.33 and Street consensus of \$0.32).

**Corporate Developments** – On June 27, 2013, FTS closed the acquisition of CH Energy Group, Inc. for ~US\$1.5 billion, including the assumption of US\$518 million in debt. The net purchase price was financed through net proceeds of \$567 million of common shares (from subscription receipts issued in June 2012), with the balance funded through the company's credit facility. Fortis plans to issue US\$325 million of private unsecured notes on October 1, 2013, to pay off a portion of the credit facility. Approximately 93% of the assets acquired from CH Energy are rate-regulated, serving ~300,000 electric and ~77,000 natural gas customers. The company does not expect the transaction to be accretive to EPS until 2015 due to higher integration costs and an extended rate freeze through June 30, 2015.

In May 2013, the B.C. Utilities Commission (BCUC) issued its decision on the first phase of the Generic Cost of Capital (GCOC) proceeding. The decision set out an allowed ROE (8.75%) and capital structure (38.5% equity component) effective January 1, 2013, for FortisBC Energy Inc.

(designated as the benchmark utility for ratemaking purposes). The second phase of the GCOC is now under way for the remaining utilities, with a decision expected in H1/14.

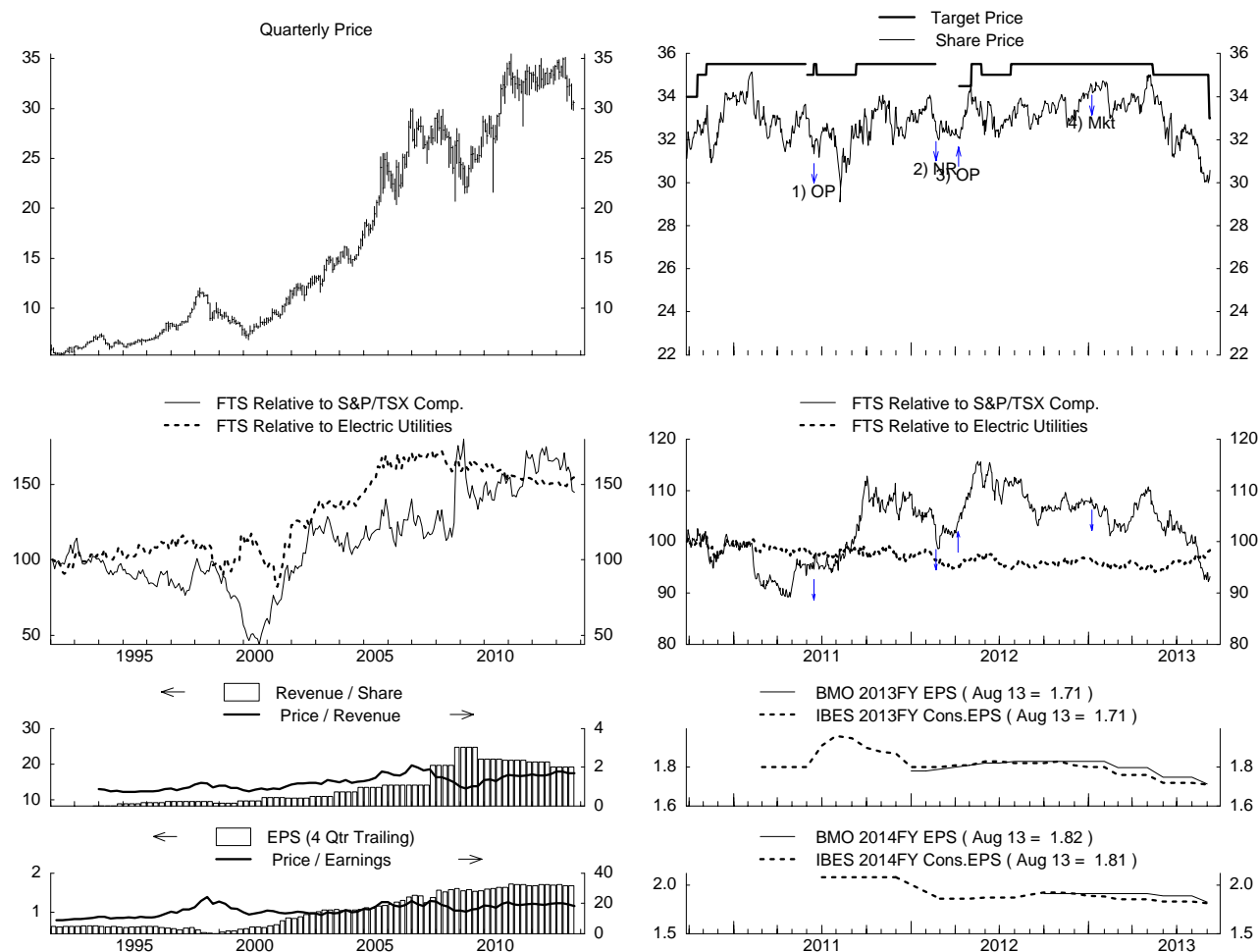
In June 2013 and July 2013, respectively, FortisBC Energy Inc. and FortisBC Electric filed their multi-year performance-based ratemaking (PBR) applications for 2014. Both applications remain under review by the BCUC throughout 2013.

**Forecasts** – We are forecasting EPS (fully diluted) of \$1.71, \$1.82 and \$1.93 for 2013, 2014 and 2015, respectively.

**Valuation** – Our target price of \$33.00 is based on 17.5x our blended two-year forward EPS estimates.

**Recommendation** – At current levels, we believe the shares of Fortis are reasonably valued. Our rating is Market Perform.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0  
 Current\*: 1.68 18.1 1.24 4.1 74 22.2 1.4 8

Growth(%):  
 5 Year: 2.0 4.4 5.9  
 10 Year: 4.8 9.1 10.1  
 20 Year: 4.9 6.1 7.4

\* Current EPS is the 4 Quarter Trailing to Q2/2013.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 27-Sep-10 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52

Last Price ( September 5, 2013): \$30.57

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.5x our blended two-year forward adjusted EPS estimates.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (June 30, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

Our research publications are available via our web site <http://www.bmocm.com/research/>. Institutional clients may also receive our research via FIRST CALL, FIRST CALL Research Direct, Reuters, Bloomberg, FactSet, Capital IQ, and TheMarkets.com. All of our research is made widely available at the same time to all BMO Capital Markets client groups entitled to our research. Additional dissemination may occur via email or regular mail. Please contact your investment advisor or institutional salesperson for more information.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.



---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$32.43**  
**Target Price:**      **\$33.00**

November 1, 2013  
Power & Utilities

**Ben Pham, CFA**      **(416) 359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Adam Johnson, CPA, CA      (416) 359-8110  
BMO Nesbitt Burns Inc.  
adam.johnson@bmo.com

## Q3/13 Results Below Expectations

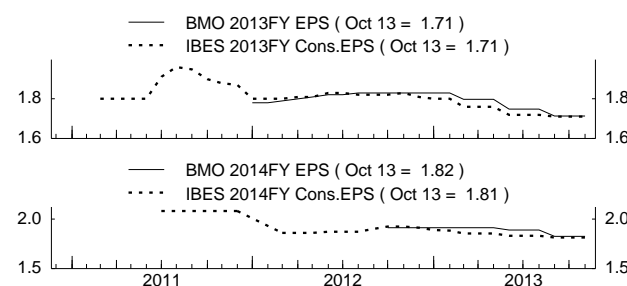
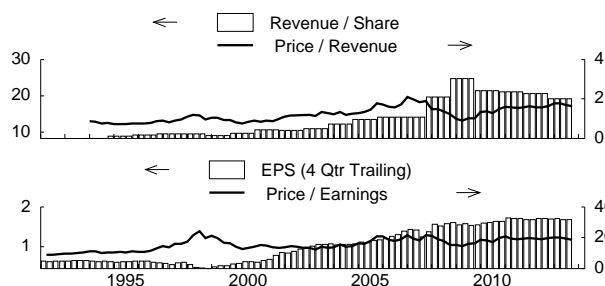
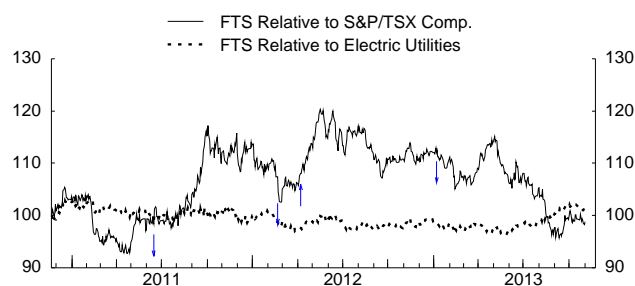
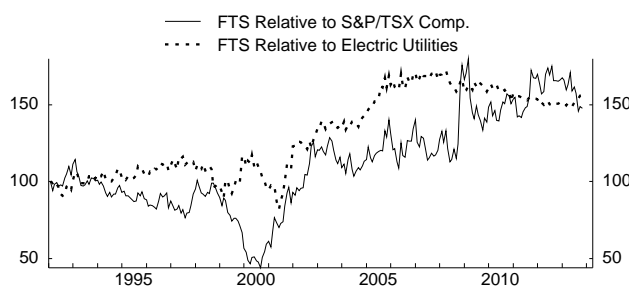
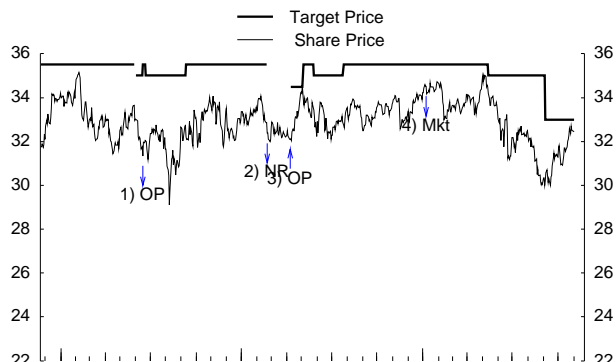
Fortis reported EPS of \$0.23, below our estimate of \$0.28 and Thomson One consensus of \$0.27. The variance versus our estimate was driven primarily by weaker-than-expected results from the FortisBC Energy Companies (largely due to a decrease in the allowed ROE for these companies). Corporate costs were also slightly higher than we expected, at \$21 million (vs. \$19 million) and include \$2 million in costs related to the redemption of preference shares.

### Our View:

- We view this as slightly negative.
- FTS expects total capex of \$1.2 billion for 2013 (down slightly from previous guidance of \$1.3 billion, largely due to changes in expected timing of payments); ~\$809 million has been spent YTD. However, the company has maintained its outlook for \$6 billion in total capital spending from 2013 to 2017. Notably, its \$900 million Waneta hydroelectric project (51% FTS) in B.C. is still on track for an expected in-service date of spring 2015. This provides us with confidence in our expectation of a ~4.8% dividend increase to be announced in late 2013.
- Results for the first full quarter from CH Energy were largely in line with our expectations (\$12 million vs. our ~\$11 million estimate). FTS continues to expect to achieve earnings accretion from the acquisition (which closed on June 27) in 2015.
- On the regulatory front, FortisAlberta filed its 2014 Annual Rates Filing (under PBR) in September 2013, for which a decision is expected in Q4/13. Decisions are also expected on the 2014-2018 Multi-Year PBR plans for FortisBC Electric and the FortisBC Energy Companies in mid-2014.
- At current levels, FTS is trading at 17.8x our 2014E EPS (vs. peer range of 16.4-16.6x) and 16.8x our 2015E EPS (vs. peer range of 15.5-16.1x). We believe a premium valuation is warranted given high regulated exposure, low-risk growth and strong management.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	18.6	1.24	4.0	74	22.2	1.4	8
Growth(%):								
5 Year:	1.2		4.4			5.9		
10 Year:	4.8		9.1			10.1		
20 Year:	4.9		6.1			7.4		

\* Current EPS is the 4 Quarter Trailing to Q2/2013.  
\* Valuation metrics are based on high and low for the fiscal year.  
\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 22-Nov-10 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52

Last Price ( October 31, 2013): \$32.43

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.5x our blended two-year forward adjusted EPS estimates.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	20.3%	47.8%	36.7%	48.3%	52.6%
Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and

subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**



# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**November 4, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CPA, CA

## Q3 – Brighter Days Ahead

### Event

Fortis' third-quarter bottom-line results fell below expectations (reported EPS of \$0.23 vs. our estimate of \$0.28 and Thomson One consensus of \$0.27) amid weaker-than-expected results from the B.C. gas utility (largely due to seasonality) combined with higher-than-expected corporate costs.

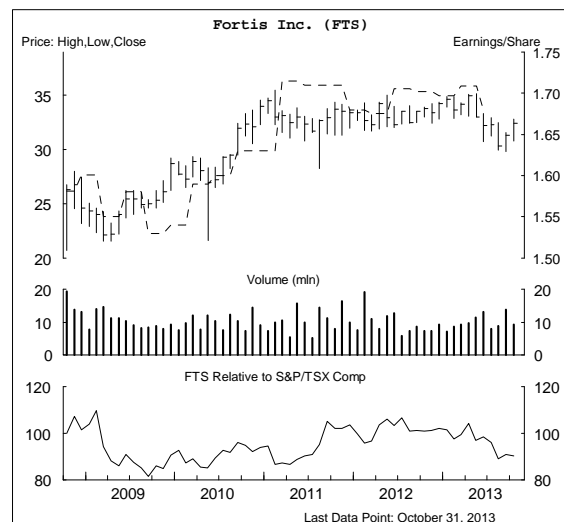
### Impact & Analysis

Key implications: (1) Fortis revised downward its 2013 capex guidance to ~\$1.2 billion from ~\$1.3 billion, primarily due to timing. As a result, the company maintained its capital spending outlook for \$6 billion from 2013–2017. (2) Results for Central Hudson came in roughly in line with our expectations (\$12 million vs. our ~\$11 million estimate). Management reaffirmed achieving accretion from the recent NY acquisition beginning in 2015. (3) We have reduced our 2013E EPS estimate (f.d.) for FTS to \$1.69 from \$1.71 previously to reflect weaker-than-expected Q3 results, partially offset by an increase in our Q4/13E EPS estimate to \$0.50 from \$0.46 owing to lower corporate costs and higher estimated contribution from the B.C. gas utilities and Griffith Energy Services due to seasonality. Our EPS estimates for 2014E and 2015E are unchanged.

### Valuation & Recommendation

At current levels, FTS is trading at 17.9x our 2014E EPS (vs. peer range of 16.4–16.6x) and 16.8x our 2015E EPS (vs. peer range of 15.5–16.0x). Our target price of \$33 is based on 17.5x our blended 2014E/15E EPS estimates. This multiple is above the peer average, reflecting FTS's high regulated exposure, low-risk growth and strong management. Based on FTS's relative return to our price target compared to the other companies in our coverage space, we continue to rate FTS shares Market Perform.

**Price (1-Nov)** \$32.47 **52-Week High** \$35.14  
**Target Price** \$33.00 **52-Week Low** \$29.78



(FY-Dec.)	2012A	2013E	2014E	2015E
EPS	\$1.69	\$1.69↓	\$1.82	\$1.93
P/E		19.2x	17.8x	16.8x
Div.	\$1.20	\$1.24	\$1.30	\$1.36
EV (\$mm)	\$13,602	\$15,053	\$15,791	\$16,150
EBITDA (\$mm)	\$1,264.0	\$1,433.9	\$1,555.8	\$1,652.6
EV/EBITDA	10.8x	10.5x	10.1x	9.8x
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013E	\$0.67a	\$0.32a	\$0.23a	\$0.50↑
2014E	\$0.70	\$0.31	\$0.29	\$0.52
Dividend	\$1.24			3.8%
Book Value	\$22.07			Price/Book 1.5x
Shares O/S (mm)	212.4			Mkt. Cap (mm) \$6,897
Float O/S (mm)	212.4			Float Cap (mm) \$6,897
Wkly Vol (000s)	2,202			Wkly \$ Vol (mm) \$72.2
Net Debt (\$mm)	\$7,075			Next Rep. Date Feb (E)

**Notes:** All values in C\$  
**Major Shareholders:** Widely held  
**First Call Mean Estimates:** FORTIS INC (C\$) 2013E: \$1.71; 2014E: \$1.81; 2015E: \$1.92

### Changes

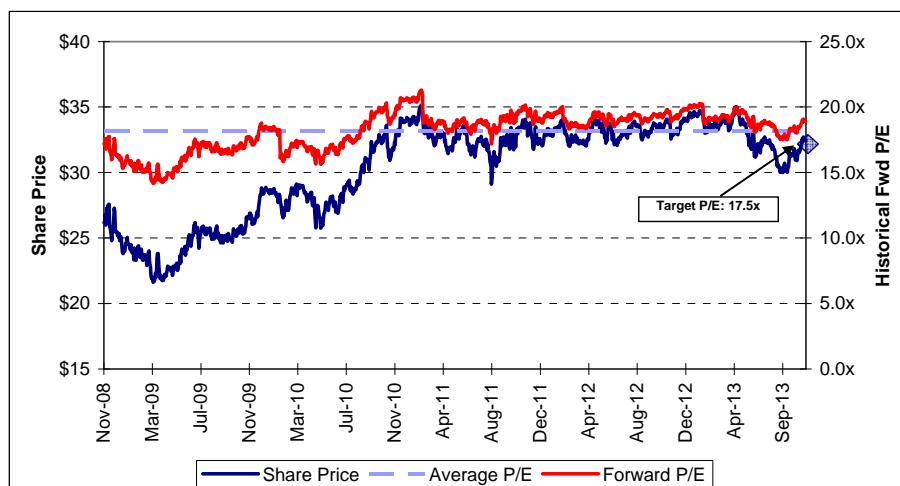
**Annual EPS**  
 2013E \$1.71 to \$1.69

**Quarterly EPS**  
 Q4/13E \$0.46 to \$0.50

## Q3 – Brighter Days Ahead

- **Maintaining Market Perform rating and \$33 target price.** Fortis' third-quarter bottom-line results fell below expectations (reported EPS of \$0.23 vs. our estimate of \$0.28 and Thomson One consensus of \$0.27) amid weaker-than-expected results from the B.C. gas utility combined with higher-than-expected corporate costs. However, after our discussions with management, we understand that the \$8 million Y/Y decline in earnings at FortisBC Energy was largely due to seasonality that will likely reverse in future periods. As a result, we have raised our Q4/13E EPS to \$0.50 from \$0.46, while our 2013E EPS estimate (f.d.) lowers to \$1.69 to \$1.71. Although we are maintaining a neutral stance on Fortis, we believe earnings trends should improve beginning in 2014 on rate base growth, a return to normal hydrology at Belize and the commissioning of the Waneta expansion in early 2015. In the meantime, investors are being paid to wait via a 3.8% common share dividend that we believe is quite safe.
- **Five-year capital expenditure program unchanged in aggregate, but timing changes will see some capex deferred beyond 2013.** Having already spent ~\$809 million so far in 2013, Fortis has revised downward its 2013 capex guidance to ~\$1.2 billion from ~\$1.3 billion; however, the ~\$150 million decrease from the company's original 2013 forecast is primarily due to later-than-expected timing of certain expenditures for the Waneta Dam expansion (see below), FortisBC Electric and the FortisBC Energy Companies, partially offset by Central Hudson. Management has reiterated its outlook for \$6 billion in total capital spending over the five-year period from 2013 to 2017, of which 53% relates to Canadian regulated electric utilities, 11% to Central Hudson, 4% to Caribbean regulated electric utilities and the remaining 11% to non-regulated operations.
- **CH Energy on track to achieving accretion in 2015:** Q3 was the first full quarter of results for CH Energy since Fortis completed its acquisition on June 27, 2013. Results for Central Hudson (regulated gas and electric utility) came in roughly in line with our expectations (\$12 million vs. our ~\$11 million estimate). Following the acquisition, Fortis now also owns Griffith Energy Services, Inc. – the non-regulated petroleum supply operations of CH Energy – which we expect will generate earnings of ~\$4 million per year in the Non-Utility Operations reporting segment. We expect the seasonality of this business to result in higher contribution in Q1 and Q4, with lower or negative earnings contribution during the summer months (Griffith contributed a \$2.5 million loss for Q3/13). Looking at CH Energy as a whole, management has reiterated its view that the acquisition should result in accretion for FTS beginning in 2015.
- **Waneta expansion progresses toward spring 2015 completion:** Despite the likelihood of some capex for this project being delayed from 2013 into 2014, the project still remains on budget and on track for a spring 2015 in-service date. Recall that FTS owns 51% of the 335-MW hydroelectric dam expansion. Since construction began in late 2010, ~\$534 million has been spent to date (vs. a total budget of \$900 million). During Q3, generator step-up transformers were received onsite for assembly, while the first turbine runner and turbine operating mechanism were successfully completed offsite.

- **Key regulatory updates:**
  - **FortisBC Energy Companies' 2014-2018 PBR plans currently under review:** all three entities have filed their multi-year ratemaking plans for which proceedings are currently under way. FEI filed its application in June 2013 requesting a 1.4% increase in rates for 2014; a decision on the application is expected in mid-2014. Both FEVI and FEWI filed their applications in September and October, respectively, requesting that 2014 rates be held at current rates; in each case, a decision is expected in early 2014.
  - **Decision on FortisBC Electric's 2014-2018 PBR plan expected in mid-2014:** the application, which was filed in October and requests a basic customer rate increase of 3.3% for 2014, continues to be reviewed.
  - **Stage 2 of BCUC GCOC remains under way:** recall that this proceeding will decide the allowed ROE and capital structure for FEVI, FEWI and FortisBC Electric. The expected decision date remains in H1/14.
  - **FortisAlberta: proceedings on 2014 Annual Rates Filing and the 2013 GCOC remain under way.** In September, FortisAlberta filed its 2014 Annual Rates Filing (under PBR), which proposes a 5.36% increase to the distribution component of customer rates, effective January 1, 2014. A decision on this application is expected in Q4/13. Meanwhile, the 2013 GCOC proceeding continues after commencing in Q2/13; it is our view that a decision will not come on this proceeding until the later part of 2014.
  - **Newfoundland Power's 2014 Capital Expenditure Plan approved in September 2013.** The PUB approved the plan, which totals ~\$85 million before customer contributions.
- **Reducing 2013 estimates:** We have reduced our EPS estimate (f.d.) for FTS to \$1.69 from \$1.71 previously to reflect weaker-than-expected Q3 results partially offset by an increase in our Q4/13E EPS estimate to \$0.50 from \$0.46 owing to lower corporate costs and higher est. contribution from the B.C. gas utilities and Griffith Energy Services due to seasonality. Our EPS estimates for 2014E and 2015E are unchanged, but we have re-calibrated estimated segment contribution (mainly stronger hydro generation at Belize offset by higher corporate costs).
- **Valuation:** At current levels, FTS is trading at 17.9x our 2014E EPS (vs. peer range of 16.4–16.6x) and 16.8x our 2015E EPS (vs. peer range of 15.5–16.0x). Our target price of \$33 is based on 17.5x our blended 14/15 EPS estimates. This multiple is above the peer average, reflecting FTS's high regulated exposure, low-risk growth and strong management. Based on FTS's relative return to our price target compared to the other companies in our coverage space, we continue to rate FTS shares Market Perform.

**Exhibit 1: FTS – P/E, Share Price and Target P/E**

Source: Thomson One

- Third-quarter results:** Fortis reported EPS of \$0.23, below our estimate of \$0.28 and Thomson One consensus of \$0.27. The variance versus our estimate was driven primarily by weaker-than-expected results from the FortisBC Energy Companies (largely due to seasonality). Corporate costs were also slightly higher than we expected, at \$21 million (vs. \$19 million) and include \$2 million in costs related to the redemption of preference shares. Our quarterly and annual estimates are set out in Exhibit 4 and 5.

**Exhibit 2: Q3/13 Results vs. BMOCM Expectations**

	Q3/13A (\$mm)	Q3/13E (\$mm)	Q3/12A (\$mm)
<b>Regulated Gas Utilities - Canadian</b>			
Fortis BC Energy Companies	(14.0)	(7.5)	(6.0)
<b>Regulated Gas &amp; Electric Utility - United States</b>			
Central Hudson	12.0	10.6	0.0
<b>Regulated Electric Utilities - Canadian</b>			
FortisAlberta	25.0	26.0	26.0
FortisBC Electric	11.0	11.2	13.0
Newfoundland Power	8.0	10.0	9.0
Other Canadian Electric Utilities	7.0	6.2	7.0
	51.0	53.5	55.0
<b>Regulated Electric Utilities - Caribbean</b>	6.0	7.8	6.0
<b>Non-Regulated - Fortis Generation</b>	8.0	6.1	5.0
<b>Non-Regulated - Non-Utility</b>	6.0	8.6	8.0
<b>Corporate and Other</b>	(21.0)	(19.2)	(23.0)
<b>Net Earnings Applicable to Common Shares</b>	<b>48.0</b>	<b>60.0</b>	<b>45.0</b>
Average Shares (Basic)	212.0	211.9	190.2
Average Shares (Diluted)	212.7	222.7	191.1
Adjusted EPS (basic)	\$0.23	\$0.28	\$0.24
<b>Adjusted EPS (diluted)</b>	<b>\$0.23</b>	<b>\$0.28</b>	<b>\$0.24</b>

Source: BMO Capital Markets, Company Reports

## Exhibit 3: Upcoming Events

Q4/13	Expected decision on FortisAlberta 2014 Annual Rates Filing
Q4/13	Expected decision on Utility Asset Disposition (UAD) proceeding
Q1/14	Expected decision on Alberta PBR capital tracker application
Early 2014	Planned hearing for AUC 2013 GCOC (2013, 2014 and 2015 interim)
Early 2014	Expected decision on FEVI/FEWI 2014-2018 PBR application
1H/14	Expected decision on second phase of BCUC 2013 GCOC
Mid-2014	Expected decision on FEI 2014-2018 PBR application
Mid-2014	Expected decision on FortisBC Electric 2014-2018 PBR application
Late 2014	Expected decision on AUC 2013 GCOC
Spring 2015	Expected commissioning of Waneta hydro facility
During 2015	Expected filing of Newfoundland Power's 2016 GRA

Source: BMO Capital Markets, Company Reports

## Exhibit 4: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2012	Q1/13	Q2/13	Q3/13	Q4/13E	2013E	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	12-15E CAGR
<b>Regulated Gas Utilities - Canadian</b> FortisBC Energy Companies	\$138.0	\$85.0	\$6.0	(\$14.0)	\$45.0	\$122.0	\$83.3	\$9.0	(\$10.2)	\$46.1	\$128.1	\$130.6	-1.8%
<b>Regulated Gas &amp; Electric Utility - United States</b> Central Hudson	\$0.0	\$0.0	\$0.0	\$12.0	\$13.0	\$25.0	\$14.3	\$6.7	\$11.8	\$11.8	\$44.7	\$46.3	
<b>Regulated Electric Utilities - Canadian</b> FortisAlberta	\$96.0	\$26.0	\$25.0	\$25.0	\$25.0	\$101.0	\$29.2	\$28.6	\$30.3	\$28.6	\$116.6	\$121.8	8.3%
FortisBC Electric	50.0	18.0	8.0	11.0	10.0	47.0	18.3	8.6	11.5	10.7	49.1	50.3	0.2%
Newfoundland Power	37.0	7.0	11.0	8.0	9.0	35.0	8.0	12.0	10.0	10.0	40.0	41.5	3.9%
Other Canadian Electric Utilities	24.0	6.0	5.0	7.0	6.3	24.3	6.4	5.5	7.4	6.8	26.0	27.0	4.0%
	207.0	57.0	49.0	51.0	50.3	207.3	61.8	54.6	59.3	56.0	231.7	240.6	
Regulated Electric Utilities - Caribbean	19.0	3.0	6.0	6.0	4.9	19.9	3.8	6.4	8.0	5.4	23.6	25.1	
Non-Regulated - Fortis Generation	17.0	2.0	3.0	8.0	4.9	17.9	3.6	3.9	6.8	3.6	17.9	40.1	33.1%
Non-Regulated - Non-Utility	22.0	0.0	9.0	6.0	7.5	22.5	4.9	5.0	6.5	8.3	24.7	25.1	4.5%
Corporate and Other	(80.6)	(18.0)	(12.0)	(21.0)	(19.6)	(70.6)	(20.3)	(20.3)	(20.3)	(20.3)	(81.1)	(89.8)	3.7%
<b>Total Adjusted Earnings</b>	<b>322.4</b>	<b>129.0</b>	<b>61.0</b>	<b>48.0</b>	<b>106.0</b>	<b>344.0</b>	<b>151.4</b>	<b>65.3</b>	<b>61.9</b>	<b>111.0</b>	<b>389.6</b>	<b>418.1</b>	<b>9.1%</b>
Average Shares Outstanding (basic)	190.0	192.0	193.4	212.0	212.0	201.8	213.1	213.1	213.1	213.1	213.1	215.3	
Average Shares Outstanding (diluted)	201.1	202.8	194.1	212.7	222.8	212.6	221.9	221.9	221.9	221.9	221.9	224.1	
<b>Dividends Per Share</b>	<b>\$1.20</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$1.24</b>	<b>\$0.33</b>	<b>\$0.33</b>	<b>\$0.33</b>	<b>\$0.33</b>	<b>\$1.30</b>	<b>\$1.36</b>	<b>4.3%</b>
EPS - reported (diluted)	\$1.65	\$0.66	\$0.28	\$0.23	\$0.50	\$1.66	\$0.70	\$0.31	\$0.29	\$0.52	\$1.81	\$1.93	
Adjusted EPS - basic	\$1.70	\$0.67	\$0.32	\$0.23	\$0.50	\$1.70	\$0.71	\$0.31	\$0.29	\$0.52	\$1.83	\$1.94	4.6%
<b>Adjusted EPS - diluted</b>	<b>\$1.69</b>	<b>\$0.66</b>	<b>\$0.32</b>	<b>\$0.23</b>	<b>\$0.50</b>	<b>\$1.69</b>	<b>\$0.70</b>	<b>\$0.31</b>	<b>\$0.29</b>	<b>\$0.52</b>	<b>\$1.82</b>	<b>\$1.93</b>	<b>4.5%</b>

Source: BMO Capital Markets

## Exhibit 5: Consolidated Summary Sheet



## Market Perform

12-Month Target Price: \$33.00

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$32.47

ROR: 5.5%

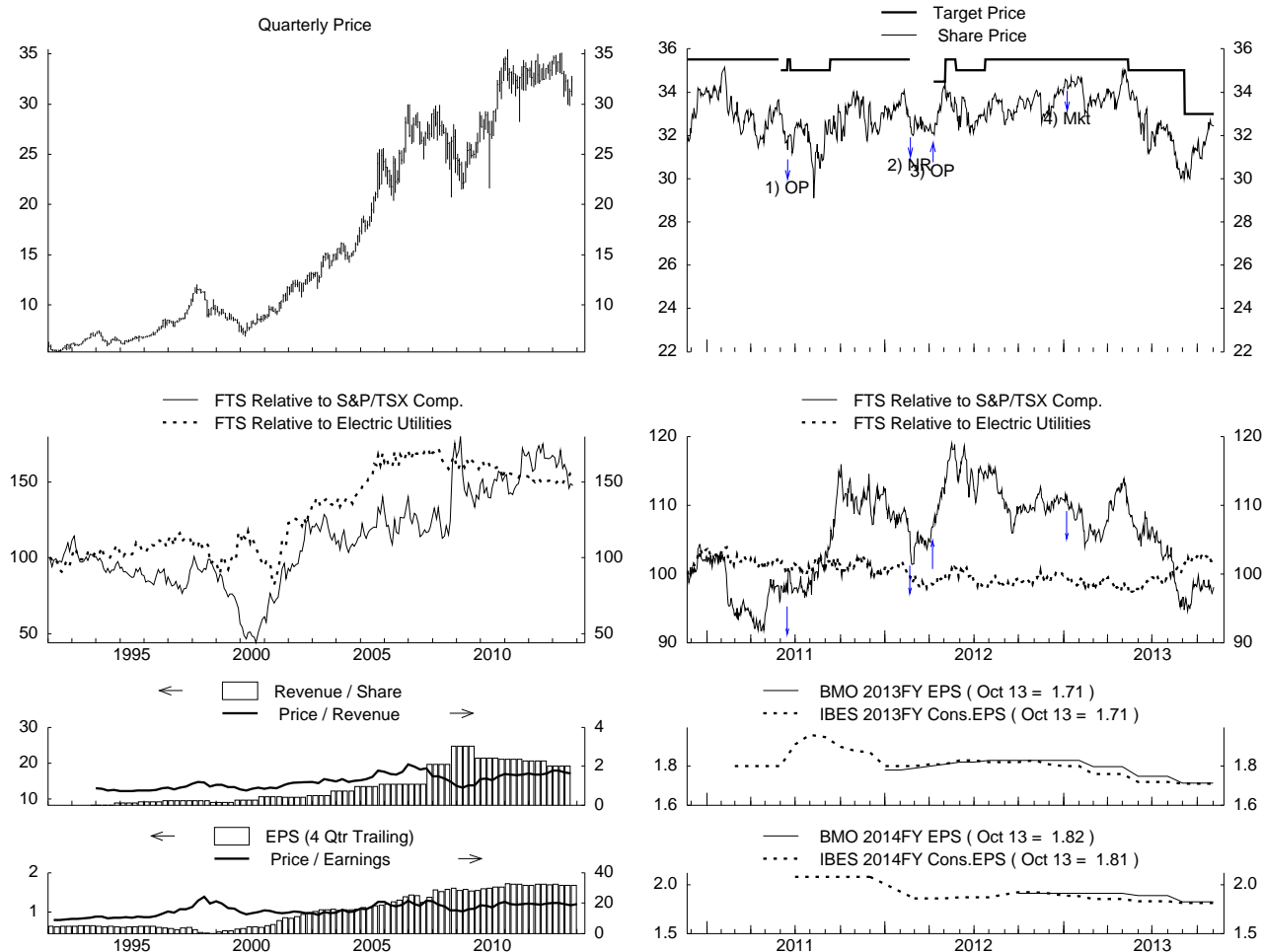
## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	CAGR 2012A- 2015E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.70	\$1.83	\$1.94	4.6%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.69</b>	<b>\$1.82</b>	<b>\$1.93</b>	4.5%
<i>First Call Consensus</i>							\$1.71	\$1.81	\$1.92	4.4%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.84	\$4.90	\$5.06	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.30	\$1.36	4.3%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	72.8%	71.1%	70.0%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	25.6%	26.5%	26.9%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	201.8	213.1	215.3	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	201.1	212.6	221.9	224.1	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.40	\$23.03	\$23.70	
<b>Market Valuation</b>										
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	-	
Price: Current	-	-	-	-	-	-	\$32.47	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	19.2	17.9	16.8	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	10.5	10.1	9.8	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	-	-	-	
Yield: Current	-	-	-	-	-	-	3.8%	4.0%	4.2%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	107.5	334.5	441.7	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,847.6	6,992.7	7,173.0	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	310.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,235.0	1,235.0	1,235.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,749.3</u>	<u>4,931.1</u>	<u>5,129.6</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,249.4	13,803.4	14,289.4	
<b>Balance Sheet (%)</b>										
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	0.8%	2.4%	3.1%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	51.7%	50.7%	50.2%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.2%	2.2%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.3%	8.9%	8.6%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>35.8%</u>	<u>35.7%</u>	<u>35.9%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>										
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,331.2	4,571.3	4,767.3	9.3%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,433.9	1,555.8	1,652.6	9.3%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	344.0	389.6	418.1	9.1%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	977.4	1,045.2	1,089.4	6.7%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,359.1)	(1,140.8)	(1,088.6)	
<b>Financial Leverage</b>										
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	6,955.1	7,327.2	7,614.7	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	4.9x	4.7x	4.6x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	52.5%	53.1%	53.3%	

Source: BMO Capital Markets, Company Reports



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	19.3	1.24	3.8	74	22.2	1.5	8

## Growth(%):

5 Year:	1.2	4.4	5.9
10 Year:	4.8	9.1	10.1
20 Year:	4.9	6.1	7.4

\* Current EPS is the 4 Quarter Trailing to Q2/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 23-Nov-10 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52

Last Price ( November 1, 2013): \$32.47

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.5x our blended two-year forward adjusted EPS estimates.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	20.3%	47.8%	36.7%	48.3%	52.6%
Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc., affiliate of BMO Capital Markets Corp., furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its’ affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**December 9, 2013**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Assoc: Adam Johnson, CPA, CA

## Quarterly Dividend Increased 3.2%

### Event

Fortis Inc. announced that its board of directors has approved an increase in the company's quarterly common share dividend to \$0.32/share from the current quarterly rate of \$0.31/share (~3.2% increase), marking the company's 41st consecutive year of dividend increases. The dividend is payable on March 1, 2014, to common shareholders of record at the close of business on February 14, 2014.

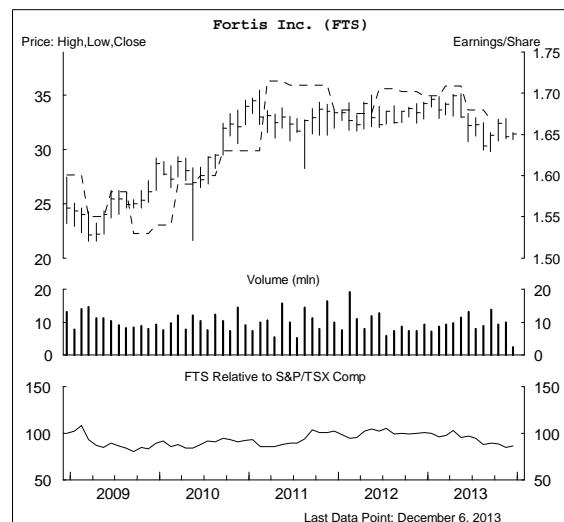
### Impact & Analysis

As a result of the announcement, the new annualized common share dividend for 2014 will be \$1.28 (vs. \$1.24 for 2013). This is \$0.02 lower on an annual basis for 2014 vs. our previous expectation. Our 2014/15 EPS (fd) estimates are unchanged at \$1.82 and \$1.93, respectively. We have reduced our 2014/15 dividend per share estimates to \$1.28 and \$1.34, from \$1.30 and \$1.36, respectively, reflecting dividend growth of ~3.2% in 2014 and ~4.7% in 2015.

### Valuation & Recommendation

At current levels, FTS is trading at 17.3x our 2014E EPS (vs. peer range of 15.6-16.0x) and 16.2x our 2015E EPS (vs. peer range of 14.7-15.5x). Our target price of \$33 is based on 17.5x our blended 2014E/15E EPS estimates. The multiple is above the peer average, reflecting FTS's high regulated exposure, low-risk growth and strong management team. Based on FTS's relative return to our target price compared to other companies in our coverage space, we continue to rate FTS shares Market Perform.

**Price (6-Dec)** \$31.41 **52-Week High** \$35.14  
**Target Price** \$33.00 **52-Week Low** \$29.78



(FY-Dec.)	2012A	2013E	2014E	2015E
EPS	\$1.69	\$1.69	\$1.82	\$1.93
P/E		18.6x	17.3x	16.2x

Div.	\$1.20	\$1.24	\$1.28	\$1.34
EV (\$mm)	\$13,602	\$14,873	\$15,598	\$15,950
EBITDA (\$mm)	\$1,264.0	\$1,433.4	\$1,555.9	\$1,652.6
EV/EBITDA	10.8x	10.4x	10.0x	9.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013E	\$0.67a	\$0.32a	\$0.23a	\$0.50
2014E	\$0.70	\$0.31	\$0.29	\$0.52

Dividend	\$1.24	Yield	3.9%
Book Value	\$22.07	Price/Book	1.4x
Shares O/S (mm)	212.4	Mkt. Cap (mm)	\$6,672
Float O/S (mm)	212.4	Float Cap (mm)	\$6,672
Wkly Vol (000s)	2,275	Wkly \$ Vol (mm)	\$74.2
Net Debt (\$mm)	\$7,075	Next Rep. Date	Feb (E)

Notes: All values in C\$

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INC (C\$) 2013E: \$1.69; 2014E: \$1.79; 2015E: \$1.91

## Exhibit 1: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2012	Q1/13	Q2/13	Q3/13	Q4/13E	2013E	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	12-15E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$138.0	\$85.0	\$6.0	(\$14.0)	\$45.0	\$122.0	\$83.3	\$9.0	(\$10.2)	\$46.1	\$128.1	\$130.6	-1.8%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
Central Hudson	\$0.0	\$0.0	\$0.0	\$12.0	\$13.0	\$25.0	\$14.3	\$6.7	\$11.8	\$11.8	\$44.7	\$46.3	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$96.0	\$26.0	\$25.0	\$25.0	\$25.0	\$101.0	\$29.2	\$28.6	\$30.3	\$28.6	\$116.6	\$121.8	8.3%
FortisBC Electric	50.0	18.0	8.0	11.0	10.0	47.0	18.3	8.6	11.5	10.7	49.1	50.3	0.2%
Newfoundland Power	37.0	7.0	11.0	8.0	9.0	35.0	8.0	12.0	10.0	10.0	40.0	41.5	3.9%
Other Canadian Electric Utilities	24.0	6.0	5.0	7.0	6.3	24.3	6.4	5.5	7.4	6.8	26.0	27.0	4.0%
	207.0	57.0	49.0	51.0	50.3	207.3	61.8	54.6	59.3	56.0	231.7	240.6	
Regulated Electric Utilities - Caribbean	19.0	3.0	6.0	6.0	4.8	19.8	3.8	6.4	8.0	5.4	23.6	25.1	
Non-Regulated - Fortis Generation	17.0	2.0	3.0	8.0	4.9	17.9	3.6	3.9	6.8	3.6	17.9	40.1	33.1%
Non-Regulated - Non-Utility	22.0	0.0	9.0	6.0	7.5	22.5	4.9	5.0	6.5	8.3	24.7	25.1	4.5%
Corporate and Other	(80.6)	(18.0)	(12.0)	(21.0)	(19.6)	(70.6)	(20.3)	(20.3)	(20.3)	(20.3)	(81.1)	(89.6)	3.6%
<b>Total Adjusted Earnings</b>	<b>322.4</b>	<b>129.0</b>	<b>61.0</b>	<b>48.0</b>	<b>105.9</b>	<b>343.9</b>	<b>151.4</b>	<b>65.3</b>	<b>61.9</b>	<b>111.0</b>	<b>389.7</b>	<b>418.2</b>	<b>9.1%</b>
Average Shares Outstanding (basic)	190.0	192.0	193.4	212.0	212.0	201.8	213.1	213.1	213.1	213.1	213.1	215.2	
Average Shares Outstanding (diluted)	201.1	202.8	194.1	212.7	222.8	212.6	221.9	221.9	221.9	221.9	221.9	224.0	
<b>Dividends Per Share</b>	<b>\$1.20</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$1.34</b>	<b>3.7%</b>
EPS - reported (diluted)	\$1.65	\$0.66	\$0.28	\$0.23	\$0.50	\$1.66	\$0.70	\$0.31	\$0.29	\$0.52	\$1.81	\$1.93	
Adjusted EPS - basic	\$1.70	\$0.67	\$0.32	\$0.23	\$0.50	\$1.70	\$0.71	\$0.31	\$0.29	\$0.52	\$1.83	\$1.94	4.6%
<b>Adjusted EPS - diluted</b>	<b>\$1.69</b>	<b>\$0.66</b>	<b>\$0.32</b>	<b>\$0.23</b>	<b>\$0.50</b>	<b>\$1.69</b>	<b>\$0.70</b>	<b>\$0.31</b>	<b>\$0.29</b>	<b>\$0.52</b>	<b>\$1.82</b>	<b>\$1.93</b>	<b>4.6%</b>

Source: BMO Capital Markets



## Exhibit 2: Consolidated Summary Sheet



## Market Perform

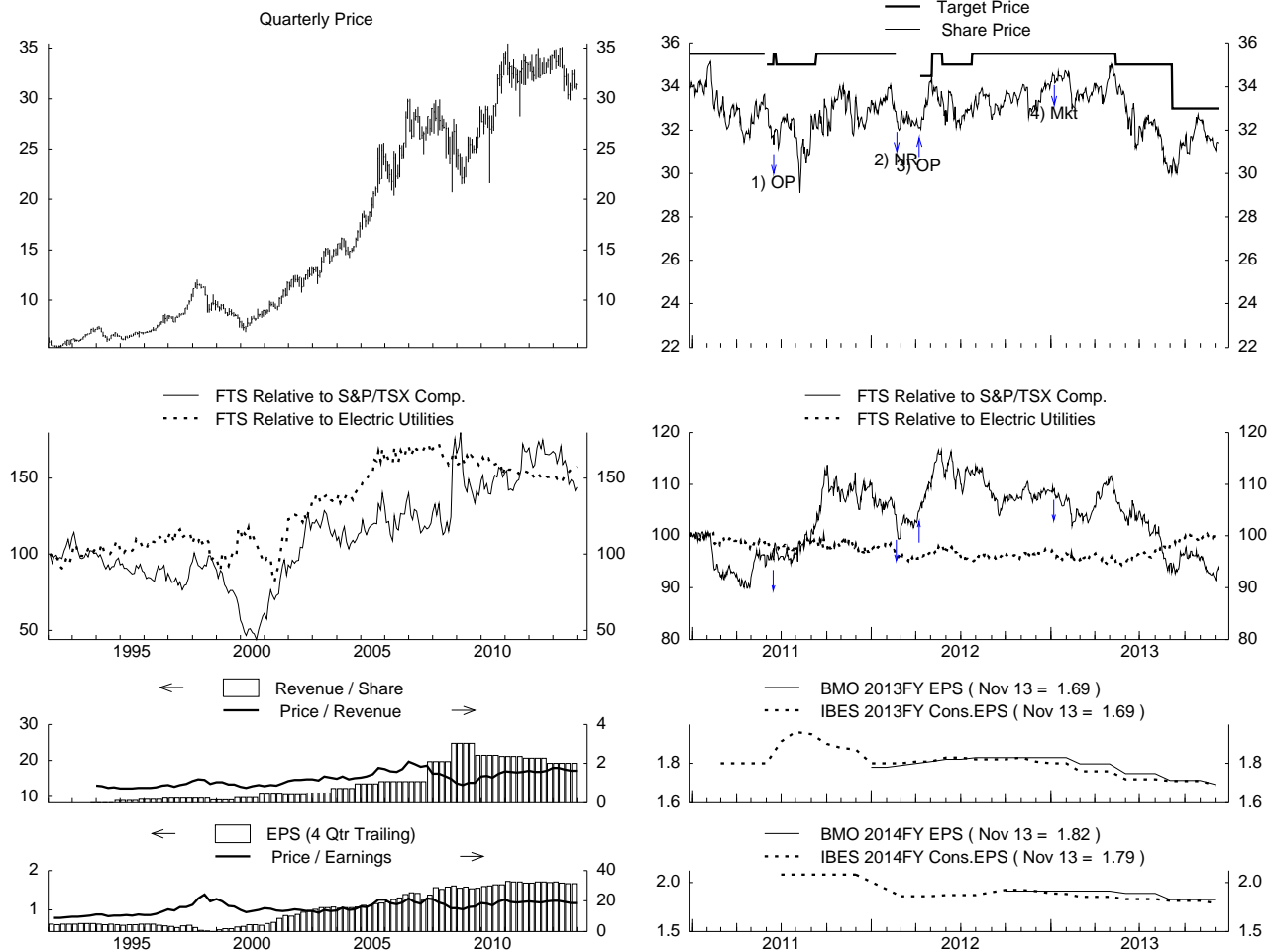
12-Month Target Price: \$33.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$31.60  
 ROR: 8.4%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	CAGR 2012A- 2015E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.70	\$1.83	\$1.94	4.6%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.69</b>	<b>\$1.82</b>	<b>\$1.93</b>	4.6%
<i>First Call Consensus</i>							\$1.69	\$1.79	\$1.91	4.2%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.84	\$4.91	\$5.06	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.34	3.7%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	72.8%	70.0%	69.0%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	25.6%	26.1%	26.5%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	201.8	213.1	215.2	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	201.1	212.6	221.9	224.0	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.40	\$23.05	\$23.74	
<b>Market Valuation</b>										
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	-	
Price: Current	-	-	-	-	-	-	\$31.60	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	18.7	17.4	16.4	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	10.4	10.0	9.7	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	-	-	-	
Yield: Current	-	-	-	-	-	-	3.9%	4.1%	4.2%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	107.6	331.3	435.1	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,847.6	6,992.7	7,173.0	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	310.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,235.0	1,235.0	1,235.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,749.2</u>	<u>4,934.3</u>	<u>5,136.3</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,249.4	13,803.4	14,289.4	
<b>Balance Sheet (%)</b>										
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	0.8%	2.4%	3.0%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	51.7%	50.7%	50.2%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.2%	2.2%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.3%	8.9%	8.6%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>35.8%</u>	<u>35.7%</u>	<u>35.9%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>										
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,329.0	4,571.3	4,767.3	9.3%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,433.4	1,555.9	1,652.6	9.3%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	343.9	389.7	418.2	9.1%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	977.3	1,045.3	1,089.5	6.7%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,359.1)	(1,140.8)	(1,088.6)	
<b>Financial Leverage</b>										
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	6,955.2	7,324.0	7,608.1	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	4.9x	4.7x	4.6x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	52.5%	53.1%	53.2%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0  
 Current\*: 1.67 18.7 1.24 4.0 74 22.1 1.4 8

Growth(%):  
 5 Year: 1.1 4.4 5.8  
 10 Year: 4.7 9.1 10.0  
 20 Year: 4.8 5.8 7.4

\* Current EPS is the 4 Quarter Trailing to Q3/2013.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 28-Dec-10 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52

Last Price ( December 6, 2013): \$31.41  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.5x our blended 14/15 adjusted EPS estimates.

**Risks:** Operations are subject to complex regulation by a variety of provincial, state and federal (Canada, Cayman Islands & Belize) agencies. Changes in regulation may adversely affect performance.

**Distribution of Ratings (September 30, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	20.3%	47.8%	36.7%	48.3%	52.6%
Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

#### **Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

#### **Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

#### **Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

#### **Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx).

#### **General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

#### **Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2013 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**January 24, 2014**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com

## Going Big; Resuming Coverage With a Market Perform Rating

### Event

Resuming coverage with a Market Perform rating following \$1.8B convertible debentures offering and UNS acquisition announcement.

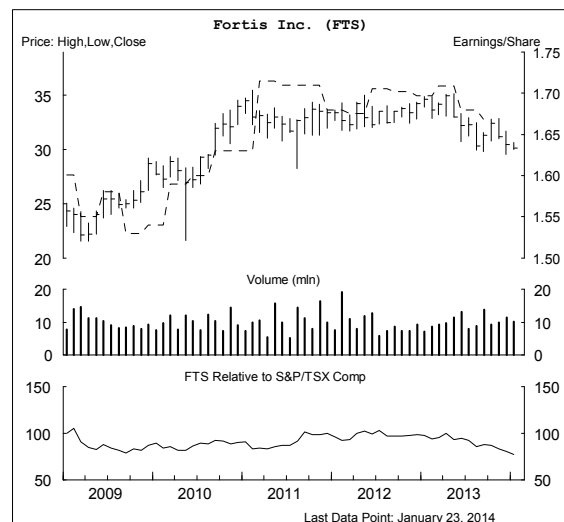
### Impact & Analysis

Key implications: (1) Strategic rationale of the transaction is clear: UNS will provide Fortis with a larger U.S. presence immediately, diversify its earnings profile, and provide significant longer-term rate base growth prospects. Total assets are expected to increase by ~34%+ to \$23.5B pro-forma. (2) The US\$4.3B price represents ~16.7x 2015E EPS or a 43%+ premium to 2015E rate base (or ~18.0x 2015E EPS or a 50%+ premium to 2015E rate base including a required US\$200M injection upon close). The acquisition is expected to close before the end of 2014, subject to regulatory and UNS shareholders' approvals. (3) We estimate initial deal accretion of ~\$0.04/share or ~2%+ to our pre-acquisition 2015E EPS, with additional earnings accretion over time given 7%+ rate base growth at UNS through 2018E. (4) Our 2013E EPS (f.d.) estimate is unchanged at \$1.69, but our 2014E EPS (f.d.) declines to \$1.54 from \$1.82 due to the dilution from the \$1.8 billion convertible debenture issuance. Our 2015E EPS (f.d.) increases to \$1.97 from \$1.93 owing to the expected deal accretion.

### Valuation & Recommendation

While we have rolled forward our valuation to F15 (vs. average of F14/F15) and estimate modest deal accretion, we have left our target price unchanged at \$33/sh as we are applying a lower target multiple of 16.75x (vs. 17.5x) reflecting FTS' increased exposure to U.S. utilities (which have tended to trade at lower valuations than Canadian-domiciled utilities) and a higher long-term bond yield assumption in F15 vs. F14. Based on FTS' relative return to our target price compared to the other regulated utility companies we cover in our coverage space, we continue to rate FTS shares Market Perform.

**Price (23-Jan)** \$30.11 **52-Week High** \$35.14  
**Target Price** \$33.00 **52-Week Low** \$29.51



(FY-Dec.)	2012A	2013E	2014E	2015E
<b>EPS</b>	\$1.69	\$1.69	\$1.54↓	\$1.97↑
<b>P/E</b>		17.8x	19.5x	15.4x
<b>Div.</b>	\$1.20	\$1.24	\$1.28	\$1.34
<b>EV (\$mm)</b>	\$13,602	\$15,039	\$16,514	\$20,611
<b>EBITDA (\$mm)</b>	\$1,264.0	\$1,432.5	\$1,566.0	\$2,234.0
<b>EV/EBITDA</b>	10.8x	10.5x	10.5x	9.2x
<b>Quarterly EPS</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2012A</b>	\$0.66	\$0.34	\$0.24	\$0.46
<b>2013E</b>	\$0.67a	\$0.32a	\$0.23a	\$0.50
<b>2014E</b>	\$0.63↓	\$0.23↓	\$0.22↓	\$0.45↓
<b>Dividend</b>	\$1.28			4.3%
<b>Book Value</b>	\$22.07			Price/Book 1.4x
<b>Shares O/S (mm)</b>	212.4			<b>Mkt. Cap (mm)</b> \$6,396
<b>Float O/S (mm)</b>	212.4			<b>Float Cap (mm)</b> \$6,396
<b>Wkly Vol (000s)</b>	2,352			<b>Wkly \$ Vol (mm)</b> \$75.8
<b>Net Debt (\$mm)</b>	\$7,075			<b>Next Rep. Date</b> Feb (E)

**Notes:** All values in C\$

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INC (C\$) 2013E: \$1.71; 2014E: \$1.80; 2015E: \$1.89

### Changes

**Annual EPS**  
 2014E \$1.82 to \$1.54  
 2015E \$1.93 to \$1.97

### Quarterly EPS

Q1/14E \$0.70 to \$0.63  
 Q2/14E \$0.31 to \$0.23  
 Q3/14E \$0.29 to \$0.22  
 Q4/14E \$0.52 to \$0.45



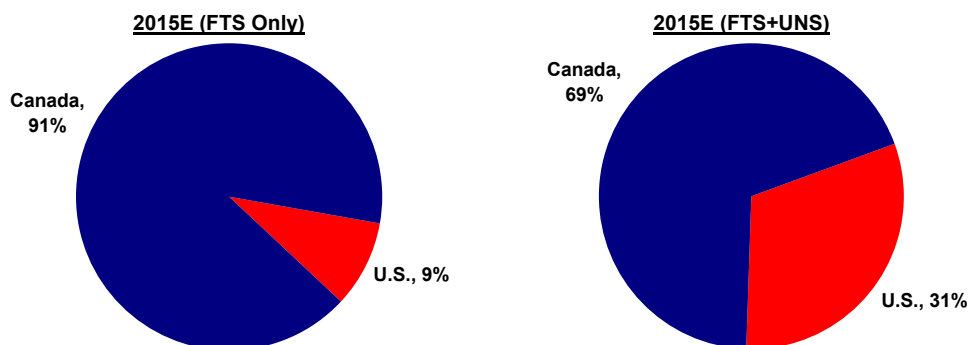
## Going Big; Resuming Coverage With Market Perform Rating

**Maintaining Market Perform rating and \$33/sh target price.** The US\$4.3 billion acquisition of UNS Energy Corporation is Fortis' largest acquisition to date and illustrates that large-scale acquisition opportunities in the U.S. are still available for the company. Fortis is utilizing a combination of convertible debentures (which we expect to convert into common shares upon acquisition close expected end of 2014) and additional holdco debt and preferred shares to finance the deal. While we have rolled forward our valuation to F15 (vs. average of F14/15) and estimate ~\$0.04/sh accretion (or 2%+) from the UNS deal, we have left our target price unchanged at \$33/sh as we are applying a lower target multiple of 16.75x (vs. 17.5x) reflecting FTS' increased exposure to U.S. utilities (which have tended to trade at lower valuations than Canadian-domiciled utilities) and a higher bond yield assumption in F15 vs. F14. Based on FTS' relative return to our target price compared to the other regulated utility companies we cover in our coverage space, we continue to rate FTS shares Market Perform.

## A Strategic Transaction That Would Be Modestly Accretive Initially

**Driving further growth in the U.S.** Strategic rationale of the transaction is clear: UNS will provide Fortis with a larger U.S. presence immediately, diversify its earnings profile (which currently skew to Canada), and provide significant longer-term rate base growth prospects underpinned by relatively attractive local economic conditions. The UNS acquisition follows on the heels of FTS' recent US\$1.5B acquisition of CH Energy (New York utility) which closed on June 27, 2013.

### Exhibit 1: Current and Pro Forma Geographical Earning Split



Source: BMO Capital Markets

**Headline enterprise value of US\$4.3 billion for UNS' assets, including assumed debt.** This represents the US\$2.5 billion in consideration for UNS shares and US\$1.8 billion in assumed debt. However, if we include FTS' expected US\$200 million injection into UNS upon transaction close to help finance its purchase of the Gila River natural gas plant (Unit 3) and strengthen its balance sheet, the implied total consideration for UNS is approximately US\$4.5 billion.

**FTS has raised \$1.8 billion in subordinated convertible debentures to finance the purchase.** The company has raised \$1.8 billion in subordinated convertible debentures bearing

an interest rate of 4%, of which \$1.6 billion was publicly raised. We assume that all of the convertible debentures are converted to common equity at a price of \$30.72/sh at the beginning of 2015, implying an additional ~58.6 million of common shares (or 27.6% of current common stock outstanding). In our view, FTS will raise holdco debt and preferred shares to finance the balance (Exhibit 2).

### Exhibit 2: Forecast Sources & Uses for the UNS Acquisition (C\$m)

Uses:		Sources:	
Consideration for UNS Assets	(2,625)	Convertible Debentures	1,800
Equity Injection Upon Close	(210)	Holdco Debt	435
		Preferred Shares	600
<b>Total</b>	<b>(2,835)</b>	<b>Total</b>	<b>2,835</b>

Note: Assumes CAD/USD exchange rate of 1.05

Source: BMO Capital Markets, Company Reports

**We estimate that FTS will pay ~16.7x 2015E EPS (consensus) for UNS or a 43%+ premium to 2015E rate base, a rich price in light of recent comparable transactions.** This does not include the impact of the expected US\$200 million injection upon close. Including this injection, the transaction looks to be ~18.0x 2015E EPS (consensus) or a 50%+ premium to 2015E rate base. The UNS purchase multiple certainly exceeded FTS' trading multiple at the time of the announcement; however, we still estimate modest EPS accretion from the deal (see Exhibit 4).

### Exhibit 3: The Purchase Price Values UNS at ~16.7x 2015E P/E (or ~18.0x Including Injection Upon Close)

Implied Valuation for UNS (USD millions)		
	Base Consideration	Plus: Injection Upon Close
Consideration for UNS Shares	\$2,500	\$2,500
Expected injection upon close		\$200
<b>Total Equity Value</b>	<b>\$2,500</b>	<b>\$2,700</b>
2015E Earnings (Consensus)	\$150	\$150
<b>Implied P/E Multiple</b>	<b>16.7x</b>	<b>18.0x</b>
Add: Assumed Debt	\$1,800	\$1,800
<b>Total Enterprise Value</b>	<b>\$4,300</b>	<b>\$4,500</b>
2015E Rate Base	\$3,000	\$3,000
<b>Implied Premium to Rate Base</b>	<b>43.3%</b>	<b>50.0%</b>

Source: BMO Capital Markets, Company Reports

**We estimate EPS accretion of ~\$0.04/sh in 2015E.** Fortis stated that it expects the acquisition to be immediately accretive to EPS excluding one-time transaction costs. The total assets of Fortis are expected to increase by ~34%+ to \$23.5 billion following the completion of the transaction. Incorporating Thomson One consensus of 2015E earnings of ~US\$150 million for UNS and factoring FTS' incremental holdco carrying costs and cross-border tax benefits suggests initial accretion of ~\$0.04/share or ~2%+ to our pre-acquisition 2015E EPS. UNS is expected to grow its rate base by a CAGR of 7%+ per year through 2018E, and this growth rate should translate into additional earnings accretion over time.

**Exhibit 4: UNS Acquisition Expected to Be Accretive Initially**

		<b>Notes</b>
Acquisition price (US\$mm)	4,500.0	Includes US\$200M injection at closing
UNS 2015E Earnings (C\$mm)	157.5	Assumes 1.05 CAD/USD exchange rate
Add: tax benefits specific to FTS	11.0	Cross-border tax benefit
Less: additional interest expense (net of tax)	(16.3)	\$435M holdco debt at 5%; 25% effective tax rate
Less: preferred share dividends	(27.0)	\$600M prefs at 4.5%
Incremental net earnings (2015E)	125.2	
Pre-acquisition net income (2015E)	432.2	
<b>2015E combined net income (C\$mm)</b>	<b>557.4</b>	
Average Shares O/S (Pre-Acquisition)	224.0	
Average Shares O/S (Post-Acquisition)	282.6	58.6M new shares from convertibles conversion
2015E EPS - pre-acquisition (diluted)	\$1.93	
2015E EPS - post-acquisition (diluted)	\$1.97	
<b>EPS accretion</b>	<b>\$0.04</b>	

Source: BMO Capital Markets

**The transaction is expected to close by end of 2014, subject to regulatory and UNS shareholders' approvals.** The proposed acquisition will be submitted early this year for the approval of UNS shareholders. The transaction is also subject to the approval of regulators, including the Arizona Corporation Commission (ACC) and the Federal Energy Regulatory Commission (FERC).

**Key risks to the acquisition, in our view, include:**

**1) Credit ratings.** While we do not expect FTS' post-acquisition leverage to change significantly (we estimate 57.5% adj. debt/capital (preferred shares treated as 50% debt) from 57.6% pre-acquisition), credit rating risk is heightened in the near term: on December 11, 2013, DBRS placed FTS' A (low) rating Under Review – Developing; also on December 13, 2013, S&P revised its outlook on FTS A- credit rating to Negative from Stable. Should a credit rating downgrade occur, this could increase the company's cost of capital and/or result in FTS issuing more common equity for the UNS deal than expected.

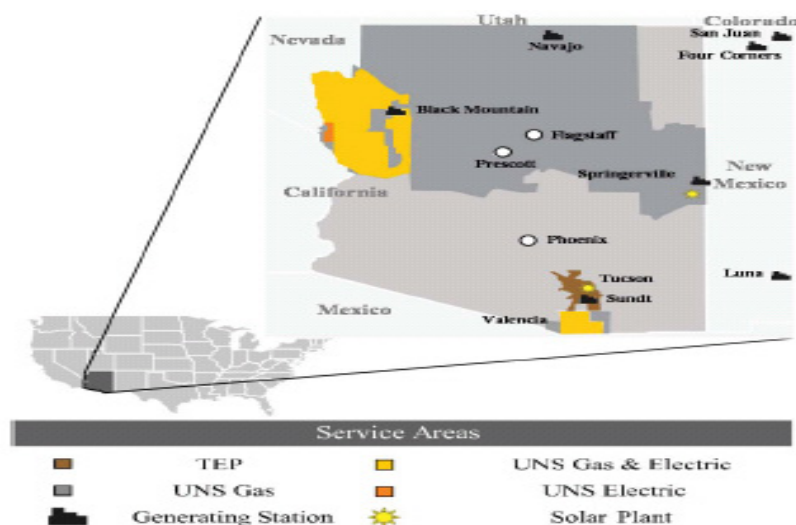
**2) Regulatory.** The most significant gating factor to this transaction, in our view, is ACC regulatory approval. A delay in regulatory approval further dilutes near-term EPS given carrying costs associated with the subordinated convertible debentures. Moreover, our research turned up lengthy rate cases in Arizona (close to two years) and a highly politicized regulatory environment historically. However, over the last few years, the regulatory environment in Arizona has improved with timelier rate case reviews, the adoption of partial decoupling mechanisms, and flow-through mechanisms for purchased power costs, fuel, environmental compliance costs, energy efficiency and distributed generation.

**3) Execution.** At a purchase price of approximately US\$4.3 billion, UNS represents a sizable capital investment with a lengthy regulatory approval process. FTS is also integrating its recently acquired New York utility. Neither of these tasks is small, which in our view could restrain near-term M&A momentum, such as a potential acquisition of AltaLink. More cautious investors may not see the immediate timing of the Arizona deal as ideal.

## An Overview of UNS Energy Corporation

**UNS Energy is a vertically integrated regulated utility operating in Arizona.** UNS's main subsidiary Tucson Electric Power Company (TEP) delivers electric power to ~412,000 customers in a service territory covering 1,155 square miles in Southern Arizona. UNS also owns and operates two smaller subsidiaries: (1) UNS Electric, which serves approximately 93,000 electric customers in the Mohave and Santa Cruz Counties; (2) UNS Gas, which serves ~149,000 natural gas customers in northern Arizona (Mohave, Yavapai, Coconino and Navajo) as well as southern Arizona (Santa Cruz). As at September 30 2013, TEP, UNS Electric, and UNS Gas represented 84%, 9%, and 7% of UNS' total assets, respectively. UNS Energy stock trades on the New York Stock Exchange under the ticker UNS.

### Exhibit 5: UNS Arizona Service Area



Source: Company Presentations

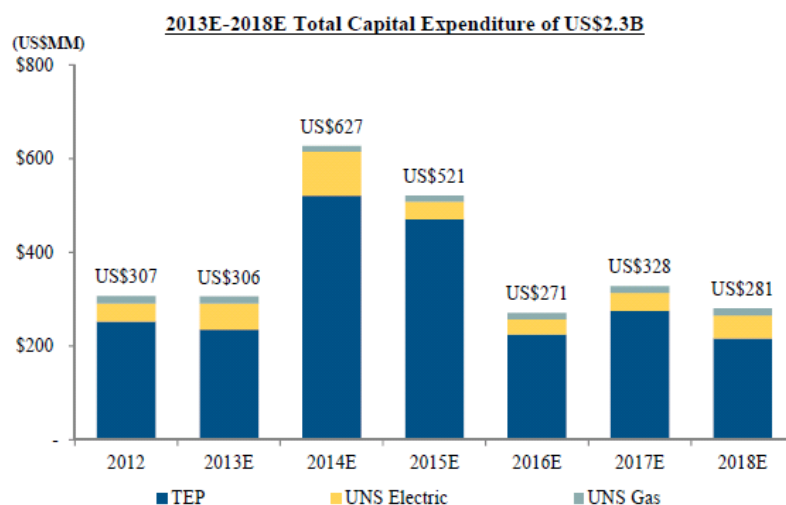
**Higher regulatory metrics than FTS' existing Canadian utilities.** TEP, UNS Electric, and UNS Gas are regulated by the Arizona Corporation Commission on a cost-of-service basis. TEP is currently allowed to earn a ROE of 10% and 43.5% deemed common equity; UNS Electric is allowed to earn a ROE of 9.5% and common equity of 52.6%; UNS Gas is approved for an ROE of 9.75% and common equity of 50.82%. Similar to other U.S. utilities, regulatory metrics for UNS are higher than FTS' existing Canadian utilities, where ROEs are in the ~9% area with deemed equity metrics of ~40%.

**UNS' history shows earnings growth.** FTS noted that over the past 10 years, UNS has increased its net income by a CAGR of 7.7%+. During 2012, UNS Energy generated net income of US\$91 million vs. US\$47 million in 2003.

**Fast growing utility.** Fortis expects annual capital expenditures at UNS to exceed US\$2.3 billion on average from 2013-2018, which translates into ~7%+ average growth. UNS' rate base is expected to increase to US\$3 billion by 2015, primarily driven by generation capital investments to reduce reliance from coal, including the purchase of the natural gas facility Gila River Unit 3 as well as utility scale renewable generation. Currently, UNS owns or leases a

total of 2,420 MW of generation capacity, consisting of 59% coal, 34% natural gas, 6% dual fuel, and 1% solar. Coal is expected to decrease to ~30% of TEP's generation capacity by 2020E.

#### Exhibit 6: UNS – Expected Rate Base Growth of 7%+



Source: Company Presentations

### Revising Estimates; Maintaining Market Perform Rating and \$33 TP

**Revised estimates.** Our 2013E EPS (f.d.) estimate is unchanged at \$1.69, but our 2014E EPS (f.d.) estimate declines to \$1.54 from \$1.82 due to the dilution from the \$1.8 billion convertible debenture issuance. Our 2015E diluted EPS estimate increases to \$1.97 from \$1.93 owing to the expected accretion from the UNS deal.

**Valuation.** At current levels, FTS is trading at 19.6x our 2014E EPS (vs. peer range of 15.7-17.7x) and 15.4x our 2015E EPS (vs. peer range of 14.8-16.7x) compared to its 10-year average forward P/E multiple of 18.1x. While we have rolled forward our valuation to F15 (vs. average of F14/15) and estimate at least ~\$0.04/sh accretion (or 2%+) from the UNS deal, we have left our target price unchanged at \$33/sh as we are applying a lower target multiple of 16.75x (vs. 17.5x) reflecting FTS' increased exposure to U.S. utilities (which have tended to trade at lower valuations than Canadian-domiciled utilities) and a higher bond yield assumption in F15 vs. F14. Based on FTS' relative return to our target price compared to the other regulated utility companies we cover in our coverage space, we continue to rate FTS shares Market Perform.

#### Exhibit 7: Calculation of Our Target Price

FTS Valuation	Multiple	2013E	2014E	2015E
Adj. EPS (f.d.)		\$1.69	\$1.54	\$1.97
Equity value/sh	16.75x	\$28.32	\$25.86	\$32.94

2015E Equity Value

**\$33.00**

#### P/E Sensitivity

16.0x	16.5x	17.0x	17.5x	18.0x
\$31.00	\$32.00	\$33.00	\$34.00	\$35.00

Source: BMO Capital Markets

## Exhibit 8: Power &amp; Utility Coverage Universe

				Target	Dividend		2014E	ROR	Shares	Mkt Cap	Adjusted EPS				CAGR	
	Ticker	Rating <sup>(1)</sup>	Price	Price	Rate	Yield	Payout <sup>(2)</sup>	Target	O/S (mm)	(\$mm)	2012	2013E	2014E	2015E	('12-'15)	
Utilities																
Canadian Utilities Ltd.	CU	OP	\$36.65	\$42.00	\$1.07	2.9%	45.8%	17.5%	260.1	\$9,534	\$2.02	\$2.20	\$2.34	\$2.47	7.0%	
Caribbean Utilities <sup>(3)</sup>	CUP.U	Und	\$10.90	\$9.50	\$0.66	6.1%	103.4%	-6.8%	29.0	\$316	\$0.58	\$0.61	\$0.64	\$0.66	4.1%	
Emera Inc.	EMA	Mkt	\$31.55	\$33.00	\$1.45	4.6%	81.6%	9.2%	141.1	\$4,453	\$1.66	\$1.74	\$1.79	\$1.89	4.5%	
Fortis Inc.	FTS	Mkt	\$30.24	\$33.00	\$1.28	4.2%	83.0%	13.4%	212.4	\$6,423	\$1.69	\$1.69	\$1.54	\$1.97	5.2%	
Simple Average						4.5%	78.5%	8.3%								5.2%
Commodity Sensitive																
Capital Power Corp.	CPX	OP	\$22.57	\$24.50	\$1.26	5.6%	38.1%	14.1%	99.4	\$2,243	\$1.29	\$1.59	\$1.41	\$1.61	7.9%	
TransAlta Corp.	TA	Mkt	\$14.33	\$14.00	\$1.16	8.1%	88.1%	5.8%	268.2	\$3,843	\$0.50	\$0.46	\$0.53	\$0.52	1.4%	
Simple Average						6.8%	63.1%	10.0%								4.6%
	Ticker	Rating	Price	Target	Dividend		2014E	ROR	Shares	Mkt Cap	Cash Flow Per Share				CAGR	
				Price	Rate	Yield	Payout <sup>(2)</sup>	Target	O/S (mm)	(\$mm)	2012	2013E	2014E	2015E	('12-'15)	
Alternative Energy																
Algonquin Power & Utilities	AQN	OP	\$7.13	\$8.25	\$0.34	4.8%	36.3%	20.5%	206.3	\$1,471	\$0.42	\$0.71	\$0.95	\$1.13	38.7%	
Atlantic Power <sup>(4)</sup>	ATP	Und	\$3.45	\$3.25	\$0.40	11.6%	120.7%	5.8%	120.0	\$414	\$1.41	\$0.73	\$0.83	\$0.78	-17.8%	
Boralex Inc.	BLX	Mkt	\$12.05	\$12.50	\$0.00	0.0%	0.0%	3.7%	37.8	\$455	\$1.25	\$1.26	\$1.66	\$1.88	14.4%	
Capstone Infrastructure	CSE	Mkt	\$3.73	\$4.00	\$0.30	8.0%	67.6%	15.3%	96.0	\$358	\$1.59	\$1.63	\$1.30	\$1.19	-9.3%	
Innervex Renewable Energy	INE	Mkt	\$10.23	\$10.00	\$0.58	5.7%	87.1%	3.4%	95.7	\$979	\$0.72	\$1.08	\$1.12	\$1.23	19.7%	
Northland Power Inc.	NPI	Mkt	\$16.00	\$17.50	\$1.08	6.8%	109.4%	16.1%	131.6	\$2,106	\$0.95	\$1.46	\$1.78	\$1.92	26.5%	
NRG Yield, Inc.	NYLD	NR	\$37.41	na	\$1.20	3.2%	89.5%	na	65.3	\$2,443	na	na	na	na	na	
Pattern Energy Group Inc. <sup>(3)</sup>	PEGI	OP	\$27.99	\$32.00	\$1.25	4.5%	74.1%	18.8%	51.1	\$1,430	na	na	\$2.42	\$2.99	na	
TransAlta Renewables	RNW	NR	\$11.23	na	\$0.77	6.9%	83.0%	na	114.7	\$1,288	na	na	na	na	na	
Simple Average						5.7%	74.2%	11.9%								12.0%

Notes: (1) Ratings Key: Outperform – OP; Market Perform – Mkt; Underperform – Und.; Not Rated – NR; Restricted – R.

(2) Utility group's payout ratio based on EPS; Commodity Sensitive/Alternative Energy based on AFFO (except for AQN which is based on FFO)

(3) All figures in US dollars.

(4) ATP's share price, target price, market cap, and dividend are shown in Canadian dollars; all other figures shown in US dollars.

Source: BMO Capital Markets, Thomson One

## Exhibit 9: Power &amp; Utility Valuation Table

		P/E				EV/EBITDA				Net Debt/EBITDA			
	Ticker	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Utilities													
Canadian Utilities Ltd.	CU	16.5x	16.9x	15.7x	14.8x	10.5x	10.1x	10.0x	9.9x	3.7x	3.4x	3.7x	4.0x
Caribbean Utilities	CUP.U	16.8x	17.1x	17.0x	16.5x	11.1x	10.7x	10.7x	10.5x	4.9x	4.5x	4.4x	4.3x
Emera Inc.	EMA	20.5x	19.0x	17.7x	16.7x	13.5x	12.2x	11.7x	12.6x	5.8x	5.5x	5.3x	6.3x
Fortis Inc.	FTS	19.7x	19.2x	19.6x	15.4x	10.8x	10.5x	10.5x	9.2x	4.7x	4.8x	5.4x	4.5x
Simple Average		18.4x	18.1x	17.5x	15.9x	11.5x	10.9x	10.7x	10.6x	4.8x	4.6x	4.7x	4.8x
Commodity Sensitive													
Capital Power Corp.	CPX	18.0x	13.5x	16.0x	14.0x	7.8x	8.5x	9.0x	8.1x	3.6x	3.3x	3.4x	3.2x
TransAlta Corp.	TA	33.9x	31.4x	26.9x	27.4x	9.7x	8.8x	8.3x	8.3x	4.3x	3.7x	3.4x	3.3x
Simple Average		26.0x	22.4x	21.5x	20.7x	8.7x	8.6x	8.6x	8.2x	4.0x	3.5x	3.4x	3.2x
		P/FFO				EV/EBITDA				Net Debt/EBITDA			
	Ticker	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Alternative Energy													
Algonquin Power & Utilities	AQN	15.3x	10.1x	7.5x	6.3x	22.1x	14.3x	12.3x	11.5x	6.8x	4.9x	4.8x	5.1x
Atlantic Power Corporation	ATP	9.8x	7.9x	4.2x	4.4x	18.4x	11.8x	10.3x	10.5x	9.3x	7.5x	7.2x	7.2x
Boralex Inc.	BLX	6.8x	8.2x	7.2x	6.4x	10.4x	16.9x	11.4x	10.9x	6.7x	12.7x	8.1x	7.8x
Capstone Infrastructure	CSE	2.6x	2.4x	2.9x	3.1x	7.8x	8.3x	8.4x	8.7x	4.8x	5.4x	5.4x	5.5x
Innervex Renewable Energy	INE	14.7x	8.8x	9.2x	8.3x	17.7x	15.5x	14.7x	14.9x	9.3x	8.6x	8.0x	8.3x
Northland Power Inc.	NPI	19.1x	11.8x	9.0x	8.4x	20.7x	15.7x	12.6x	12.6x	7.0x	6.0x	5.1x	5.6x
NRG Yield <sup>(1)</sup>	NYLD	na	na	na	na	na	16.7x	10.8x	10.3x	na	7.4x	6.0x	5.6x
Pattern Energy Group Inc.	PEGI	na	na	11.6x	9.4x	na	20.9x	15.1x	12.5x	na	9.9x	7.1x	6.2x
TransAlta Renewables <sup>(2)</sup>	RNW	na	na	na	na	na	11.4x	11.4x	11.3x	na	3.8x	3.6x	3.5x
Simple Average		11.4x	8.2x	7.4x	6.6x	16.2x	14.6x	11.9x	11.5x	7.3x	7.3x	6.1x	6.1x

Notes:

(1) EV/EBITDA multiples based on Bloomberg consensus; net debt/EBITDA reflect management's run-rate guidance

(2) EV/EBITDA multiples and net debt/EBITDA based on Thomson One consensus

Source: BMO Capital Markets, Thomson One



## Exhibit 10: Summary of Financial Forecasts

Fortis Inc.													12-15E	
Financial Estimates (in \$mm)	2012	Q1/13	Q2/13	Q3/13	Q4/13E	2013E	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	CAGR	
Regulated Gas Utilities - Canadian													-1.8%	
FortisBC Energy Companies	\$138.0	\$85.0	\$6.0	(\$14.0)	\$45.0	\$122.0	\$83.3	\$9.0	(\$10.2)	\$46.1	\$128.1	\$130.6		
Regulated Gas & Electric Utility - United States														
UNS Energy	-	-	-	-	-	-	-	-	-	-	-	\$157.6		
Central Hudson	-	-	-	12.0	13.0	25.0	15.1	7.1	12.5	12.5	47.0	48.7		
	-	-	-	12.0	13.0	25.0	15.1	7.1	12.5	12.5	47.0	206.4		
Regulated Electric Utilities - Canadian													8.3%	
FortisAlberta	\$96.0	\$26.0	\$25.0	\$25.0	\$25.0	\$101.0	\$29.2	\$28.6	\$30.3	\$28.6	\$116.6	\$121.8		
FortisBC Electric	50.0	18.0	8.0	11.0	10.0	47.0	18.3	8.6	11.5	10.7	49.1	50.3		0.2%
Newfoundland Power	37.0	7.0	11.0	8.0	9.0	35.0	8.0	12.0	10.0	10.0	40.0	41.5		3.9%
Other Canadian Electric Utilities	24.0	6.0	5.0	7.0	6.3	24.3	6.4	5.5	7.4	6.8	26.0	27.0		4.0%
	207.0	57.0	49.0	51.0	50.3	207.3	61.8	54.6	59.3	56.0	231.7	240.6	5.1%	
Regulated Electric Utilities - Caribbean	19.0	3.0	6.0	6.0	4.8	19.8	3.9	6.5	8.2	5.6	24.2	25.7	10.6%	
Non-Regulated - Fortis Generation	17.0	2.0	3.0	8.0	4.9	17.9	3.6	3.9	6.8	3.6	17.9	40.1	33.1%	
Non-Regulated - Non-Utility	22.0	0.0	9.0	6.0	7.5	22.5	4.9	5.0	6.5	8.3	24.7	25.1	4.5%	
Corporate and Other	(80.6)	(18.0)	(12.0)	(21.0)	(20.0)	(71.0)	(36.3)	(36.3)	(36.3)	(36.3)	(145.0)	(123.0)	15.1%	
Total Adjusted Earnings	322.4	129.0	61.0	48.0	105.5	343.5	136.2	49.9	46.7	95.8	328.6	545.5	19.2%	
Average Shares Outstanding (basic)	190.0	192.0	193.4	212.0	212.0	201.8	213.1	213.1	213.1	213.1	213.1	275.7		
Average Shares Outstanding (diluted)	201.1	202.8	194.1	212.7	222.8	212.6	221.9	221.9	221.9	221.9	221.9	284.5		
Dividends Per Share	\$1.20	\$0.31	\$0.31	\$0.31	\$0.31	\$1.24	\$0.32	\$0.32	\$0.32	\$0.32	\$1.28	\$1.34	3.7%	
EPS - reported (diluted)	\$1.65	\$0.66	\$0.28	\$0.23	\$0.50	\$1.66	\$0.63	\$0.23	\$0.22	\$0.45	\$1.53	\$1.97		
Adjusted EPS - basic	\$1.70	\$0.67	\$0.32	\$0.23	\$0.50	\$1.70	\$0.64	\$0.23	\$0.22	\$0.45	\$1.54	\$1.98	5.3%	
Adjusted EPS - diluted	\$1.69	\$0.66	\$0.32	\$0.23	\$0.50	\$1.69	\$0.63	\$0.23	\$0.22	\$0.45	\$1.54	\$1.97	5.2%	

Source: BMO Capital Markets

## Exhibit 11: Consolidated Summary Sheet



## Market Perform

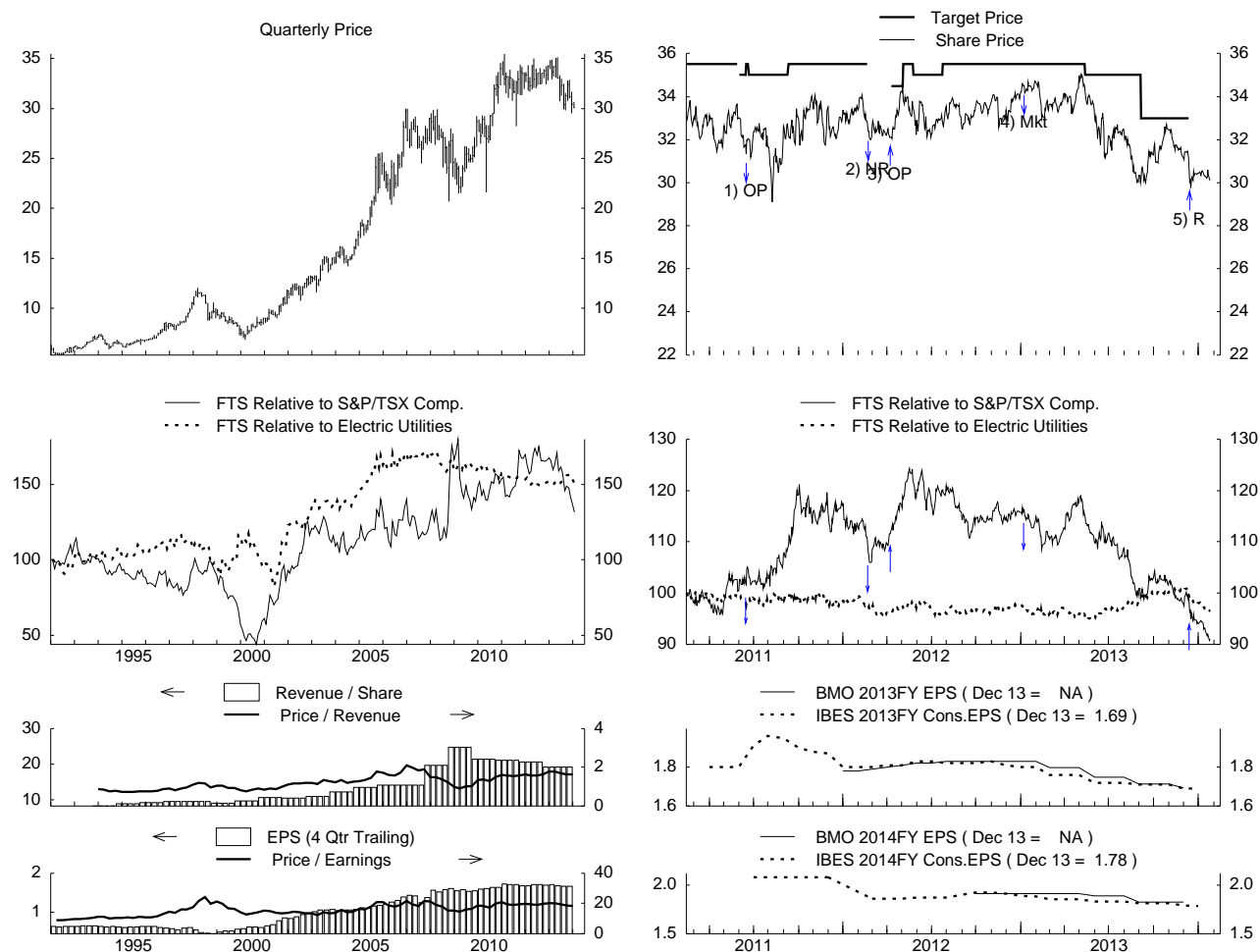
12-Month Target Price: \$33.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$30.23  
 ROR: 13.4%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	CAGR 2012A- 2015E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.70	\$1.54	\$1.98	5.3%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.69</b>	<b>\$1.54</b>	<b>\$1.97</b>	5.2%
First Call Consensus							\$1.71	\$1.80	\$1.89	3.8%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.99	\$4.81	\$5.47	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.34	3.7%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	72.9%	83.0%	67.7%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	24.9%	26.6%	24.5%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	201.8	213.1	275.7	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	201.1	212.6	221.9	284.5	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.40	\$22.76	\$25.18	
<b>Market Valuation</b>										
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	-	-	-	
Price: Current	-	-	-	-	-	-	\$30.23	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	17.9	19.6	15.4	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	10.2	10.5	9.2	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	-	-	-	
Yield: Current	-	-	-	-	-	-	4.1%	4.2%	4.4%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	78.3	(264.3)	656.1	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,847.6	6,992.7	9,474.7	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	310.0	310.0	310.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,235.0	1,235.0	1,835.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	1,800.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,748.8</u>	<u>4,872.9</u>	<u>6,941.3</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,219.7	14,946.3	19,217.1	
<b>Balance Sheet (%)</b>										
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	0.6%	-1.8%	3.4%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	51.8%	46.8%	49.3%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.3%	2.1%	1.6%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.3%	8.3%	9.5%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	12.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>35.9%</u>	<u>32.6%</u>	<u>36.1%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>										
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,328.0	4,618.7	6,533.6	21.4%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,432.5	1,566.0	2,234.0	20.9%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	343.5	328.6	545.5	19.2%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	1,006.6	1,023.9	1,508.1	18.9%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,359.1)	(1,147.1)	(1,641.9)	
<b>Financial Leverage</b>										
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	6,925.9	8,528.4	10,130.8	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	4.8x	5.4x	4.5x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	52.4%	57.1%	52.7%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0  
 Current\*: 1.67 18.3 1.24 4.1 74 22.1 1.4 8

Growth(%):  
 5 Year: 0.8 4.4 1.9  
 10 Year: 4.6 9.1 9.6  
 20 Year: 4.9 5.8 7.2

\* Current EPS is the 4 Quarter Trailing to Q3/2013.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 14-Feb-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04

Last Price ( January 23, 2014): \$30.11

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 16.75x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its’ affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---



# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$30.46**  
**Target Price:**      **\$33.00**

February 6, 2014  
Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

**(416) 359-4061**

## First Glance - Q4/13 Results Modestly Below Expectations

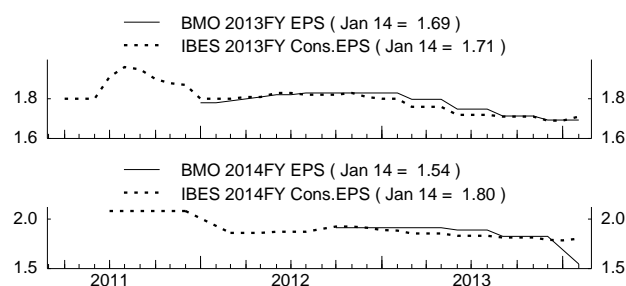
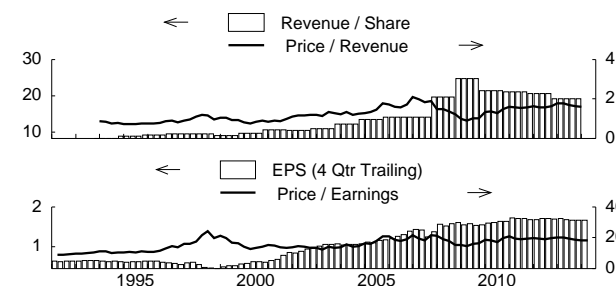
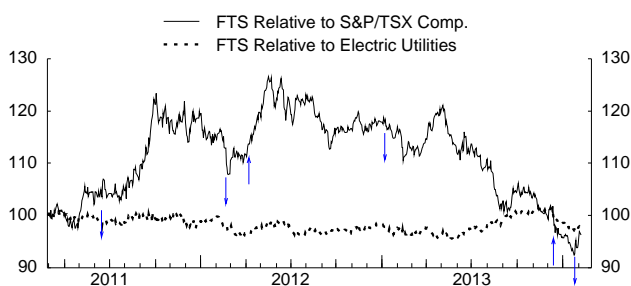
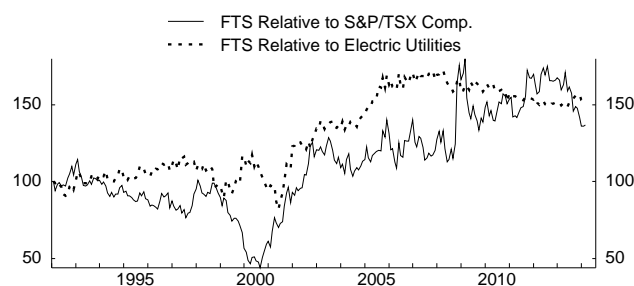
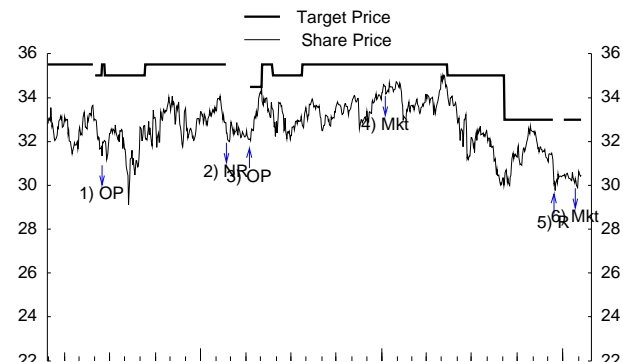
Fortis reported EPS of \$0.47, below our estimate of \$0.50 and the Thomson One consensus of \$0.49. The variance versus our estimate was driven primarily by weaker-than-expected results from FortisAlberta (timing of depreciation and lower net transmission revenue) and Non-Utility Operations (income tax expenses associated with the pending sale of Griffith), partially offset by stronger-than-expected earnings contribution from its B.C. gas utility.

### Our View:

- FTS still expects the US\$4.3 billion UNS Energy acquisition to close by the end of 2014, subject to UNS common shareholder approval and certain regulatory and government approvals (i.e., Arizona Corporation Commission, FERC). A settlement agreement is expected to be filed on May 12, 2014, with a hearing currently scheduled for June 16, 2014.
- The company's capital expenditure budget is \$1.4 billion in 2014 (vs. our outlook of \$1.2 billion and up from \$1.2 billion in 2013) and \$6.5 billion during 2014-2018 excluding an expected capital program of \$1.5 billion at UNS from 2015 to 2018. This program should support continued growth in earnings and dividends. Notably, FTS' 335 MW Waneta hydroelectric project in B.C. (largest capital investment under way) is on budget (\$900 million gross) and still on track for an expected in-service date of spring 2015.
- On the regulatory front, Central Hudson expects to file a general rate application in mid-2014 to establish rates effective mid-2015 when the rate freeze ends, while a decision to determine final allowed ROEs and capital structures for FortisBC Electric and FortisBC Energy (Vancouver Island) is expected in H1/14. Decisions are also expected on the 2014-2018 Multi-Year PBR plans for FortisBC Electric and the FortisBC Energy Companies in Q3/14.
- At current levels, FTS is trading at 19.7x our 2014E EPS (vs. peer range of 16.1-17.5x) and 15.5x our 2015E EPS (vs. peer range of 15.2-16.5x).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.67	18.4	1.24	4.0	74	22.1	1.4	8
Growth(%):								
5 Year:	0.8		4.4			1.9		
10 Year:	4.6		9.1			9.6		
20 Year:	4.9		5.8			7.2		

\* Current EPS is the 4 Quarter Trailing to Q3/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 25-Feb-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( February 5, 2014): \$30.46

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 16.75x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital

Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**February 7, 2014**  
 Research Comment  
 Toronto, Ontario

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com

## Q4 – Hang in There

### Event

Fortis' fourth-quarter results were a few pennies shy of expectations (EPS of \$0.47 vs. our estimate of \$0.50 and consensus of \$0.49) amid lower-than-expected earnings at FortisAlberta and Non-Utility Operations, partially offset by stronger contribution from its B.C. gas utility.

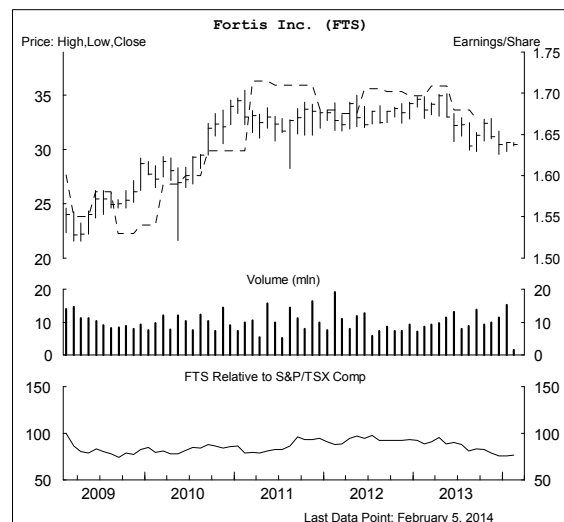
### Impact & Analysis

Key implications: (1) The company's capital expenditure budget is \$1.4 billion in 2014, up from \$1.2 billion in 2013. Over the five-year period 2014–2018, the company's capital program is expected to be \$6.5 billion (excluding \$1.5 billion at UNS from 2015 to 2018). (2) The company maintains its expectation for the UNS Energy acquisition to close by the end of 2014. In January 2014, Fortis and UNS Energy filed a joint application with the Arizona Corporation Commission seeking approval of the acquisition. (3) In connection with a lower earnings outlook at FTSA Alberta and higher corporate expense, we have reduced our 2014 EPS estimate (f.d.) for FTS to \$1.46 from \$1.54 and our 2015 EPS estimate to \$1.94 from \$1.97. Note that our 2014 estimate includes the convertible debenture cost associated with the UNS Energy acquisition (~\$0.24/sh).

### Valuation & Recommendation

While a negative PBR decision at FortisAlberta during 2014 should not be completely ruled out, solid utility rate base expansion and a return to normal hydrology in Belize should more than offset. Furthermore, positive earnings momentum should be sustained in 2015 when the Waneta expansion and accretion from CH and UNS make positive contributions. Given sustainable yield and consistent earnings/dividend growth, we remain comfortable holding the stock and are maintaining our Market Perform rating and \$33 target price, which reflects 17.0x (vs. 16.75x previously) our revised 2015E EPS of \$1.94.

**Price (6-Feb)** \$30.65 **52-Week High** \$35.14  
**Target Price** \$33.00 **52-Week Low** \$29.51



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	\$1.69	\$1.66	\$1.46↓	\$1.94↓
P/E			21.0x	15.8x

Div.	\$1.20	\$1.24	\$1.28	\$1.34
EV (\$mm)	\$13,602	\$15,486	\$17,003	\$21,504
EBITDA (\$mm)	\$1,264.0	\$1,393.0	\$1,536.2	\$2,211.7
EV/EBITDA	10.8x	11.1x	11.1x	9.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013A	\$0.67	\$0.32	\$0.23	\$0.47
2014E	\$0.61↓	\$0.24↑	\$0.20↓	\$0.42↓

Dividend	\$1.28	Yield	4.2%
Book Value	\$22.32	Price/Book	1.4x
Shares O/S (mm)	213.2	Mkt. Cap (mm)	\$6,535
Float O/S (mm)	213.2	Float Cap (mm)	\$6,535
Wkly Vol (000s)	2,473	Wkly \$ Vol (mm)	\$79.2
Net Debt (\$mm)	\$7,292	Next Rep. Date	May (E)

**Notes:** All values in C\$  
**Major Shareholders:** Widely held  
**First Call Mean Estimates:** FORTIS INC (C\$) 2013E: \$1.70; 2014E: \$1.67; 2015E: \$1.93

### Changes

**Annual EPS**  
 2014E \$1.54 to \$1.46  
 2015E \$1.97 to \$1.94

**Quarterly EPS**  
 Q1/14E \$0.63 to \$0.61  
 Q2/14E \$0.23 to \$0.24  
 Q3/14E \$0.22 to \$0.20  
 Q4/14E \$0.45 to \$0.42



## Q4 – Hang in There

- Maintaining Market Perform rating and \$33 target price.** Fortis' fourth-quarter bottom-line results fell below expectations (EPS of \$0.47 vs. our estimate of \$0.50 and Thomson One consensus of \$0.49) amid weaker-than-expected results from FortisAlberta and Non-Utility Operations, partially offset by stronger-than-expected earnings contribution from its B.C. gas utility. As one of the largest and most liquid regulated utilities on the board, Fortis' relative valuation compression during 2013 has reflected a multitude of market concerns ranging from rising bond yields and flat/limited earnings growth driven by regulatory headwinds (primarily lower allowed ROEs) and pre-financings associated with pending acquisitions. While these are legitimate considerations, FTS's improving earnings outlook has largely gone unnoticed in our view. While a negative PBR decision at FortisAlberta during 2014 should not be completely ruled out (potential 5c impact we think), solid utility rate base expansion and a return to normal hydrology in Belize should more than offset. Furthermore, positive earnings momentum should be sustained come 2015 when the Waneta expansion and accretion from CH and UNS make positive contributions. Given sustainable yield and consistent earnings/dividend growth, we remain comfortable holding the stock and are maintaining our Market Perform rating and \$33 target price.
- 2014 capital spending – \$1.4 billion.** The company's capital expenditure budget is \$1.4 billion in 2014 (vs. our prior estimate of \$1.2 billion and up from \$1.2 billion in 2013), largely driven by the continued construction of the Waneta expansion and regulated infrastructure spending at its Western-based utilities. Over the five-year period 2014–2018, the company's capital program is expected to be \$6.5 billion (excluding \$1.5 billion at UNS from 2015 to 2018), of which 50% relates to Canadian regulated electric utilities, 27% at Canadian regulated gas utilities, 11% to Central Hudson, 5% to Caribbean regulated electric utilities, and the remaining 7% to non-regulated operations.

### Exhibit 1: Capital Expenditure Outlook

Business Segment	2014E	2013A	YoY % Change
FortisBC Energy	329.0	215.0	53.0%
Central Hudson	122.0	57.0	114.0%
FortisAlberta	413.0	429.0	-3.7%
FortisBC	130.0	69.0	88.4%
Newfoundland Power	105.0	92.0	14.1%
Other Canadian	56.0	56.0	0.0%
Caribbean	61.0	52.0	17.3%
Fortis Generation	131.0	146.0	-10.3%
Non-Utility	83.0	59.0	40.7%
<b>Total</b>	<b>1,430.0</b>	<b>1,175.0</b>	<b>21.7%</b>

Source: Company Reports

- Waneta expansion.** Construction activities continued for the \$900 million Waneta dam expansion in B.C., a project in which Fortis holds a 51% interest. A total of \$579 million has been spent to date since construction began in late 2010, with \$143 million incurred in

2013. The company has reported that the project is still on track for completion on budget and on time, with a target in-service date of spring 2015.

- **UNS Energy acquisition still expected to close by the end of 2014.** The company maintains its expectation for the UNS Energy acquisition to close by the end of 2014 and that the transaction is expected to be accretive in the first full year after closing (excluding one-time acquisition-related costs). In January 2014, Fortis and UNS Energy filed a joint application with the Arizona Corporation Commission seeking approval of the acquisition. Next milestones to look for: (1) UNS shareholder approval (possibly end of Q1/14/early Q2/14; (2) filing of a settlement agreement expected May 12, 2014; and (3) a June 2014 hearing. The company recently raised \$1.8 billion of convertible debentures to partially finance the transaction. For further views on the UNS acquisition, please see our recent comment “[Going Big; Resuming Coverage With a Market Perform Rating](#)” dated January 24, 2014.
- **Tilbury LNG expansion.** FortisBC Energy has initiated the expansion of the Tilbury LNG facility in B.C., which involves adding a second LNG tank and a new liquefier, both to be in-service mid-2016. The expansion is expected to cost \$400 million, of which \$100 million is planned for 2014. We believe the project could add at least 5c to EPS (AFUDC will be recorded during construction).
- **Reducing estimates.** In connection with a lower earnings outlook at FTSA Alberta and higher corporate expense, we have reduced our 2014 EPS estimate (f.d.) for FTS to \$1.46 from \$1.54 and our 2015 EPS estimate to \$1.94 from \$1.97. Note that our 2014 estimate includes the convertible debenture cost associated with the UNS Energy acquisition (\$0.24/sh).
- **Valuation.** At current levels, FTS is trading at 21.0x our 2014E EPS (vs. peer range of 16.4–17.8x) and 15.8x our 2015E EPS (vs. peer range of 15.5–16.7x). Our target price of \$33 is based on 17.0x (vs. 16.75x previously) our 2015E EPS (f.d.) estimate, which is below its 10-year historical average of 18.0x reflecting FTS’s increased exposure to U.S. utilities (which have tended to trade at lower valuations than Canadian-domiciled utilities) and uncertainty over regulatory approval and timing of the UNS acquisition. Based on FTS’s relative return to our price target compared to the other companies we cover in the regulated utility segment of our coverage space, we continue to rate FTS shares Market Perform.

## Exhibit 2: Calculation of Our Target Price

FTS Valuation	Multiple	2013E	2014E	2015E
Adj. EPS (f.d.)		\$1.66	\$1.46	\$1.94
Equity value/sh	17.0x	\$28.26	\$24.82	\$32.97

2015E Equity Value \$33.00

### P/E Sensitivity

16.0x	16.5x	17.0x	17.5x	18.0x
\$31.00	\$32.00	\$33.00	\$34.00	\$35.00

Source: BMO Capital Markets

- **Fourth-quarter results:** Fortis reported EPS of \$0.47, below our estimate of \$0.50 and the Thomson One consensus of \$0.49. The variance versus our estimate was driven primarily by weaker-than-expected results from FortisAlberta (timing of depreciation and lower net transmission revenue) and Non-Utility Operations (income tax expenses associated with the pending sale of Griffith), partially offset by stronger-than-expected earnings contribution from its B.C. gas utility. Our quarterly and annual estimates are set out in Exhibit 5 and 6.

### Exhibit 3: Q4/13 Results vs. BMOCM Expectations

	Q4/13A (\$mm)	Q4/13E (\$mm)	Q4/12A (\$mm)	% YoY
<b>Regulated Gas Utilities - Canadian</b>				
Fortis BC Energy Companies	50.0	45.0	49.0	2.0%
<b>Regulated Gas &amp; Electric Utility - United States</b>				
Central Hudson	11.0	13.0	na	na
<b>Regulated Electric Utilities - Canadian</b>				
FortisAlberta	18.0	25.0	23.0	-21.7%
FortisBC Electric	13.0	10.0	12.0	8.3%
Newfoundland Power	10.0	9.0	9.0	11.1%
Other Canadian Electric Utilities	4.0	6.3	5.0	-20.0%
	45.0	50.3	49.0	-8.2%
<b>Regulated Electric Utilities - Caribbean</b>	8.0	4.8	4.0	100.0%
<b>Non-Regulated - Fortis Generation</b>	4.0	4.9	2.0	100.0%
<b>Non-Regulated - Non-Utility</b>	3.0	7.5	5.0	-40.0%
<b>Corporate and Other</b>	(21.0)	(20.0)	(22.0)	-4.5%
<b>Net Earnings Applicable to Common Shares</b>	<b>100.0</b>	<b>105.5</b>	<b>87.0</b>	<b>14.9%</b>
Average Shares (Basic)	212.7	212.0	191.0	
Average Shares (Diluted)	219.4	222.8	202.1	
Adjusted EPS (basic)	\$0.47	\$0.50	\$0.46	3.2%
<b>Adjusted EPS (diluted)</b>	<b>\$0.47</b>	<b>\$0.50</b>	<b>\$0.45</b>	<b>4.4%</b>

Source: BMO Capital Markets, Company Reports

### Exhibit 4: Upcoming Events

Q1/14	Expected close of sale of Griffith (non-regulated)
Early 2014	Planned hearing for AUC 2013 GCOC (2013, 2014 and 2015 interim)
Early 2014	Expected decision on FEVI/FEWI 2014-2018 PBR application
March 2014	Expected filing of FortisAlberta's 2014/15 Capital Tracker Applications
May 2014	Q1/14 results
May 2014	Re-filing of FortisAlberta's 2013 Capital Tracker application
1H/14	Expected decision on second phase of BCUC 2013 GCOC
Mid-2014	Central Hudson to file general rate application
June 2014	Expected regulatory hearing for proposed UNS acquisition
Q3/14	Expected decision on FortisBC Energy 2014-2018 PBR application
Q3/14	Expected decision on FortisBC Electric 2014-2018 PBR application
Late 2014	Expected decision on FortisAlberta's 2013 Capital Tracker re-filing
Late 2014	Expected decision on AUC 2013 GCOC
Late 2014	Expected close of proposed UNS acquisition
Spring 2015	Expected commissioning of Waneta hydro facility
During 2015	Expected filing of Newfoundland Power's 2016 GRA

Source: BMO Capital Markets; Company Reports

## Exhibit 5: Summary of Financial Forecasts

Fortis Inc.													12-15E
Financial Estimates (in \$mm)	2012	Q1/13	Q2/13	Q3/13	Q4/13	2013	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	CAGR
<b>Regulated Gas Utilities - Canadian</b>													0.8%
FortisBC Energy Companies	\$138.0	\$85.0	\$6.0	(\$14.0)	\$50.0	\$127.0	\$83.3	\$6.0	(\$12.8)	\$51.6	\$128.1	\$141.3	
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	-	-	-	-	-	-	-	-	-	-	-	\$157.6	
Central Hudson	-	-	-	12.0	11.0	23.0	14.8	9.0	12.0	11.1	46.9	49.5	
	-	-	-	12.0	11.0	23.0	14.8	9.0	12.0	11.1	46.9	207.1	
<b>Regulated Electric Utilities - Canadian</b>													7.5%
FortisAlberta	\$96.0	\$26.0	\$25.0	\$25.0	\$18.0	\$94.0	\$27.3	\$26.7	\$28.3	\$26.7	\$109.0	\$119.2	
FortisBC Electric	50.0	18.0	8.0	11.0	13.0	50.0	18.0	8.8	11.3	13.4	51.5	52.8	
Newfoundland Power	37.0	7.0	11.0	8.0	10.0	36.0	7.5	11.6	8.3	10.3	37.7	39.1	
Other Canadian Electric Utilities	24.0	6.0	5.0	7.0	4.0	22.0	6.3	5.5	6.9	4.3	23.0	23.6	-0.5%
	207.0	57.0	49.0	51.0	45.0	202.0	59.1	52.6	54.9	54.7	221.2	234.7	4.3%
Regulated Electric Utilities - Caribbean	19.0	3.0	6.0	6.0	8.0	23.0	3.9	6.5	6.8	7.0	24.1	25.4	10.2%
Non-Regulated - Fortis Generation	17.0	2.0	3.0	8.0	4.0	17.0	3.2	4.0	8.0	3.8	18.9	39.1	32.0%
Non-Regulated - Non-Utility	22.0	0.0	9.0	6.0	3.0	18.0	2.0	8.0	8.9	5.0	23.9	25.1	4.5%
Corporate and Other	(80.6)	(18.0)	(12.0)	(21.0)	(21.0)	(72.0)	(35.6)	(35.6)	(35.6)	(42.4)	(149.1)	(134.2)	18.5%
<b>Total Adjusted Earnings</b>	<b>322.4</b>	<b>129.0</b>	<b>61.0</b>	<b>48.0</b>	<b>100.0</b>	<b>338.0</b>	<b>130.6</b>	<b>50.5</b>	<b>42.2</b>	<b>90.8</b>	<b>314.0</b>	<b>538.6</b>	<b>18.7%</b>
Average Shares Outstanding (basic)	190.0	192.0	193.4	212.0	212.7	202.5	214.3	214.3	214.3	214.3	214.3	276.9	
Average Shares Outstanding (diluted)	201.1	202.8	194.1	212.7	219.4	209.3	215.1	215.1	215.1	215.1	215.1	277.7	
<b>Dividends Per Share</b>	<b>\$1.20</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$0.31</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$1.34</b>	<b>3.7%</b>
EPS - reported (diluted)	\$1.65	\$0.66	\$0.28	\$0.23	\$0.47	\$1.64	\$0.61	\$0.24	\$0.20	\$0.42	\$1.46	\$1.94	
Adjusted EPS - basic	\$1.70	\$0.67	\$0.32	\$0.23	\$0.47	\$1.67	\$0.61	\$0.24	\$0.20	\$0.42	\$1.47	\$1.94	4.7%
<b>Adjusted EPS - diluted</b>	<b>\$1.69</b>	<b>\$0.66</b>	<b>\$0.32</b>	<b>\$0.23</b>	<b>\$0.47</b>	<b>\$1.66</b>	<b>\$0.61</b>	<b>\$0.24</b>	<b>\$0.20</b>	<b>\$0.42</b>	<b>\$1.46</b>	<b>\$1.94</b>	<b>4.7%</b>

Source: BMO Capital Markets

## Exhibit 6: Consolidated Summary Sheet



## Market Perform

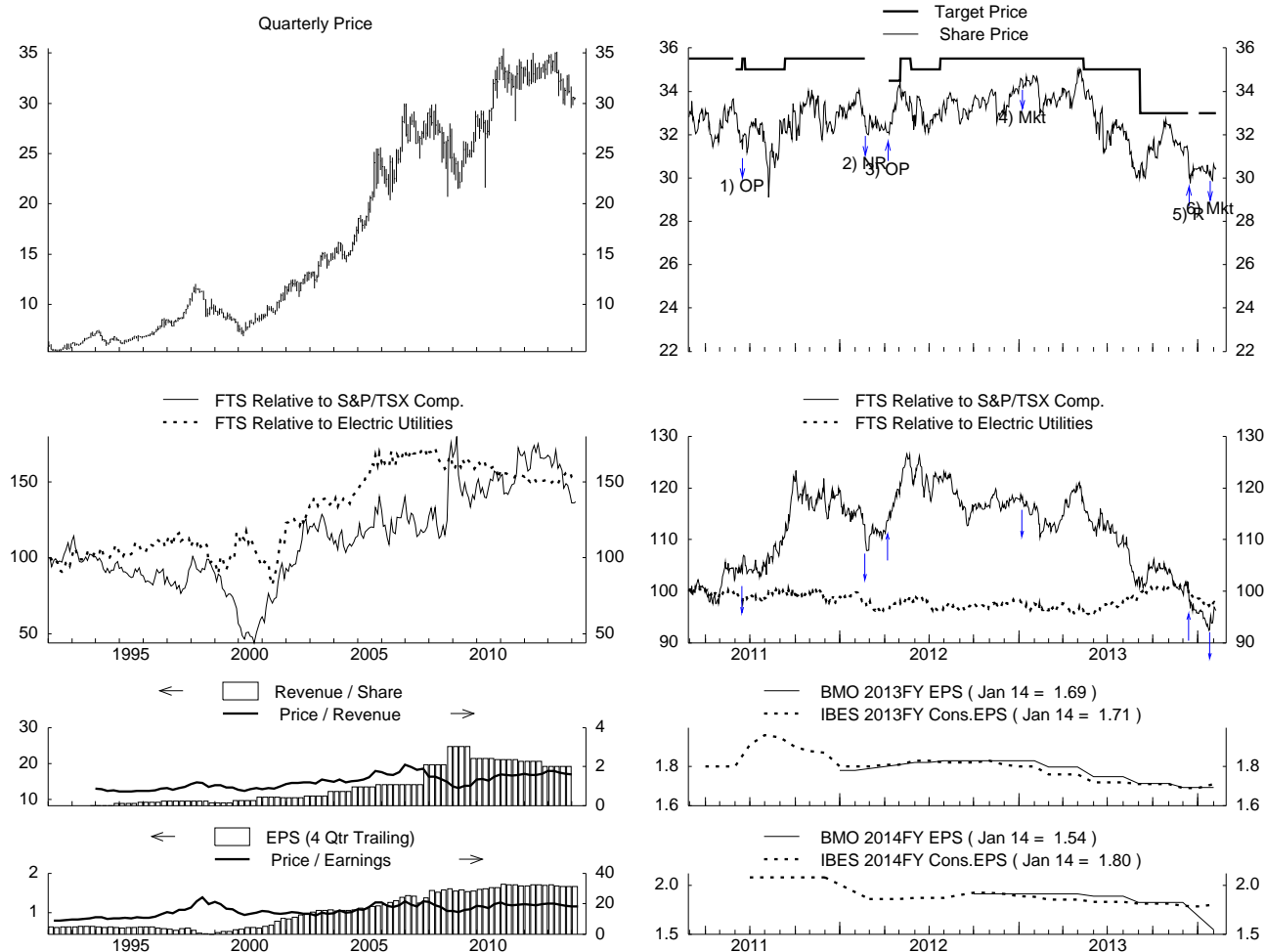
12-Month Target Price: \$33.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$30.65  
 ROR: 11.8%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	CAGR 2012A- 2015E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.47	\$1.94	4.7%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.66</b>	<b>\$1.46</b>	<b>\$1.94</b>	4.7%
<i>First Call Consensus</i>								\$1.67	\$1.94	4.8%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.66	\$4.75	\$5.51	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.34	3.7%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	87.3%	68.9%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	26.6%	26.9%	24.3%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	214.3	276.9	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	201.1	209.3	215.1	277.7	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.38	\$22.67	\$25.06	
<b>Market Valuation</b>										
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	-	-	
Price: Current	-	-	-	-	-	-	-	\$30.65	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	17.9	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	21.0	15.8	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	11.5	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	10.7	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	11.1	9.7	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	-	-	
Yield: Current	-	-	-	-	-	-	-	4.2%	4.4%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	868.0	(533.9)	1,064.3	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,424.0	7,265.6	9,747.6	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	375.0	375.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,529.0	1,829.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	1,800.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>4,880.3</u>	<u>6,940.6</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,668.0	15,316.0	19,956.5	
<b>Balance Sheet (%)</b>										
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	6.4%	-3.5%	5.3%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	47.0%	47.4%	48.8%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.7%	2.4%	1.9%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.0%	10.0%	9.2%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	11.8%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>31.9%</u>	<u>34.8%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>										
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	4,572.3	6,514.7	21.3%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,536.2	2,211.7	20.5%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	314.0	538.6	18.7%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	944.0	1,018.4	1,525.0	19.3%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,436.2)	(2,088.4)	
<b>Financial Leverage</b>										
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	7,292.0	8,531.7	10,811.9	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	5.2x	5.6x	4.9x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	53.4%	55.7%	54.2%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0

Current\* 1.67 18.4 1.24 4.0 74 22.1 1.4 8

Growth(%):

5 Year: 0.8 4.4 1.9  
10 Year: 4.6 9.1 9.6  
20 Year: 4.9 5.8 7.2

\* Current EPS is the 4 Quarter Trailing to Q3/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 25-Feb-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( February 5, 2014): \$30.46  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



## IMPORTANT DISCLOSURES

### Analyst's Certification

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Company Specific Disclosure

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

### Methodology and Risks to Price Target/Valuation

**Methodology:** Our target price is approximately 16.75x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

### Distribution of Ratings (December 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

### Rating and Sector Key (as of April 5, 2013):

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

### Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its’ affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

February 27, 2014  
Research Fact Sheet  
Power & Utilities

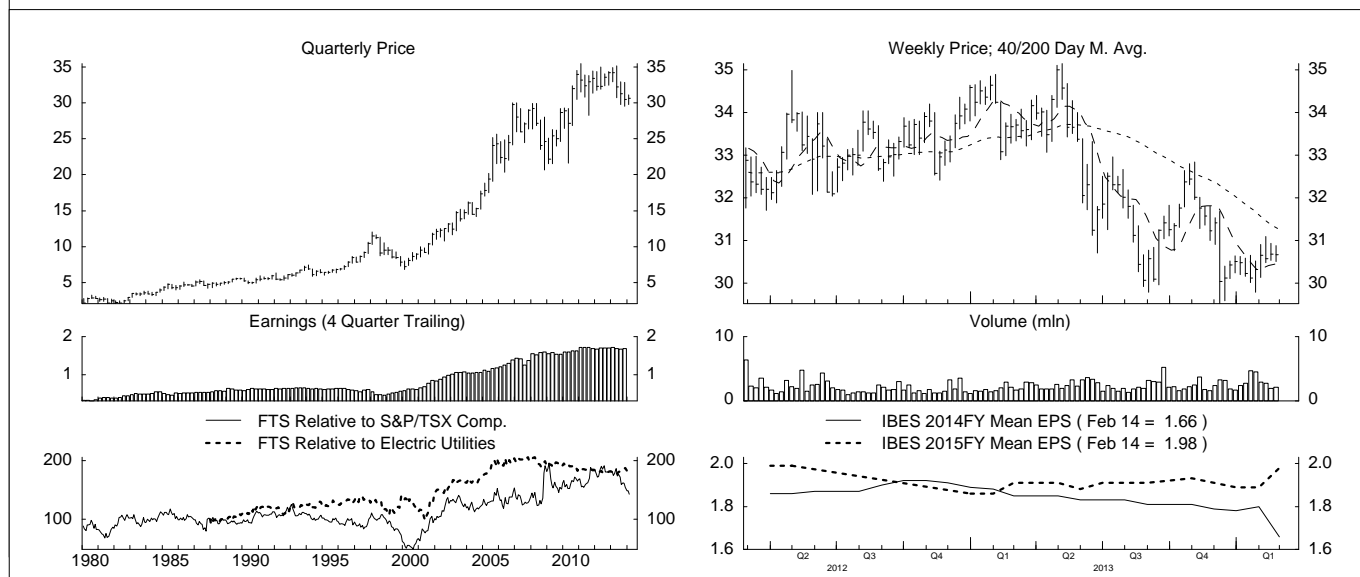
Stock Rating: Market Perform  
Industry Rating: Market Perform

Ben Pham, CFA  
BMO Nesbitt Burns Inc.  
(416) 359-4061  
ben.pham@bmo.com  
Assoc: Eric Tang

Price (27-Feb)	\$30.66	52-Week High	\$35.14
Target Price	\$33.00	52-Week Low	\$29.51
Dividend	\$1.28	Book Value	\$22.32
Yield	4.2%	Price/Book	1.4x
Shares O/S (mm)	213.2	Mkt. Cap (\$mm)	\$6,537
Float O/S (mm)	213.2	Float Cap (\$mm)	\$6,537
Wkly Vol (000s)	2,482	Wkly \$ Vol (mm)	\$79.1
Net Debt (\$mm)	\$7,292	Next Rep. Date	May (E)
<b>Quarterly EPS</b>			
	Q1	Q2	Q3
2012A	\$0.66	\$0.34	\$0.24
2013A	\$0.67	\$0.32	\$0.23
2014E	\$0.61	\$0.24	\$0.20

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	\$1.69	\$1.66	\$1.46	\$1.94
P/E			21.0x	15.8x
Div.	\$1.20	\$1.24	\$1.28	\$1.34
EV (\$mm)	\$13,602	\$15,486	\$17,005	\$21,507
EBITDA (\$mm)	\$1,264.0	\$1,393.0	\$1,535.7	\$2,211.5
EV/EBITDA	10.8x	11.1x	11.1x	9.7x
Book Value (\$)	\$20.84	\$22.38	\$22.66	\$25.06
D/Tot. Cap. (%)	52.1%	53.4%	55.7%	54.2%
Debt/EBITDA	4.7x	5.2x	5.6x	4.9x

Notes: All values in C\$ Disclosures: 1, 2, 3, 4, 5, 6AC, 8



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%),

FortisOntario (100%), Caribbean Utilities (59.5%), Turks and Caicos (100%), FortisAlberta (100%), FortisBC (100%), the FortisBC Energy Companies (100%), and CH Energy Group (100%). Its regulated utilities account for 90% of the company's total assets and serve ~2.4 million customers. *Website:* fortisinc.com

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

**Recent Results** – Fortis reported Q4/13 results that were below expectations (adjusted EPS of \$0.47 vs. our estimate of \$0.50 and consensus of \$0.49).

**Corporate Developments** – In conjunction with Fortis' Q4/13 results, the company announced that its capital expenditure in 2014 is \$1.4B (up from \$1.2B in 2013) and \$6.5B during 2014–2018, excluding an expected capital program of \$1.5B at UNS from 2015 to 2018. FTS' 335MW Waneta hydroelectric project in B.C. (largest capital investment under way) is on budget (\$900 million gross) and on track for an expected in-service date of spring 2015.

On December 11, 2013, FTS announced that it had entered into an agreement to acquire UNS Energy Corporation for ~US\$4.3B, including the assumption of ~US\$1.8B in debt. The net purchase price was financed through net proceeds of \$1.8B from a new debt issuance (\$1.6B convertible unsecured subordinated debentures and \$206 million private placement). Total assets are expected to increase by ~34%+ to \$23.5B pro forma. The company expects the transaction to be accretive to EPS in the first year after closing (expected end of 2014).

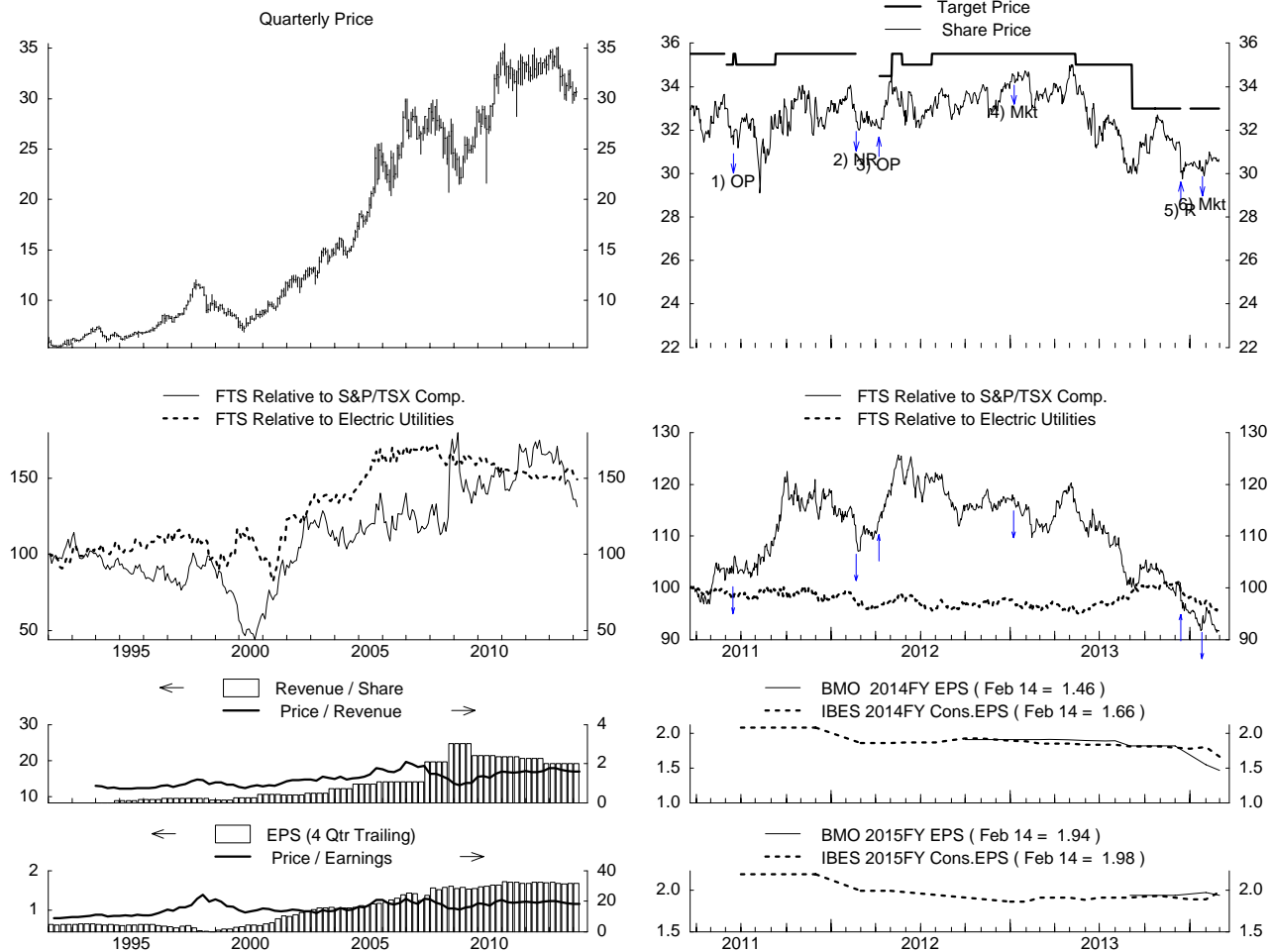
On October 2, 2013, the company announced it closed a private placement of US\$325 million in Senior Unsecured Notes to repay a portion of the U.S. dollar-denominated credit facility borrowings incurred to finance a portion of the CH Energy Group acquisition and for general purposes. The notes were issued in two tranches: US\$285 million 10-year notes maturing October 1, 2023 with a coupon rate of 3.84% and US\$40 million 30-year notes maturing October 1, 2043 at a coupon rate of 5.08%.

**Forecasts** – We are forecasting EPS (fully diluted) of \$1.46 and \$1.94 for 2014 and 2015, respectively.

**Valuation** – Our target price of \$33.00 is based on 17.0x our 2015E EPS (f.d.) estimate.

**Recommendation** – At current levels, we believe the shares of Fortis are reasonably valued. Our rating is Market Perform.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	20.8	1.7 1.4	8

Range\*: 26.9 8.4 7.1 2.5 2.5 1.0

Current\* 1.68 18.2 1.24 4.0 74 22.3 1.4 8

Growth(%):

5 Year:	1.0	4.4	2.2
10 Year:	4.7	9.1	9.7
20 Year:	5.0	5.8	7.2

\* Current EPS is the 4 Quarter Trailing to Q4/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 21-Mar-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( February 27, 2014): \$30.66

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 16.75x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Distribution of Ratings (December 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its’ affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$31.32**  
**Target Price:**      **\$33.00**

March 26, 2014  
Power & Utilities

**Ben Pham, CFA**      **(416) 359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      (416) 359-8110  
BMO Nesbitt Burns Inc.  
eric1.tang@bmo.com

## B.C. Cost of Capital Decision (Stage 2) Largely in Line With Our Outlook

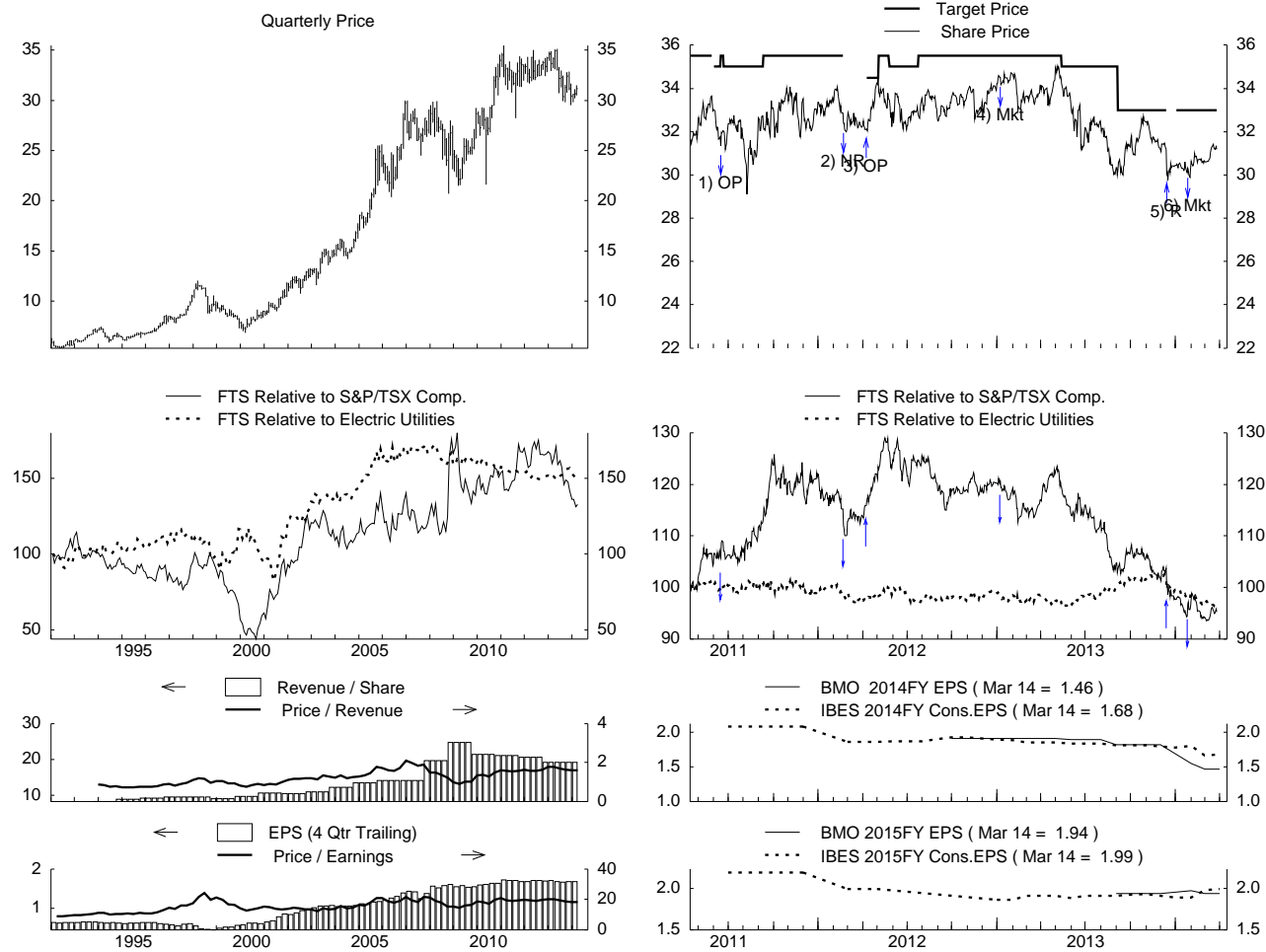
On March 25, 2014, the British Columbia Utilities Commission (BCUC) issued a [decision](#) on Stage 2 of its Generic Cost of Capital proceeding. Last year, Stage 1 established the allowed ROE and capital structure for FortisBC Energy (benchmark utility in B.C.) at 8.75% and 38.5%, respectively (effective January 1, 2013, to December 31, 2015). The Stage 1 decision also included the reintroduction of an automatic adjustment mechanism. Stage 2 effectively establishes cost of capital and deemed equity for other smaller utilities in B.C. relative to the benchmark utility, such as FortisBC Electric, FortisBC (Vancouver Island), and FortisBC Energy (Whistler).

### Our View:

- For FortisBC Electric, the BCUC has set an equity ratio of 40% and an equity risk premium of 40 bps (9.15%) effective January 1, 2013. As FortisBC Electric represents ~10% of Fortis's 2015E earnings, we view the in-line regulatory metrics as a modest positive given lingering risk following the negative Stage 1 decision that the metrics could decline.
- For FortisBC (Vancouver Island), the BCUC has set an equity ratio of 41.5% and an equity risk premium of 50 bps (9.25%) effective January 1, 2013. While the established equity ratio was higher than our estimate of 38.5% (the risk premium was in line), we estimate limited earnings upside (less than \$0.01/sh).
- Similarly, for FortisBC Energy (Whistler), the BCUC set out higher deemed equity (41.5%) and risk premium (75 bps) compared to our outlook (38.5% and 50 bps), but the expected earnings impact is immaterial given the relatively small size of the franchise.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	FTS - Rating as of 14-Apr-11 = OP		
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0		Date	Rating Change	Share Price
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12	1 15-Jun-11	R to OP	\$31.35
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11	2 21-Feb-12	OP to NR	\$32.38
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11	3 6-Apr-12	NR to OP	\$32.11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10	4 7-Jan-13	OP to Mkt	\$34.52
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9	5 12-Dec-13	Mkt to R	\$30.04
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7	6 24-Jan-14	R to Mkt	\$30.31
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9			
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9			
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12			
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12			
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12			
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10			
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10			
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11			
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9			
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8			
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8			
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9			
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8			
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8			
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	20.8	1.7 1.4	8			
Range*		26.9 8.4		7.1 2.5			2.5 1.0				
Current*	1.68	18.2	1.28	4.2	76	22.3	1.4	8			
Growth(%)											
5 Year:	1.0		4.2			2.2					
10 Year:	4.7		9.0			9.7					
20 Year:	5.0		6.0			7.2					

\* Current EPS is the 4 Quarter Trailing to Q4/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price (March 25, 2014): \$31.19

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 16.75x our F2015 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2013)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.



**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Tony Robson, or Edward Sterck: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital

Markets Limited will only disclose its and its' affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$32.52**  
**Target Price:**      **\$33.00**

May 8, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## First Glance: Q1/14 Results Higher Than Expected

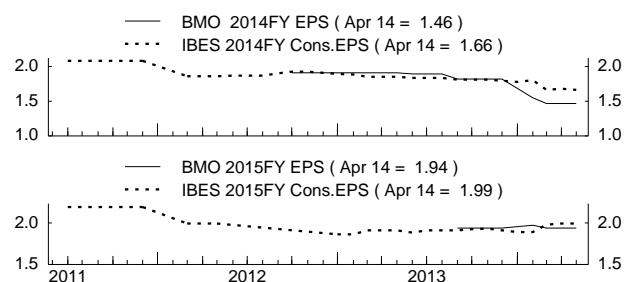
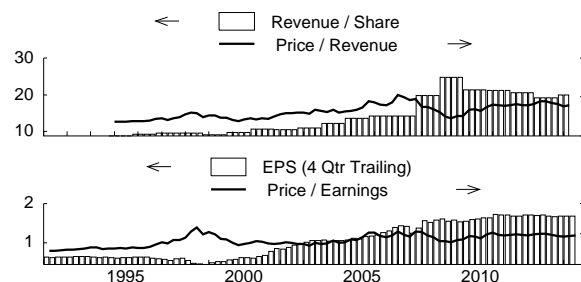
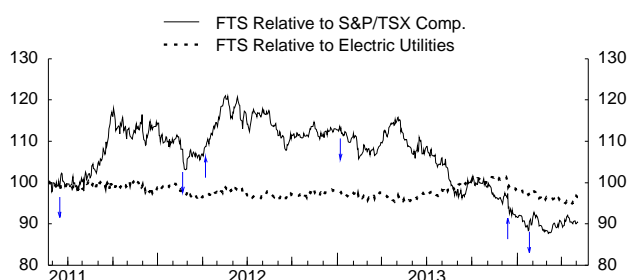
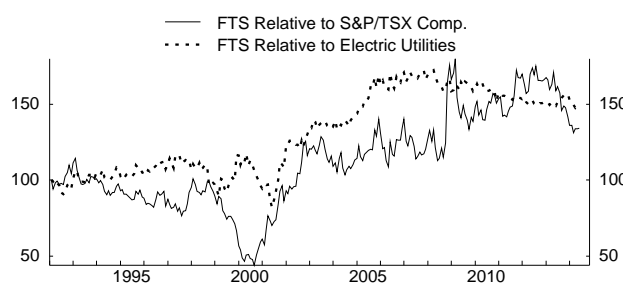
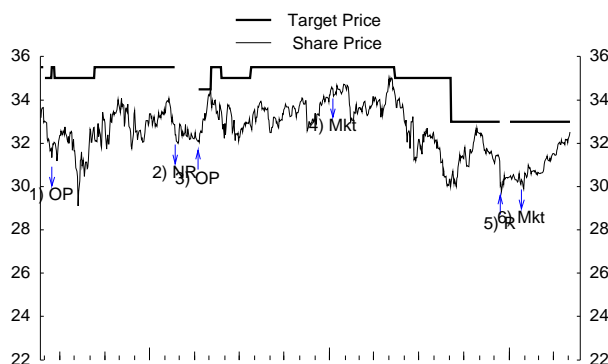
Fortis reported EPS of \$0.67, above Thomson One consensus of \$0.65 and our estimate of \$0.61. Results included \$5M (\$0.02/sh) in discontinued operations associated with Griffith Energy Services, which was sold in March 2014.

### Our View:

- The EPS variance versus our estimate was driven primarily by stronger-than-expected results from Central Hudson (colder temperatures; \$0.02), non-regulated generation (higher rainfall in Belize; \$0.01) and lower corporate expense (foreign exchange gains; \$0.03).
- FTS' US\$4.3 billion acquisition of UNS Energy was approved by shareholders in March 2014 and the Federal Energy Regulatory Commission in April 2014. In April 2014, Commission Staff and other intervenors filed direct testimony that indicated that they would support the merger subject to a number of conditions. A settlement agreement is expected to be filed on May 16, 2014, with a hearing currently scheduled for June 16, 2014. Assuming Arizona Corporation Commission approval, FTS expects the UNS Energy acquisition to close by the end of 2014.
- The company reaffirmed a capital expenditure budget of \$1.4 billion in 2014 (\$237M has been spent YTD) and \$6.5 billion during 2014-2018 (excluding an expected capital program of \$1.5 billion at UNS from 2015 to 2018). Notably, FTS' 335 MW Waneta hydroelectric project in B.C. is on budget (\$603M has been invested of the \$900M gross) and still on track for an expected in-service date of spring 2015. Preliminary work has also begun on the \$400M expansion of the Tilbury LNG facility in B.C., which is expected to be in service in 2016.
- On the regulatory front, Central Hudson expects to file a general rate application in the second half of 2014 to establish rates effective mid-2015 when the rate freeze ends (decision expected H1/15), while FortisAlberta plans to file a combined capital tracker application for 2013-2015. Decisions are also expected on the 2014-2018 Multi-Year PBR plans for FortisBC Electric and the FortisBC Energy Companies in the second half of 2014.
- At current levels, FTS is trading at 22.3x our 2014E EPS (vs. peer range of 16.8-17.8x) and 16.8x our 2015E EPS (vs. peer range of 16.2-18.3x).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.4 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	20.8	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	19.1	1.28	4.0	76	22.3	1.4	8
Growth(%):								
5 Year:	1.7		4.2			2.2		
10 Year:	4.9		9.0			9.7		
20 Year:	5.0		6.0			7.2		

\* Current EPS is the 4 Quarter Trailing to Q4/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 24-May-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( May 2, 2014): \$32.53

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (March 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by



BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform**Industry Rating:** Market Perform

May 9, 2014

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

416-359-4061

Eric Tang  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

416-359-8110

## Q1 – Back in the Groove

### Event

Fortis' first-quarter bottom-line results were above expectations (basic EPS of \$0.67 vs. our estimate of \$0.61 and Thomson One consensus of \$0.65) amid stronger contributions from Central Hudson (colder temperatures), above-average hydrology conditions in Belize and lower corporate expense.

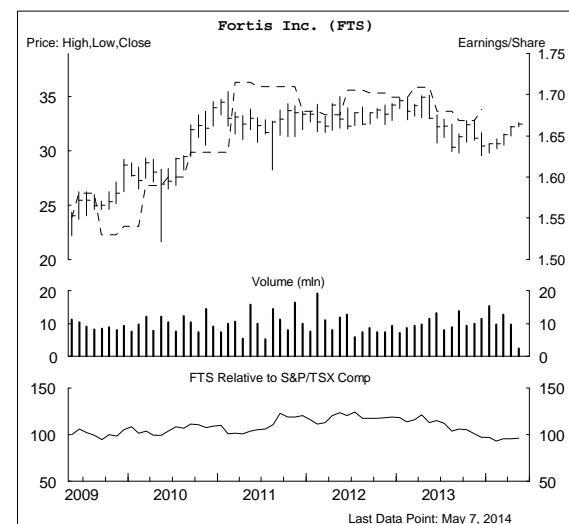
### Impact & Analysis

Key implications: (1) The company reaffirmed a capex budget of \$1.4B in 2014 and \$6.5B during 2014-2018. (2) Notably, FTS' Waneta hydroelectric project in B.C. is on budget and still on track for an expected in-service date of spring 2015. (3) Preliminary work has begun on the \$400M expansion of the Tilbury LNG facility in B.C., which is expected to be in service in 2016. In passing, the company noted that it is pursuing additional LNG opportunities that are not currently reflected in the company's capital program, including a pipeline expansion for the proposed Woodfibre LNG site in B.C. (4) FTS' US\$4.3 billion acquisition of UNS Energy was approved by shareholders in March and the FERC in April. In April, Commission Staff and other intervenors filed direct testimony that indicated that they would support the merger subject to a number of conditions. Assuming Commission approval, FTS expects the acquisition to close by the end of 2014. (5) We have increased our 2014 EPS estimate (fd) for FTS to \$1.53 (vs. \$1.46) and our 2015 EPS estimate (fd) to \$1.97 (vs. \$1.94).

### Valuation & Recommendation

With an earnings profile that has been largely lacklustre the last few years, Fortis notably made strides on several fronts in Q1/14, not the least of which involves delivering consistent and stable earnings growth. Although we are maintaining a neutral stance on FTS, valuation levels could become more appealing in the near term as we are gaining increasing conviction that the pending UNS acquisition will close and earnings momentum should accelerate beginning in 2015. In the meantime, investors are being paid to wait via a ~4% common share dividend that we believe is quite safe. We are maintaining our Market Perform rating and increasing our price target to \$33.50 (from \$33.00).

**Price (7-May)** \$32.46 **52-Week High** \$34.74  
**Target Price** \$33.50 **52-Week Low** \$29.51



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	\$1.69	\$1.66	\$1.53↑	\$1.97↑
P/E			21.3x	16.5x

Div.	\$1.20	\$1.24	\$1.28	\$1.34
EV (\$mm)	\$13,602	\$15,486	\$17,357	\$22,062
EBITDA (\$mm)	\$1,264.0	\$1,393.0	\$1,567.3	\$2,264.3
EV/EBITDA	10.8x	11.1x	11.1x	9.7x

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	\$0.66	\$0.34	\$0.24	\$0.46
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014E	\$0.66a	\$0.24	\$0.19↓	\$0.43↑

Dividend	\$1.28	Yield	3.9%
Book Value	\$22.91	Price/Book	1.4x
Shares O/S (mm)	214.3	Mkt. Cap (mm)	\$6,956
Float O/S (mm)	214.3	Float Cap (mm)	\$6,956
Wkly Vol (000s)	2,574	Wkly \$ Vol (mm)	\$81.0
Net Debt (\$mm)	\$7,293	Next Rep. Date	Aug (E)

Notes: All values in C\$

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INC (C\$) 2014E: \$1.66; 2015E: \$1.99

## Changes

**Annual EPS**  
2014E \$1.46 to \$1.53  
2015E \$1.94 to \$1.97

## Quarterly EPS

Q3/14E \$0.20 to \$0.19  
Q4/14E \$0.42 to \$0.43

## Target

\$33.00 to \$33.50

## Q1 – Back in the Groove

- **Maintaining Market Perform rating and increasing target price to \$33.50 (from \$33.00).** Fortis' first-quarter bottom-line results were above expectations (basic EPS of \$0.67 vs. our estimate of \$0.61 and Thomson One consensus of \$0.65) amid stronger contributions from Central Hudson (colder temperatures), above-average hydrology conditions in Belize, and lower corporate expense. With an earnings profile that has been largely lacklustre the last few years, Fortis has notably made strides on several fronts in Q1/14, not the least of which involves delivering consistent and stable earnings growth. Although we are maintaining a neutral stance on FTS, we believe the time to accumulate the stock is approaching as we are gaining increasing conviction that the pending UNS acquisition will close and that earnings momentum should accelerate beginning in 2015. In the meantime, investors are being paid to wait via a ~4% common share dividend that we believe is quite safe. We are maintaining our Market Perform rating and increasing our price target to \$33.50 (vs. \$33.00).
- **Capital program intact and should support continued dividend growth.** The company reaffirmed a capital expenditure budget of \$1.4 billion in 2014 (\$237M has been spent YTD) and \$6.5 billion during 2014-2018 (excluding an expected capital program of \$1.5 billion at UNS from 2015 to 2018). Notably, FTS' 335 MW Waneta hydroelectric project in B.C. (51% FTS) is on budget (\$603M of the \$900M gross has been invested) and still on track for an expected in-service date of spring 2015. Preliminary work has begun on the \$400M expansion of the Tilbury LNG facility in B.C. (adding a second LNG tank and a new liquefier), which is expected to be in service in 2016. In passing, the company noted that it is pursuing additional LNG opportunities that are not currently reflected in the company's capital program, including a pipeline expansion (rate base investment) for the proposed Woodfibre LNG site in B.C.
- **UNS Energy acquisition still expected to close by the end of 2014.** FTS' US\$4.3 billion acquisition of UNS Energy was approved by shareholders in March 2014 and the Federal Energy Regulatory Commission in April 2014. In April 2014, Commission Staff and other intervenors filed direct testimony that indicated that they would support the merger subject to a number of conditions. A settlement agreement is expected to be filed on May 16, 2014, with a hearing currently scheduled for June 16, 2014. Assuming Arizona Corporation Commission approval, FTS expects the UNS Energy acquisition to close by the end of 2014.
- **Key regulatory updates:**
  - **Proposed Performance-Based Regulation plans in B.C. expected to be approved in H2/14:** A decision on FortisBC Energy and FortisBC Electric's 2014-2018 PBR plans are expected in H2/14.
  - **Regulatory approval received for amalgamation of FortisBC Energy Utilities:** Regulatory approval was received in February 2014, but the amalgamation must obtain the consent of the Lieutenant Governor in Council to be effective on December 31, 2014. Upon amalgamation, the allowed ROE and equity component of capital structure for the amalgamated entity will be set the same as Fortis BC Energy (allowed ROE of 8.75% and deemed equity of 38.5%).

- **2013 Alberta Generic Cost of Capital Review:** It is our understanding that a hearing has been set for late May, while a decision is not expected until the end of 2014.
- **FortisAlberta 2013-2015 Capital Tracker Applications expected for May:** The re-filing of FortisAlberta's 2013 Capital Tracker Application and the filing of 2014/15 Capital Tracker Applications are expected to take place in May 2014. It is unclear when a decision will be received on the combined multi-year capital tracker applications.
- **Central Hudson General Rate Application slated for H2/14:** Central Hudson plans to file its rate application during the second half of 2014, while a decision is expected during the first half of 2015.
- **Raising estimates.** We have updated our estimates to reflect Q1/14 results, the assumption of a higher USD (vs. CAD), and the information contained in the quarterly release. We have increased our 2014 EPS estimate (fd) for FTS to \$1.53 (vs. \$1.46) and our 2015 EPS estimate (fd) to \$1.97 (vs. \$1.94). Note that our 2014 estimate includes the convertible debenture cost (after-tax) associated with the UNS Energy acquisition (~\$0.23/sh).
- **Valuation.** At current levels, FTS is trading at 21.2x our 2014E EPS (vs. peer range of 16.7-17.6x) and 16.4x our 2015E EPS (vs. peer range of 16.1-18.1x). Our revised target price of \$33.50 (from \$33.00) is still based on 17.0x our 2015E EPS (fd) estimate, which is below its 10-year historical average of ~18.3x, reflecting FTS' increased exposure to U.S. utilities (which have tended to trade at lower valuations than Canadian-domiciled utilities) and uncertainty over regulatory approval and timing of the UNS acquisition. Based on FTS' relative return to our target price compared to the other companies we cover in the regulated utility segment of our coverage space, we continue to rate FTS shares Market Perform.

#### Exhibit 1: Calculation of Our Target Price

FTS Valuation	Multiple	2013E	2014E	2015E	
Adj. EPS (f.d)		\$1.66	\$1.53	\$1.97	
Equity value/sh	17.0x	\$28.26	\$25.95	\$33.51	
2015E Equity Value				\$33.50	
<u>P/E Sensitivity</u>					
	16.0x	16.5x	17.0x	17.5x	18.0x
	\$31.50	\$32.50	\$33.50	\$34.50	\$35.50

Source: BMO Capital Markets

- **First-quarter results.** Fortis reported basic EPS of \$0.67, above Thomson One consensus of \$0.65 and our estimate of \$0.61. Results included \$5M (\$0.02/sh) in discontinued operations associated with Griffith Energy Services, which was sold in March 2014. The EPS variance versus our estimate was driven primarily by stronger-than-expected results from Central Hudson (colder temperatures; \$0.02), non-regulated generation (higher rainfall in Belize; \$0.01) and lower corporate expense (foreign exchange gains; \$0.03). For a further run-down of FTS' first-quarter results, please see Exhibit 2. Our quarterly and annual estimates are set out in Exhibit 4 and 5.

## Exhibit 2: Q1/14 Results vs. BMOCM Expectations

	Q1/14A (\$mm)	Q1/14E (\$mm)	Q1/13A (\$mm)	% YoY
<b>Regulated Gas Utilities - Canadian</b>				
Fortis BC Energy Companies	79.0	83.3	85.0	-7.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>				
Central Hudson	18.0	14.8	na	na
<b>Regulated Electric Utilities - Canadian</b>				
FortisAlberta	25.0	27.3	26.0	-3.8%
FortisBC Electric	18.0	18.0	18.0	0.0%
Newfoundland Power	10.0	7.5	7.0	42.9%
Other Canadian Electric Utilities	7.0	6.3	6.0	16.7%
	60.0	59.1	57.0	5.3%
<b>Regulated Electric Utilities - Caribbean</b>	5.0	3.8	3.0	66.7%
<b>Non-Regulated - Fortis Generation<sup>(1)</sup></b>	6.0	3.2	2.0	200.0%
<b>Non-Regulated - Non-Utility</b>	5.0	2.0	0.0	nmf
<b>Corporate and Other</b>	(30.0)	(35.6)	(18.0)	66.7%
<b>Net Earnings Applicable to Common Shares</b>	<b>143.0</b>	<b>130.5</b>	<b>129.0</b>	<b>10.9%</b>
Average Shares (Basic)	213.6	214.3	192.0	
Average Shares (Diluted)	220.9	215.1	202.8	
Adjusted EPS (basic)	\$0.67	\$0.61	\$0.67	-0.4%
<b>Adjusted EPS (diluted)</b>	<b>\$0.66</b>	<b>\$0.61</b>	<b>\$0.66</b>	<b>0.1%</b>

Note:

(1) Q1/13 results exclude a \$22 million after-tax gain resulting from the settlement of a 2008 government expropriation of hydro assets in Newfoundland.

Source: BMO Capital Markets, Company Reports

## Exhibit 3: Upcoming Events

May 2014	Planned hearing for AUC 2013 GCOC (2013, 2014 and 2015 interim)
May 2014	Expected filing of FortisAlberta's 2013-2015 Capital Tracker application
June 2014	Expected regulatory hearing for proposed UNS acquisition
Aug 2014	Q2/2014 Results
2H14	Central Hudson to file general rate application
2H14	Expected decision on FortisBC Energy 2014-2018 PBR application
2H14	Expected decision on FortisBC Electric 2014-2018 PBR application
Late 2014	Expected decision on AUC 2013 GCOC
Late 2014	Expected close of proposed UNS acquisition
Early 2015	Expected commissioning of Waneta hydro facility
1H15	Expected decision on Central Hudson general rate application
During 2015	Expected filing of Newfoundland Power's 2016 GRA
2016	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports

## Exhibit 4: Summary of Financial Forecasts

Fortis Inc.												12-15E		
Financial Estimates (in \$mm)	2012	Q1/13	Q2/13	Q3/13	Q4/13	2013	Q1/14	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	CAGR	
Regulated Gas Utilities - Canadian													0.8%	
FortisBC Energy Companies	\$138.0	\$85.0	\$6.0	(\$14.0)	\$50.0	\$127.0	\$79.0	\$6.4	(\$10.2)	\$52.9	\$128.1	\$141.3		
Regulated Gas & Electric Utility - United States														
UNS Energy	-	-	-	-	-	-	-	-	-	-	-	\$160.6		
Central Hudson	-	-	-	12.0	11.0	23.0	18.0	10.7	14.3	12.6	55.6	58.2		
	-	-	-	12.0	11.0	23.0	18.0	10.7	14.3	12.6	55.6	218.8		
Regulated Electric Utilities - Canadian													7.5%	
FortisAlberta	\$96.0	\$26.0	\$25.0	\$25.0	\$18.0	\$94.0	\$25.0	\$27.4	\$27.4	\$25.5	\$105.2	\$119.2		
FortisBC Electric	50.0	18.0	8.0	11.0	13.0	50.0	18.0	8.8	11.3	13.4	51.5	52.8		1.8%
Newfoundland Power	37.0	7.0	11.0	8.0	10.0	36.0	10.0	10.0	7.5	10.2	37.7	39.1		1.9%
Other Canadian Electric Utilities	24.0	6.0	5.0	7.0	4.0	22.0	7.0	5.1	6.4	4.5	23.0	23.6		-0.5%
	207.0	57.0	49.0	51.0	45.0	202.0	60.0	51.2	52.6	53.6	217.4	234.7	4.3%	
Regulated Electric Utilities - Caribbean	19.0	3.0	6.0	6.0	8.0	23.0	5.0	6.8	6.5	6.9	25.2	26.5	11.7%	
Non-Regulated - Fortis Generation	17.0	2.0	3.0	8.0	4.0	17.0	6.0	4.0	8.0	3.8	21.7	39.1	32.0%	
Non-Regulated - Non-Utility	22.0	0.0	9.0	6.0	3.0	18.0	5.0	9.0	6.0	5.7	25.7	26.0	5.7%	
Corporate and Other	(80.6)	(18.0)	(12.0)	(21.0)	(21.0)	(72.0)	(30.0)	(35.6)	(35.6)	(42.4)	(143.6)	(134.2)	18.5%	
Total Adjusted Earnings	322.4	129.0	61.0	48.0	100.0	338.0	143.0	52.5	41.6	93.2	330.2	552.2	19.6%	
Average Shares Outstanding (basic)	190.0	192.0	193.4	212.0	212.7	202.5	213.6	214.3	214.3	214.3	214.3	276.9		
Average Shares Outstanding (diluted)	201.1	202.8	194.1	212.7	219.4	209.3	220.9	221.6	221.6	221.6	221.6	284.2		
Dividends Per Share	\$1.20	\$0.31	\$0.31	\$0.31	\$0.31	\$1.24	\$0.32	\$0.32	\$0.32	\$0.32	\$1.28	\$1.34	3.7%	
EPS - reported (diluted)	\$1.65	\$0.66	\$0.28	\$0.23	\$0.47	\$1.64	\$0.66	\$0.24	\$0.19	\$0.43	\$1.52	\$1.97		
Adjusted EPS - basic	\$1.70	\$0.67	\$0.32	\$0.23	\$0.47	\$1.67	\$0.67	\$0.24	\$0.19	\$0.43	\$1.54	\$1.99	5.5%	
Adjusted EPS - diluted	\$1.69	\$0.66	\$0.32	\$0.23	\$0.47	\$1.66	\$0.66	\$0.24	\$0.19	\$0.43	\$1.53	\$1.97	5.3%	

Source: BMO Capital Markets



## Exhibit 5: Consolidated Summary Sheet



## Market Perform

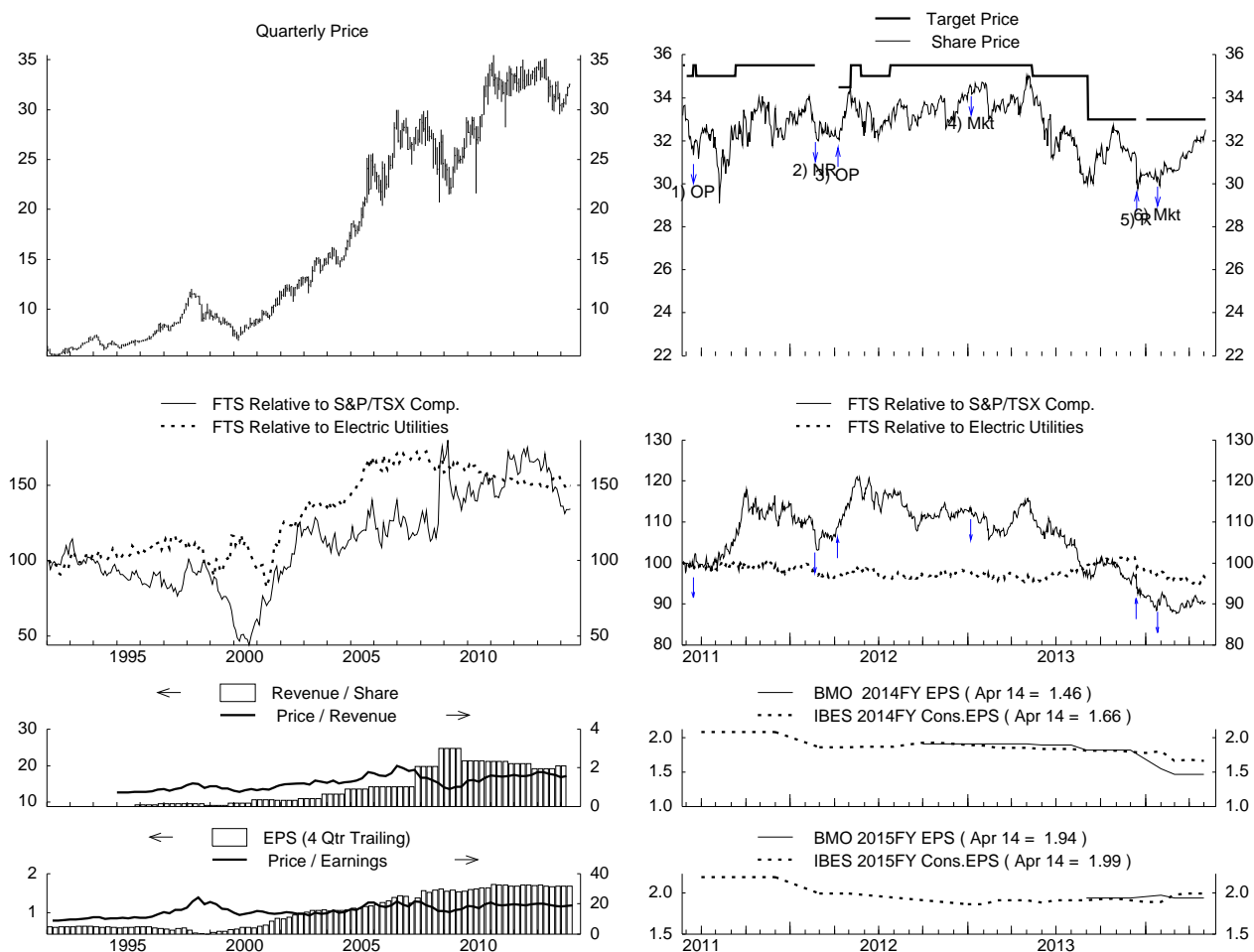
12-Month Target Price: \$33.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$32.38  
 ROR: 7.4%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	CAGR 2012A- 2015E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.54	\$1.99	5.5%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.66</b>	<b>\$1.53</b>	<b>\$1.97</b>	5.3%
<i>First Call Consensus</i>								\$1.66	\$1.99	5.6%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.66	\$4.83	\$5.59	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.34	3.7%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	83.1%	67.2%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	26.6%	26.5%	24.0%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	214.3	276.9	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	201.1	209.3	221.6	284.2	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.38	\$22.74	\$25.17	
<b>Market Valuation</b>										
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	-	-	
Price: Current	-	-	-	-	-	-	-	\$32.38	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	17.9	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	21.2	16.4	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	11.5	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	10.7	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	11.1	9.7	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	-	-	
Yield: Current	-	-	-	-	-	-	-	4.0%	4.1%	
<b>Balance Sheet (\$mm)</b>										
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	868.0	(544.0)	1,063.0	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,424.0	7,265.6	9,836.5	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	375.0	375.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,529.0	1,829.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	1,800.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>4,896.5</u>	<u>6,970.4</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,668.0	15,322.1	20,073.9	
<b>Balance Sheet (%)</b>										
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	6.4%	-3.6%	5.3%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	47.0%	47.4%	49.0%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.7%	2.4%	1.9%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.0%	10.0%	9.1%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	11.7%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>32.0%</u>	<u>34.7%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>										
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	4,630.5	6,648.0	22.1%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,567.3	2,264.3	21.4%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	330.2	552.2	19.6%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	944.0	1,034.6	1,549.4	19.9%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,442.3)	(2,121.6)	
<b>Financial Leverage</b>										
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	7,292.0	8,521.6	10,899.6	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	5.2x	5.4x	4.8x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	53.4%	55.6%	54.3%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	20.8	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.68	19.1	1.28	4.0	76	22.3	1.4	8

Growth(%):

5 Year: 1.7

10 Year: 4.9

20 Year: 5.0

\* Current EPS is the 4 Quarter Trailing to Q4/2013.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 24-May-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	OP to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( May 2, 2014): \$32.53

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our F2015 adjusted EPS estimate.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (March 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns<sup>®</sup> is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

**©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$32.54**  
**Target Price:**      **\$33.50**

May 12, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## CEO Stanley Marshall to Retire; CFO Barry Perry to Take the Lead

Stanley Marshall will retire on December 31, 2014. Barry Perry has been appointed as his successor.

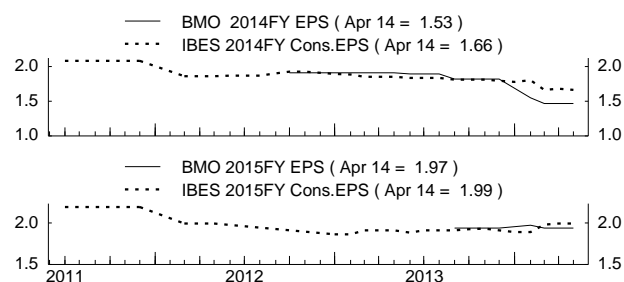
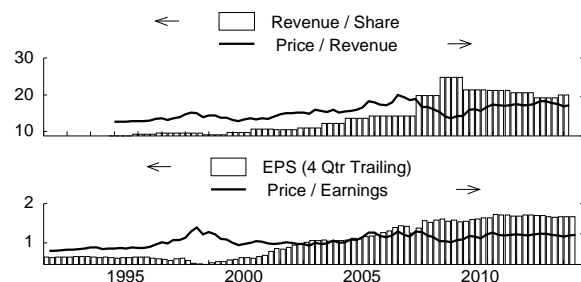
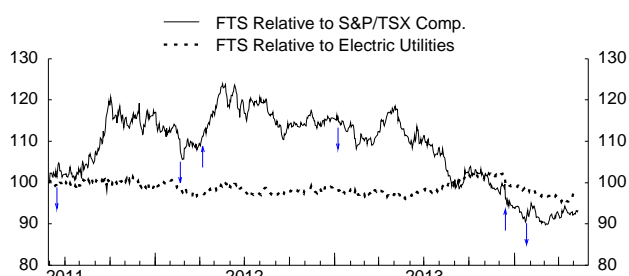
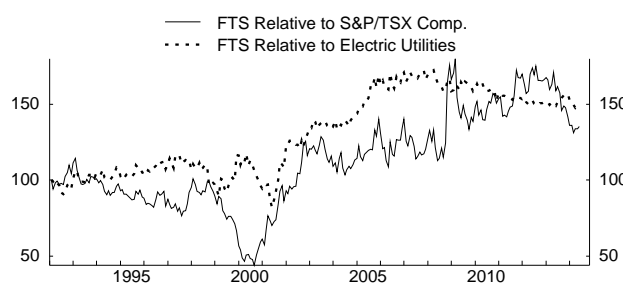
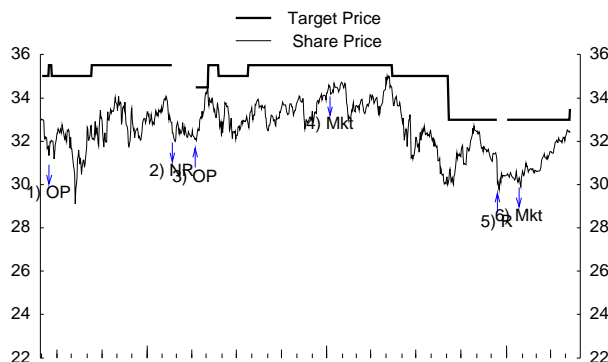
### Our View:

- We see this development as neutral for the FTS shares. Although we did not expect an imminent announcement, the retirement of Stanley Marshall, age 63, is not a surprise, in our opinion. We view Barry Perry as a very capable leader, having served as vice president, finance and chief financial officer of Fortis since January 2004 and previously vice president, finance and CFO of Newfoundland Power (100% Fortis) since April 2000, when he joined the firm.
- We expect a smooth CEO transition. Mr. Perry is well known to the investment community and was frequently in front of investors through non-deal road shows and conferences, and was highly involved with his investor relations team. In our minds, Mr. Perry constitutes a seasoned leader with a safe pair of hands and we have strong confidence in his ability to execute and deliver continued consistent and predictable earnings growth at FTS.
- In terms of timing, Mr. Marshall will retire as president and chief executive officer on December 31, 2014, and will remain on the board of directors until his retirement. As part of the transition, Mr. Marshall will relinquish his role as president to Mr. Perry on June 30, 2014. We wish all the best to Mr. Marshall in his next phase of personal and business endeavours.
- At current levels, FTS is trading at 21.3x our 2014E EPS (vs. peer range of 16.6-17.5x) and 16.5x our 2015E EPS (vs. peer range of 15.9-18.0x).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	20.8	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.67	19.3	1.28	4.0	77	22.9	1.4	7
Growth(%):								
5 Year:	1.5		4.2			2.7		
10 Year:	4.8		9.0			10.0		
20 Year:	5.0		6.0			7.4		

\* Current EPS is the 4 Quarter Trailing to Q1/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 30-May-11 = OP

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( May 8, 2014): \$32.38  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (March 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$32.33**  
**Target Price:**      **\$33.50**

May 20, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## Settlement Agreement Filed for Proposed UNS Energy Acquisition

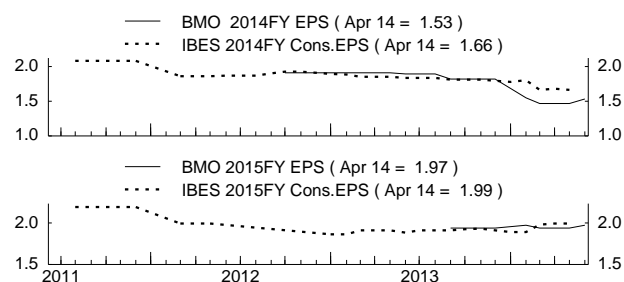
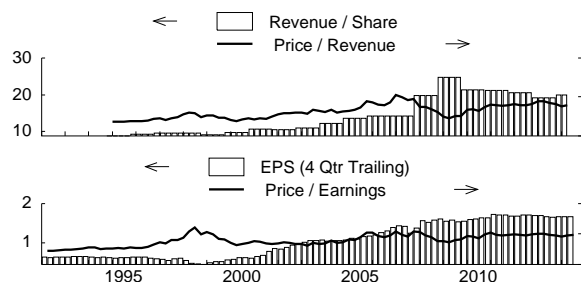
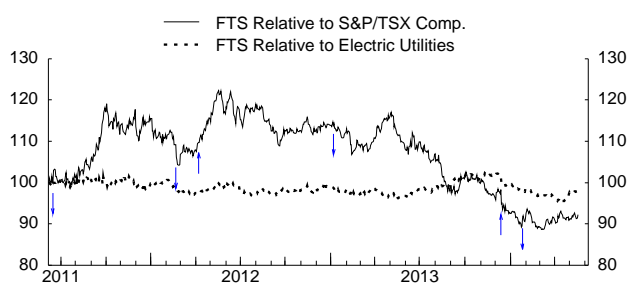
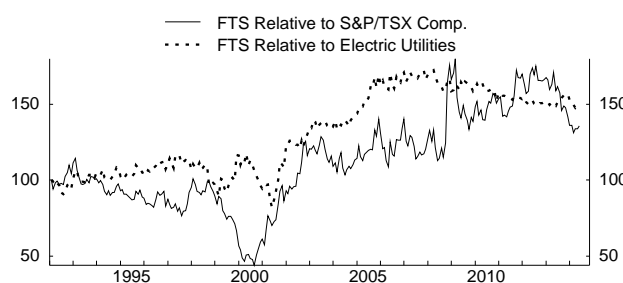
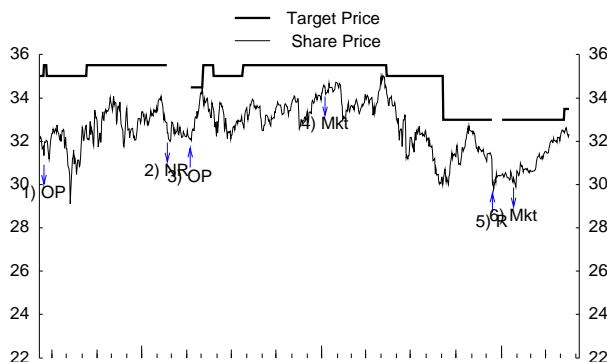
On May 16, UNS Energy, Fortis, Arizona Public Corporation (ACC) Staff, the Residential Utility Consumer Office and other interested parties entered into a [settlement agreement](#) for the proposed UNS Energy acquisition by Fortis. The parties agreed that the acquisition would be in the public interest and recommended the ACC Commission approve the transaction, subject to certain conditions. These conditions include, but are not limited to the following: (i) US\$30 million of customer benefits over five years; (ii) a US\$220M equity injection into UNS Energy upon transaction close; (iii) the adoption of certain ring-fencing and corporate governance provisions; and (iv) maintaining the current level of UNS utility employees for at least four years following transaction close.

### Our View:

- Overall, the settlement agreement did not reveal any earth-shattering revelations in our opinion and largely mirrored the recommended conditions (with some adjustments to the level of customer benefits) highlighted during the intervener testimony period. We also believe the conditions to merger approval appear reasonable and are manageable by Fortis.
- The next steps in the merger review process include testimony in support/opposition to the settlement, a June 16 hearing, an administrative law judge decision, and finally a Commission decision.
- Aside from Commission approval, the acquisition is subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the review of the Merger by the Committee on Foreign Investment in the United States, and the satisfaction of other customary closing conditions. Fortis still expects the acquisition of UNS Energy to close by the end of 2014.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 17.0	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	20.8	1.7 1.4	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.67	19.3	1.28	4.0	77	22.9	1.4	7
Growth(%):								
5 Year:	1.5		4.2			2.7		
10 Year:	4.8		9.0			10.0		
20 Year:	5.0		6.0			7.4		

\* Current EPS is the 4 Quarter Trailing to Q1/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 7-Jun-11 = R

Date	Rating Change	Share Price
1 15-Jun-11	R to OP	\$31.35
2 21-Feb-12	OP to NR	\$32.38
3 6-Apr-12	NR to OP	\$32.11
4 7-Jan-13	OP to Mkt	\$34.52
5 12-Dec-13	Mkt to R	\$30.04
6 24-Jan-14	R to Mkt	\$30.31

Last Price ( May 16, 2014): \$32.33

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (March 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$33.76**  
**Target Price:**      **\$33.50**

July 30, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## Administrative Law Judge Supports Proposed UNS Acquisition

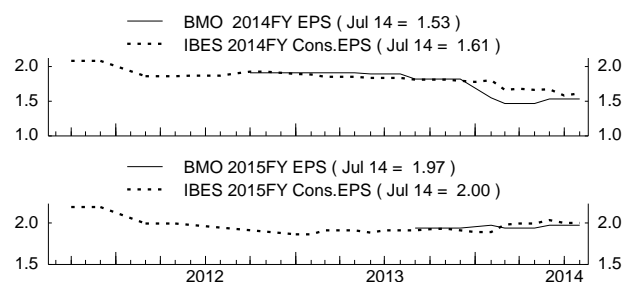
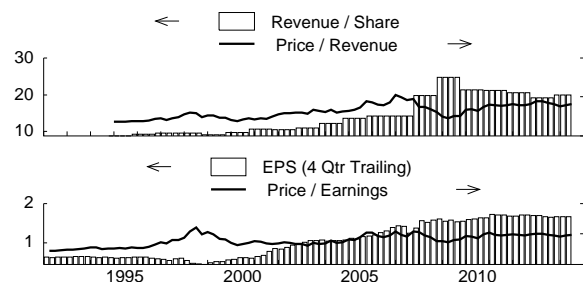
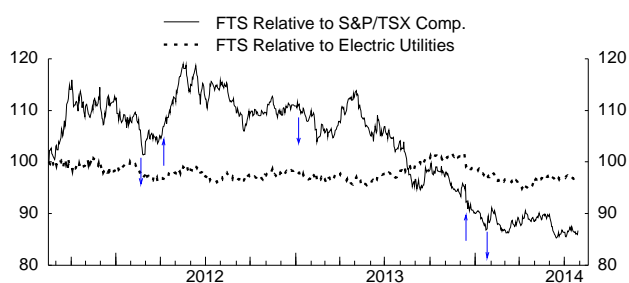
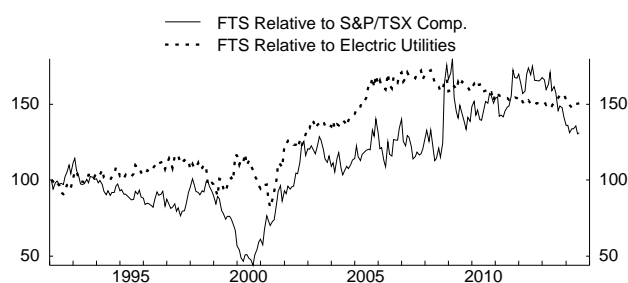
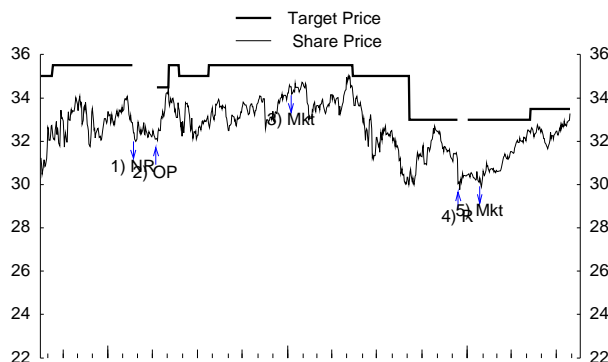
On July 29, Administrative Law Judge (ALJ) Jane Rodda concluded that FTS' proposed acquisition of UNS meets the "no harm" standard and believes that the merger transaction is in the public interest. To access the ALJ Opinion and Order, search for docket number E-04230A-14-0011 (<http://edocket.azcc.gov>).

### Our View:

- Keep in mind that the ALJ's recommendation is an advisory opinion only and it will be up to the Commission to determine whether to approve or deny the transaction. Given support from Staff and Interveners via a conditioned Settlement Agreement and limited opposition from the public, we believe that transaction approval will not be reasonably withheld by the Commission.
- Next steps: submissions responding to the recommended decision are due by August 7 and consideration of the proposed acquisition has tentatively been scheduled for the Commission's Open meeting to be held on August 12 and 13. Accordingly, we now believe that the acquisition of UNS Energy (assuming regulatory approval) could close as early as September and we now see upside to our 2014E estimates, as we had expected a year-end 2014 transaction close.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.4 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.67	19.5	1.28	3.9	77	22.9	1.4	7
Growth(%):								
5 Year:	1.1		4.2			2.7		
10 Year:	4.8		9.0			10.0		
20 Year:	5.0		6.0			7.4		

\* Current EPS is the 4 Quarter Trailing to Q1/2014.  
\* Valuation metrics are based on high and low for the fiscal year.  
\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 17-Aug-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( July 28, 2014): \$33.27  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.



**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

August 1, 2014

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

## Q2 – Stay Tuned for Catalysts

### Event

Fortis' Q2 results were modestly below our expectations (EPS of \$0.22 vs. our \$0.24) due to higher-than-expected corporate and softer results at Central Hudson, partially offset by a better-than-expected showing at FortisBC Energy.

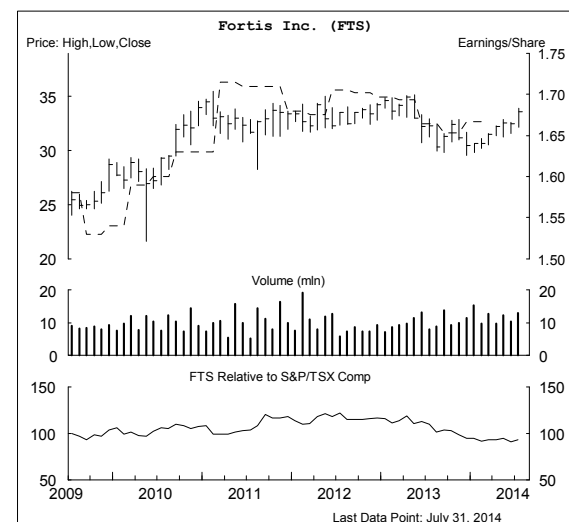
### Impact & Analysis

Key implications: (1) FTS now believes it could consummate UNS by the end of August (vs. YE 2014 previously) following a positive recommendation from the Administrative Law Judge on July 29. (2) The company reiterated a capital program of \$1.4B in 2014. Notably, FTS' Waneta hydroelectric dam expansion in B.C. still remains on budget and on track for a spring 2015 in-service date. Preliminary work has also begun on the \$400M Tilbury LNG expansion in B.C. (expected in-service in H2/16). (3) Central Hudson filed a general rate application in July for rates effective mid-2015 which incorporates a proposed reduction in the allowed ROE to 9% (vs. 10% currently), but no change in deemed equity of 48%; a Commission decision is expected in H1/15. (4) We have updated our estimates to reflect Q2 actuals, the closing of the UNS acquisition end of August and other fine-tuning adjustments. Our 2014 EPS estimate (f.d) increases to \$1.55 (vs. \$1.53) while our 2015E decreases slightly to \$1.96 (vs. \$1.97). We are introducing 2016E EPS (f.d) of \$2.01.

### Valuation & Recommendation

Despite softer Q2 results, we remain of the view that the direction of the FTS shares in the near term ultimately lies with successful regulatory approval of the UNS acquisition. In particular, the next milestone is Commission consideration of the transaction at open meetings in mid-August which is not only fast approaching, but represents one of the last remaining hurdles to acquisition close. Should FTS secure approval and we get further confirmation of a step-up function change in earnings, we believe we could see a significant boost in sentiment and a nice positive catalyst to the shares. The roll-forward of our valuation brings our target price to \$34 (from \$33.50), representing a +6.6% total return. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.

**Price (1-Aug)** \$33.09  
**Target Price** \$34.00 ↑  
**52-Week High** \$33.88  
**52-Week Low** \$29.51



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	\$1.66	\$1.55↑	\$1.96↓	\$2.01
P/E		21.4x	16.9x	16.5x
Div.	\$1.24	\$1.28	\$1.38	\$1.46
EV (\$mm)	\$15,486	\$17,688	\$22,235	\$22,702
EBITDA (\$mm)	\$1,393.0	\$1,678.4	\$2,244.7	\$2,339.3
EV/EBITDA	11.1x	10.5x	9.9x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014E	\$0.66a	\$0.22a	\$0.23↑	\$0.43
2015E	\$0.61	\$0.38	\$0.48	\$0.49
Dividend	\$1.28			
Book Value	\$22.73			
Shares O/S (mm)	215.3			
Float O/S (mm)	215.3			
Wkly Vol (000s)	2,587			
Net Debt (\$mm)	\$7,244			
Yield				3.9%
Price/Book				1.5x
Mkt. Cap (mm)				\$7,125
Float Cap (mm)				\$7,125
Wkly \$ Vol (mm)				\$81.2
Next Rep. Date				Nov (E)

Notes: All values in C\$

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INC (C\$) 2014E: \$1.61; 2015E: \$2.00

## Changes

## Annual EPS

2014E \$1.53 to \$1.55  
 2015E \$1.97 to \$1.96

## Quarterly EPS

Q3/14E \$0.19 to \$0.23

## Target

\$33.50 to \$34.00

## Q2 – Stay Tuned for Catalysts

- **Maintaining Market Perform rating and increasing target price to \$34 (vs. \$33.50).** Fortis' second-quarter bottom-line results were modestly below our expectations (EPS of \$0.22 vs. our estimate of \$0.24 per share) due to higher-than-expected corporate expense and softer results at Central Hudson, partially offset by a better-than-expected showing at FortisBC Energy. Despite softer Q2 results, we remain of the view that the direction of the FTS shares in the near term ultimately lies with successful regulatory approval of the UNS acquisition. In particular, the next milestone is Commission consideration of the transaction at open meetings in mid-August which is not only fast approaching, but represents one of the last remaining hurdles to acquisition close. Should FTS secure regulatory approval and we get further confirmation of a step-up function change in earnings, we believe we could see a significant boost in sentiment and a nice positive catalyst to the shares. The roll-forward of our valuation brings our target price up \$0.50 (+1.5%) to \$34 (from \$33.50), representing a +6.6% total return. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.
- **Capital program unchanged.** The company reiterated a capital program of \$1.4B in 2014 after spending \$535M H1. FTS also reaffirmed its outlook for \$6.5B in total capital spending over the five-year period from 2014 to 2018 (excluding an expected capital program of \$1.5B at UNS from 2015 to 2018). Notably, FTS' Waneta hydroelectric dam expansion in B.C. still remains on budget (\$633M spent out of \$900M gross; FTS owns 51%) and on track for a spring 2015 in-service date. Preliminary work has also begun on the \$400M Tilbury LNG expansion in B.C. (expected in-service in H2/16), while additional LNG-related opportunities are being pursued such as an additional expansion of Tilbury and a pipeline expansion for the proposed Woodfibre LNG site in B.C. We believe these additional opportunities could offer significant upside to the company's five-year capital program should they cross into commercial viability.
- **UNS Energy acquisition now expected to close by the end of August (vs. year-end).** On July 29, the Administrative Law Judge (ALJ) conducting the UNS proceeding recommended the Arizona Commission to approve the transaction subject to certain conditions set out in the May 16 Settlement Agreement. Consideration of the ALJ recommendation has tentatively been scheduled by the Commission at its Open Meeting to be held on August 12 and 13, 2014. As Commission approval is the last significant hurdle to the transaction, FTS now believes it could consummate UNS by the end of August 2014 (vs. year-end 2014 previously). We believe the revised UNS timeline is achievable and accordingly our 2014 estimate is aligned with that schedule.
- **Key regulatory updates:**
  - **Central Hudson General Rate Application recently filed:** Central Hudson filed a general rate application in July for rates effective mid-2015 which incorporates a proposed reduction in the allowed ROE to 9% (vs. 10% currently and our prior 9.5% estimate) but no change in deemed equity of 48%; a decision from the New York Public Service Commission is expected in H1/15.

- **Proposed Performance-Based Regulation plans in B.C. expected to be approved in H2/14:** A decision on FortisBC Energy and FortisBC Electric's 2014-2018 PBR plans is expected in 2H/14.
- **Alberta Generic Cost of Capital Review:** Hearings have now concluded; a decision is not expected until the end of 2014.
- **FortisAlberta 2013-2015 Capital Tracker Applications:** In May, FortisAlberta filed a combined 2013-2015 capital tracker application requesting capital tracker revenue of \$23M in 2013, \$48M in 2014, and \$69M in 2015. A hearing related to the combined application has been set for October 2014 and a decision is expected the first quarter of 2015.
- **Revised estimates.** We have updated our estimates to reflect Q2 actuals, the closing of the UNS acquisition end of August, lower allowed ROEs at Central Hudson, and other fine-tuning adjustments. The net effect of these changes results in our 2014 EPS estimate (f.d) increasing to \$1.55 (vs. \$1.53) and our 2015 EPS estimate (f.d) decreasing slightly to \$1.96 (vs. \$1.97). Note that our 2014 estimate includes the convertible debenture cost (after-tax) associated with the UNS Energy acquisition (~\$0.23/sh).
- **Introducing 2016 estimates.** Along with our revisions, we are rolling out our FY16 estimates: adj. EPS of \$2.01 (vs. \$1.96 in 2015E or +2.5% y/y). Our FY16 anticipates earnings growth from all of FTS' regulated utilities (other than Central Hudson who faces lower regulated ROEs) and a full-year contribution from the Waneta dam expansion (three-quarters in 2015E). Partially offsetting that positive trend in 2016E is higher y/y corporate costs.
- **Maintaining Market Perform rating and increasing target price to \$34.** At current levels, FTS is trading at 21.4x our 2014E EPS (vs. peer range of 14.9-17.9x) and 16.9x our 2015E EPS (vs. peer range of 13.4-17.7x). With the introduction of our 2016 estimates, we are rolling forward our valuation with a price target more reflective of a 12-to-18-month time frame (targeting 2H/15 vs. 2015). This results in our target price increasing by \$0.50 (+1.5%) to \$34 (vs. \$33.50) reflecting a P/E multiple of 17.0x applied to the average of our FY15/16E estimates (vs. 17.0x 2015E previously). The multiple is below its 10-year historical average of ~18.4x reflecting FTS' increased exposure to U.S. utilities (which have tended to trade at lower valuations than Canadian-domiciled utilities) and uncertainty over regulatory approval and timing of the UNS acquisition (though the risks are clearly waning). Based on FTS' relative return to our price target compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

#### Exhibit 1: Calculation of Our Target Price

FTS Valuation	Multiple	2014E	2015E	2016E
Adj. EPS (f.d)		\$1.55	\$1.96	\$2.01
Equity value/sh	17.0x	\$26.31	\$33.34	\$34.18
Avg. of FY15/16E			\$34.00	
<u>P/E Sensitivity</u>				
16.0x	16.5x	17.0x	17.5x	18.0x
\$32.00	\$33.00	\$34.00	\$35.00	\$36.00

Source: BMO Capital Markets

- **Second-quarter results.** Fortis reported headline EPS of \$0.22 (-29% year over year), modestly lower than our estimate of \$0.24. Results include ~\$0.06 of interest expense associated with the convertible debentures issued to finance a portion of the pending UNS acquisition (EPS would have been \$0.28 ex. the interest). We note that Street consensus of \$0.27 (range of \$0.24-0.34) may not be comparable to the Q2 print as we believe that some estimates include the convertible interest and some do not (our estimate includes it). The EPS variance vs. our estimate was primarily driven by higher-than-expected corporate expense and softer results at Central Hudson (NY utility), partially offset by a better-than-expected showing at FortisBC Energy (B.C. gas utility). For a further run-down of FTS' second-quarter results, please see Exhibit 2. Our quarterly and annual estimates are set out in Exhibits 4 and 5.

## Exhibit 2: Q2/14 Results vs. BMOCM Expectations

	Q2/14A	BMOCM Q2/14E	% Variance	Q2/13A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
Fortis BC Energy Companies	12.0	6.4	87%	6.0	100%	Seasonality
<b>Regulated Gas &amp; Electric Utility - United States</b>						
Central Hudson	7.0	10.7	-34%	-	na	Seasonality
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta	26.0	27.4	-5%	25.0	4.0%	Timing of O&M not subject to regulatory deferrals
FortisBC Electric	7.0	8.8	-20%	8.0	-12.5%	
Newfoundland Power <sup>(1)</sup>	11.0	10.0	10%	11.0	0.0%	
Other Canadian Electric Utilities <sup>(1)</sup>	5.0	5.1	-1%	5.0	0.0%	
<b>Total Regulated Electric Utilities - Canadian</b>	<b>49.0</b>	<b>51.2</b>	<b>-4%</b>	<b>49.0</b>	<b>0.0%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	8.0	6.7	19%	6.0	33.3%	Electricity sales growth and favorable exchange rate
<b>Non-Regulated - Fortis Generation</b>	6.0	4.0	51%	4.0	50.0%	Higher rainfall (production)
<b>Non-Regulated - Non-Utility</b>	7.0	9.0	-22%	8.0	-12.5%	Lower performance in Hospitality Division
<b>Corporate and Other<sup>(1)(2)</sup></b>	(41.0)	(35.5)	16%	(12.0)	241.7%	\$4M F/X loss not reflected in our outlook
<b>Net Earnings Applicable to Common Shares</b>	<b>48.0</b>	<b>52.5</b>	<b>-9%</b>	<b>61.0</b>	<b>-21.3%</b>	
Average Shares (Basic)	214.8	214.3		193.4		
Average Shares (Diluted)	215.3	221.6		194.1		
Adjusted EPS (basic)	\$0.22	\$0.24	-9%	\$0.32	-29.2%	
<b>Adjusted EPS (diluted)</b>	<b>\$0.22</b>	<b>\$0.24</b>	<b>-6%</b>	<b>\$0.31</b>	<b>-29.1%</b>	

Note:

(1) Adjusted for income tax benefit of \$13mm at Newfoundland Power; \$4 million at Other Canadian; and \$8mm in Corporate in Q2/13

(2) Corporate expenses for Q2/14 and Q2/13 exclude approximately \$1mm and \$32mm, respectively, in acquisition costs relating to the CH Energy and UNS acquisitions.

Source: BMO Capital Markets, Company Reports

## Exhibit 3: Upcoming Events

Aug 2014	Expected close of proposed UNS acquisition
2H14	Expected decision on FortisBC Energy 2014-2018 PBR application
2H14	Expected decision on FortisBC Electric 2014-2018 PBR application
Q4/14	Expected decision on AUC 2013 GCOC
Early 2015	Expected commissioning of Waneta hydro facility
Q1/14	Expected decision on FortisAlberta's 2013, 2014 and 2015 combined capital tracker applications
1H15	Expected decision on Central Hudson general rate application
During 2015	Expected filing of Newfoundland Power's 2016 GRA
2H16	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports



## Exhibit 4: Summary of Financial Forecasts

Fortis Inc.													13-16E	
Financial Estimates (in \$mm)	2013	Q1/14	Q2/14	Q3/14E	Q4/14E	2014E	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	CAGR	
<b>Regulated Gas Utilities - Canadian</b>													4.1%	
FortisBC Energy Companies	\$127.0	\$79.0	\$12.0	(\$13.0)	\$52.9	\$130.9	\$83.0	\$14.0	(\$11.0)	\$55.3	\$141.3	\$143.4		
<b>Regulated Gas &amp; Electric Utility - United States</b>														
UNS Energy	-	-	-	12.0	10.0	22.0	20.9	40.1	80.3	19.3	160.6	166.3		
Central Hudson	23.0	18.0	7.0	13.4	13.1	51.5	17.9	8.5	15.4	15.1	56.9	56.1		
	23.0	18.0	7.0	25.4	23.1	73.5	38.8	48.6	95.7	34.4	217.5	222.5		
<b>Regulated Electric Utilities - Canadian</b>													10.1%	
FortisAlberta	\$94.0	\$25.0	\$26.0	\$27.0	\$25.5	\$103.5	\$30.0	\$28.5	\$29.0	\$28.8	\$116.3	\$125.6		
FortisBC Electric	50.0	18.0	7.0	11.0	13.0	49.0	19.0	8.0	12.0	13.8	52.8	53.9		2.5%
Newfoundland Power	36.0	10.0	11.0	8.0	10.5	39.5	10.0	11.0	8.0	10.1	39.1	40.5		4.0%
Other Canadian Electric Utilities	22.0	7.0	5.0	7.0	4.0	23.0	7.2	5.2	7.3	4.7	24.4	25.4	4.9%	
	202.0	60.0	49.0	53.0	53.0	215.0	66.2	52.6	56.3	57.4	232.6	245.4	6.7%	
Regulated Electric Utilities - Caribbean	23.0	5.0	8.0	7.0	7.5	27.5	5.2	7.5	7.3	7.7	27.7	28.9	8.0%	
Non-Regulated - Fortis Generation	17.0	6.0	6.0	8.0	5.0	25.0	6.0	9.0	14.0	10.1	39.1	46.0	39.3%	
Non-Regulated - Non-Utility	18.0	5.0	7.0	5.0	4.0	21.0	6.0	8.0	5.0	4.1	23.2	23.5	9.2%	
Corporate and Other	(72.0)	(30.0)	(41.0)	(34.8)	(40.0)	(145.8)	(34.5)	(34.5)	(34.5)	(34.5)	(138.1)	(145.8)	26.5%	
<b>Total Adjusted Earnings</b>	<b>338.0</b>	<b>143.0</b>	<b>48.0</b>	<b>50.6</b>	<b>105.5</b>	<b>347.1</b>	<b>170.7</b>	<b>105.2</b>	<b>132.8</b>	<b>134.5</b>	<b>543.2</b>	<b>563.7</b>	<b>18.6%</b>	
Average Shares Outstanding (basic)	202.5	213.6	214.8	214.8	244.1	222.1	273.9	273.9	273.9	273.9	273.9	277.6		
Average Shares Outstanding (diluted)	209.3	220.9	215.3	222.1	251.4	229.4	281.2	281.2	281.2	281.2	281.2	284.6		
<b>Dividends Per Share</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$1.38</b>	<b>\$1.46</b>	<b>5.6%</b>	
EPS - reported (diluted)	\$1.63	\$0.66	\$0.22	\$0.23	\$0.43	\$1.54	\$0.61	\$0.38	\$0.48	\$0.49	\$1.96	\$2.01		
Adjusted EPS - basic	\$1.67	\$0.67	\$0.22	\$0.24	\$0.43	\$1.56	\$0.62	\$0.38	\$0.48	\$0.49	\$1.98	\$2.03	6.8%	
<b>Adjusted EPS - diluted</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.22</b>	<b>\$0.23</b>	<b>\$0.43</b>	<b>\$1.55</b>	<b>\$0.61</b>	<b>\$0.38</b>	<b>\$0.48</b>	<b>\$0.49</b>	<b>\$1.96</b>	<b>\$2.01</b>	<b>6.6%</b>	

Source: BMO Capital Markets

## Exhibit 5: Consolidated Summary Sheet



## Market Perform

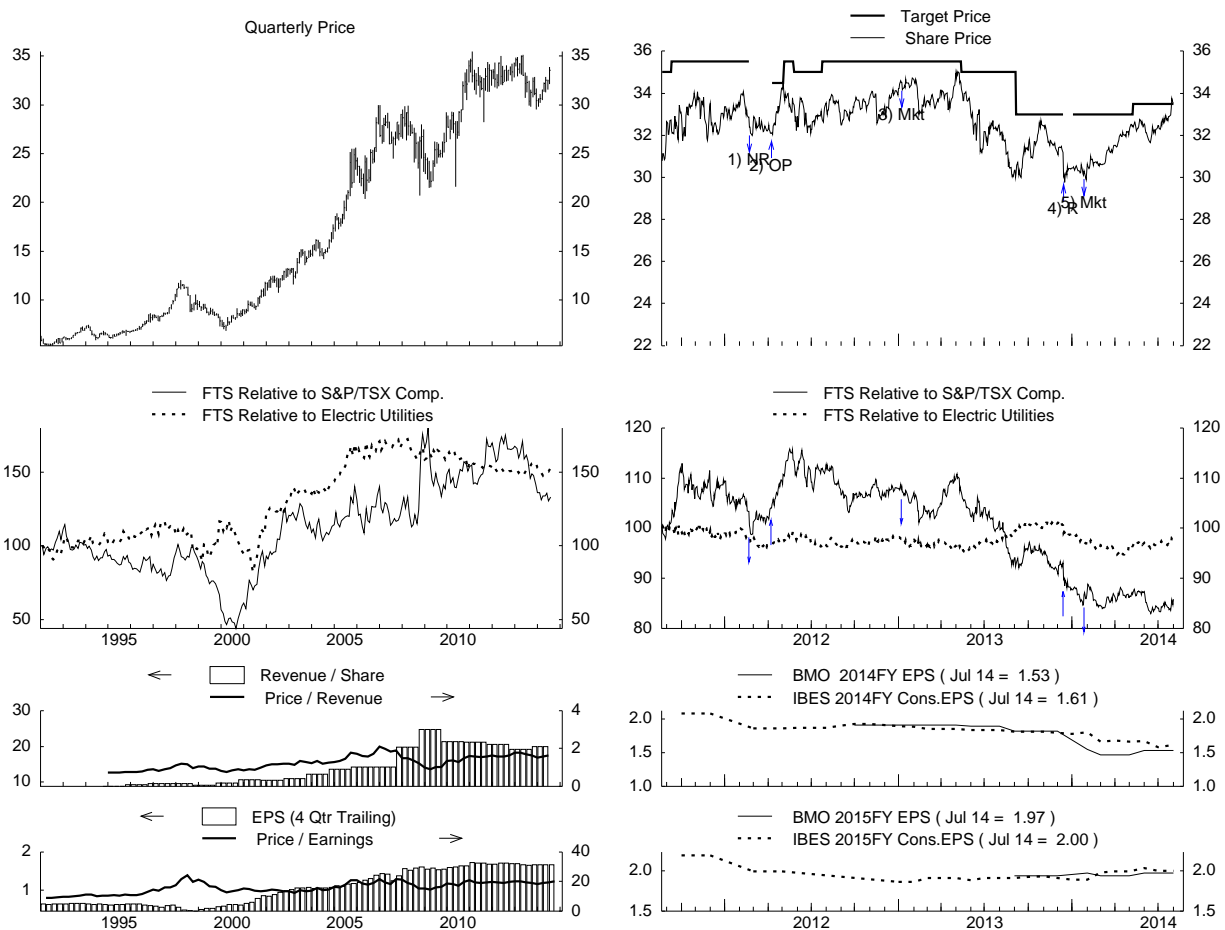
12-Month Target Price: \$34.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$33.09  
 ROR: 6.6%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	CAGR 2013A- 2016E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.56	\$1.98	\$2.03	6.8%
Earnings Per Share (Diluted)	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.66	\$1.55	\$1.96	\$2.01	6.6%
First Call Consensus								\$1.66	\$1.99	\$2.14	8.9%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.66	\$4.73	\$5.62	\$5.81	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.38	\$1.46	5.6%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.9%	69.6%	71.9%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	26.6%	27.0%	24.5%	25.1%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	222.1	273.9	277.6	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	197.2	209.3	229.4	281.2	284.6	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.81	\$25.48	\$26.15	
<b>Market Valuation</b>											
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$33.09	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	18.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	21.4	16.9	16.5	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	11.5	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	10.7	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.5	9.9	9.7	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.9%	4.2%	4.4%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	868.0	(820.6)	869.9	975.6	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,424.0	9,254.2	10,098.0	10,336.4	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	375.0	375.0	375.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,529.0	1,829.0	1,829.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,748.5</u>	<u>7,027.2</u>	<u>7,307.2</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,668.0	17,086.1	20,199.1	20,823.1	
<b>Balance Sheet (%)</b>											
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	6.4%	-4.8%	4.3%	4.7%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	47.0%	54.2%	50.0%	49.6%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.7%	2.2%	1.9%	1.8%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.0%	8.9%	9.1%	8.8%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>39.5%</u>	<u>34.8%</u>	<u>35.1%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,079.3	6,650.5	6,902.3	19.5%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,678.4	2,244.7	2,339.3	18.9%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	347.1	543.2	563.7	18.6%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	944.0	1,051.5	1,540.4	1,614.0	19.6%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,442.3)	(2,111.7)	(1,631.5)	
<b>Financial Leverage</b>											
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	7,292.0	8,433.6	10,967.9	11,312.0	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	5.2x	5.0x	4.9x	4.8x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	53.4%	49.4%	54.3%	54.3%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	FTS - Rating as of 22-Aug-11 = OP		
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12	Date	Rating Change	Share Price
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11	1 21-Feb-12	OP to NR	\$32.38
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11	2 6-Apr-12	NR to OP	\$32.11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10	3 7-Jan-13	OP to Mkt	\$34.52
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9	4 12-Dec-13	Mkt to R	\$30.04
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9	5 24-Jan-14	R to Mkt	\$30.31
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7			
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9			
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9			
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12			
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12			
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12			
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10			
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10			
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11			
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9			
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8			
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8			
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9			
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8			
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8			
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8			
Range*		26.9 8.4		7.1 2.5			2.5 1.0				
Current*	1.67	20.1	1.28	3.8	77	22.9	1.5	7			
Growth(%):											
5 Year:	1.1		4.2			2.7					
10 Year:	4.8		9.0			10.0					
20 Year:	5.0		6.0			7.4					

\* Current EPS is the 4 Quarter Trailing to Q1/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price ( July 31, 2014): \$ND

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our FY15/16E adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns® is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---



# Fortis

(FTS-TSX)

<b>Stock Rating:</b>	<b>Market Perform</b>
<b>Stock Price:</b>	<b>\$33.55</b>
<b>Target Price:</b>	<b>\$33.50</b>

August 1, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA** 416-359-4061  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang 416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## First Glance: Q2/14 Modestly Lower Than Expected; Capital Program Unchanged

Fortis reported headline EPS of \$0.22 (-29% year over year), modestly lower than our estimate of \$0.24. Results include ~\$0.06 of interest expense associated with the convertible debentures issued to finance a portion of the pending UNS acquisition (EPS would have been \$0.28 ex. the interest). We note that Street consensus of \$0.27 (range of \$0.24-0.34) may not be comparable to the Q2 print as we believe that some estimates include the convertible interest and some do not (our estimate includes it).

## Our View:

- The EPS variance vs. our estimate was primarily driven by higher-than-expected corporate expense and softer results at Central Hudson (NY utility), partially offset by a better-than-expected showing at FortisBC Energy (B.C. gas utility).
- On July 29, the Administrative Law Judge (ALJ) conducting the UNS proceeding recommended the Arizona Commission to approve the transaction subject to certain conditions set out in the May 16 Settlement Agreement. Consideration of the ALJ recommendation has tentatively been scheduled by the Commission at its Open Meeting to be held on August 12 and 13, 2014. As Commission approval is the last significant hurdle to the transaction, FTS now believes it could consummate UNS by the end of August 2014 (vs. year-end 2014 previously).
- The company reiterated a capital program of \$1.4B in 2014 after spending \$535M H1. FTS also reaffirmed its outlook for \$6.5B in total capital spending over the five-year period from 2014 to 2018 (excluding an expected capital program of \$1.5B at UNS from 2015 to 2018). Notably, FTS' Waneta hydroelectric dam expansion in B.C. still remains on budget (\$900M gross; FTS owns 51%) and on track for a spring 2015 in-service date. Preliminary work has also begun on the \$400M Tilbury LNG expansion in B.C., which is expected to be in-service in H2/16.
- On the regulatory front, Central Hudson filed a general rate application in July for rates effective mid-2015 which incorporates a proposed reduction in the allowed ROE to 9% (vs. 10% currently and our 9.5% estimate; ~\$0.01 expected negative impact to our 2015E EPS) but no change in deemed equity of 48%; a decision from the New York Public Service Commission is expected in H1/15. Decisions are also expected on the 2014-2018 Multi-Year PBR plans for the B.C. gas and electric utilities in H2/14.
- At current levels, FTS is trading at 22.0x our 2014E EPS (vs. peer range of 15.1-18.0x) and 17.0x our 2015E EPS (vs. peer range of 13.6-17.8x).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 6.

# Exhibit 1: Q2/14 Results vs. BMO Capital Markets Expectations

	Q2/14A	BMOCM Q2/14E	% Variance	Q2/13A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
Fortis BC Energy Companies	12.0	6.4	87%	6.0	100%	Seasonality
<b>Regulated Gas &amp; Electric Utility - United States</b>						
Central Hudson	7.0	10.7	-34%	-	na	Seasonality
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta	26.0	27.4	-5%	25.0	4.0%	Timing of O&M not subject to regulatory deferrals
FortisBC Electric	7.0	8.8	-20%	8.0	-12.5%	
Newfoundland Power <sup>(1)</sup>	11.0	10.0	10%	11.0	0.0%	
Other Canadian Electric Utilities <sup>(1)</sup>	5.0	5.1	-1%	5.0	0.0%	
<b>Total Regulated Electric Utilities - Canadian</b>	<b>49.0</b>	<b>51.2</b>	<b>-4%</b>	<b>49.0</b>	<b>0.0%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	8.0	6.7	19%	6.0	33.3%	Electricity sales growth and favorable exchange rate
<b>Non-Regulated - Fortis Generation</b>	6.0	4.0	51%	4.0	50.0%	Higher rainfall (production)
<b>Non-Regulated - Non-Utility</b>	7.0	9.0	-22%	8.0	-12.5%	Lower performance in Hospitality Division
<b>Corporate and Other<sup>(1)(2)</sup></b>	(41.0)	(35.5)	16%	(12.0)	241.7%	\$4M F/X loss not reflected in our outlook
<b>Net Earnings Applicable to Common Shares</b>	<b>48.0</b>	<b>52.5</b>	<b>-9%</b>	<b>61.0</b>	<b>-21.3%</b>	
Average Shares (Basic)	214.8	214.3		193.4		
Average Shares (Diluted)	215.3	221.6		194.1		
Adjusted EPS (basic)	\$0.22	\$0.24	-9%	\$0.32	-29.2%	
<b>Adjusted EPS (diluted)</b>	<b>\$0.22</b>	<b>\$0.24</b>	<b>-6%</b>	<b>\$0.31</b>	<b>-29.1%</b>	

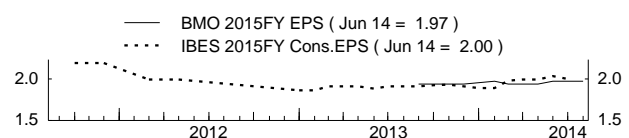
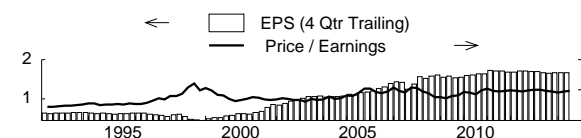
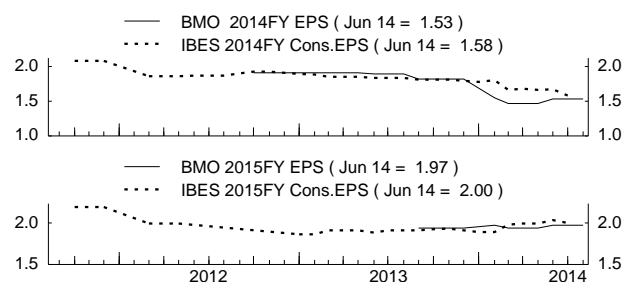
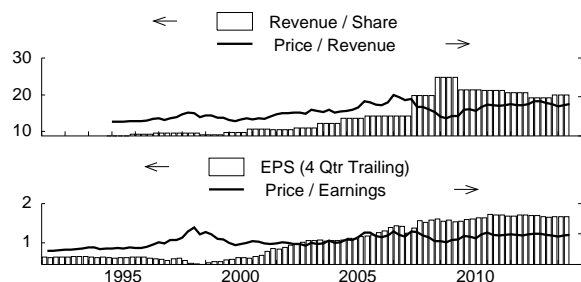
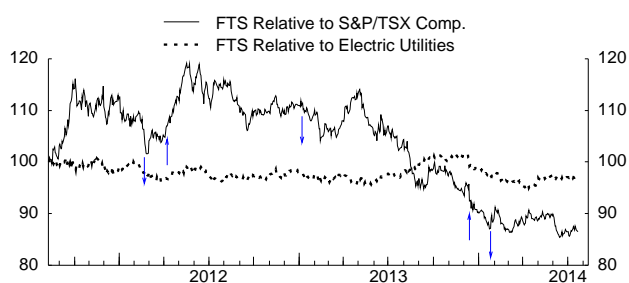
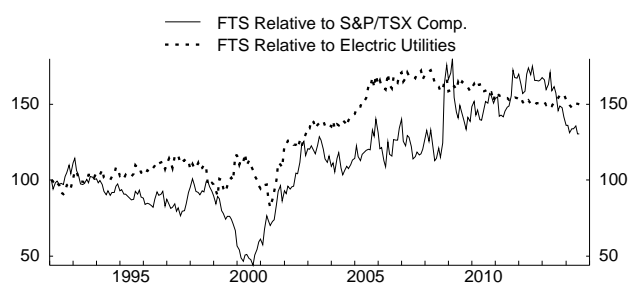
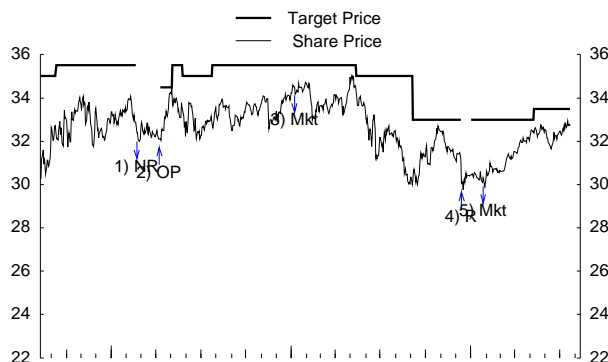
Note:

(1) Adjusted for income tax benefit of \$13mm at Newfoundland Power; \$4 million at Other Canadian; and \$8mm in Corporate in Q2/13

(2) Corporate expenses for Q2/14 and Q2/13 exclude approximately \$1mm and \$32mm, respectively, in acquisition costs relating to the CH Energy and UNS acquisitions.

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.4 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.67	19.5	1.28	3.9	77	22.9	1.4	7
Growth(%):								
5 Year:	1.1		4.2			2.7		
10 Year:	4.8		9.0			10.0		
20 Year:	5.0		6.0			7.4		

\* Current EPS is the 4 Quarter Trailing to Q1/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 10-Aug-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( July 21, 2014): \$32.71  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA. These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is approximately 17.0x our F15 adjusted EPS estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---



# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$33.50**  
**Target Price:**      **\$34.00**

August 12, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## Commission Approves UNS Acquisition as Expected

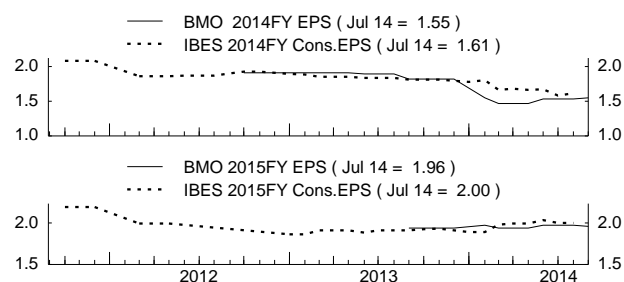
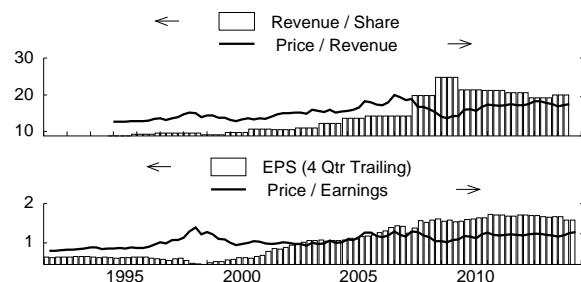
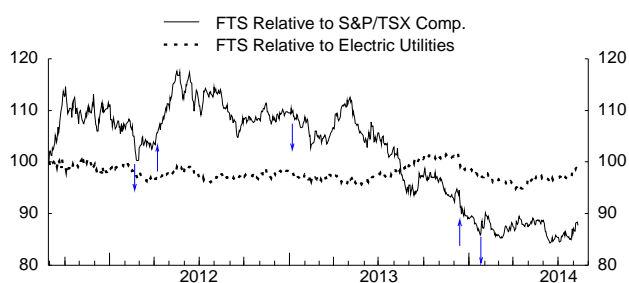
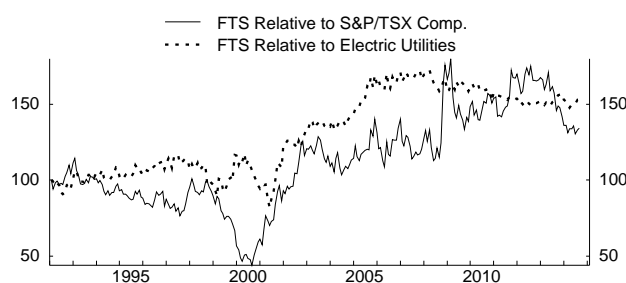
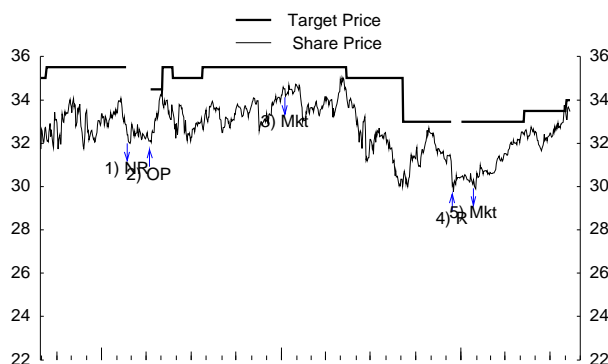
On August 12, the Arizona Corporation Commission approved Fortis' proposed acquisition of UNS Energy Corporation. This is the last significant hurdle needed to complete the deal. To access the Order, search for docket number E-04230A-14-0011 (<http://edocket.azcc.gov>).

### Our View:

- The approval is in line with our expectation that the acquisition of UNS Energy could close as early as the end of August.
- Recall, we had increased our FY14 estimate in conjunction with Q2 results to account for the earlier close of the UNS acquisition, with expected earnings contribution of \$22M for 2014E. In addition, our model assumes all convertibles (\$1.8B) issued to finance the UNS deal would convert to common shares in mid-November increasing the total share count by ~58.6M (27.2% increase from current common stock outstanding).

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 17.0	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.57	21.3	1.28	3.8	81	22.7	1.5	7
Growth(%):								
5 Year:	-0.1		4.2			2.5		
10 Year:	4.2		9.0			9.9		
20 Year:	4.8		6.0			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2014.  
\* Valuation metrics are based on high and low for the fiscal year.  
\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 30-Aug-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( August 8, 2014): \$33.46  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Ltd. are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 17.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$33.31**  
**Target Price:**      **\$34.00**

August 28, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## Hawaii LNG Contract Paves the Way for Potential Second Expansion at Tilbury

On August 26, Hawaii Electric Power (HEP) filed its “Power Supply Plan” outlining the execution of a LNG supply agreement with FortisBC (100% Fortis) on August 8. Key features of the supply plan were the replacement of oil with LNG and higher level of renewables to reduce overall power costs and improve environmental quality.

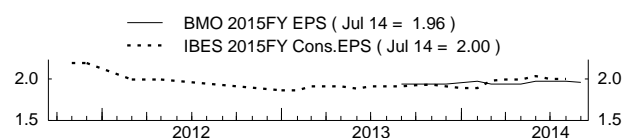
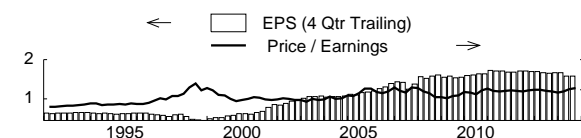
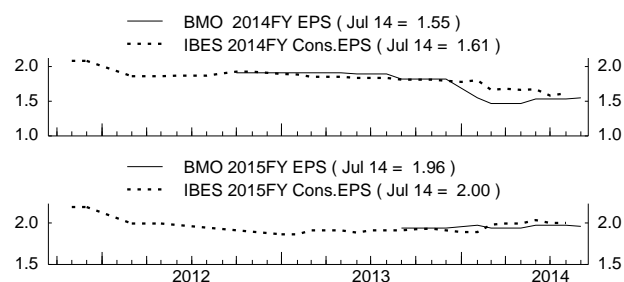
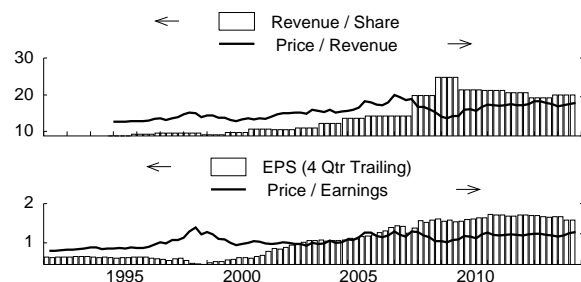
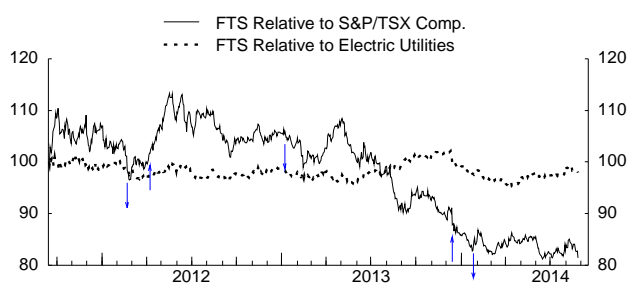
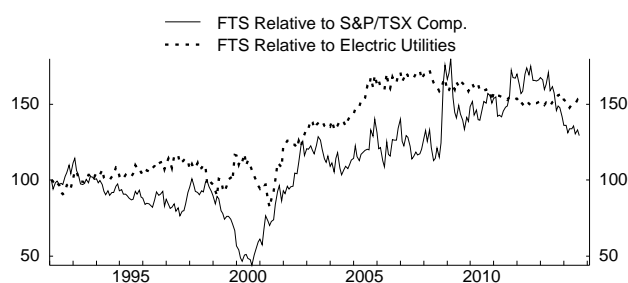
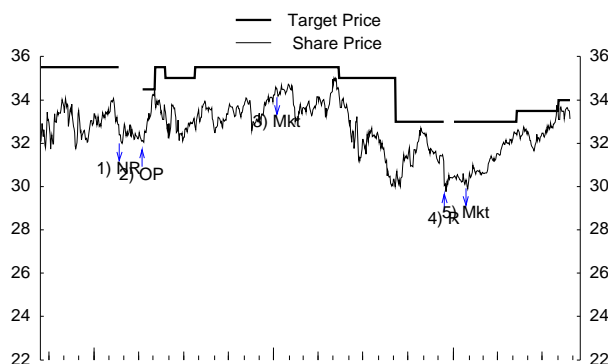
### Our View:

- **Agreement paves the way for a potential second expansion at Tilbury.** Fortis is currently in the process of a \$400M initial expansion at the Tilbury LNG facility, which involves installing a second tank and a new liquefier that will add ~1.2M GJ of LNG storage, as well as 34,000 G/J of liquefaction capacity per day (from 5,000) by late 2016. Due to the supply agreement, FortisBC will need to augment its initial Tilbury expansion plans. We believe Phase II will cost a further \$400M, be eligible for rate base inclusion (FortisBC), and could be placed in-service roughly six months after completion of the initial expansion (mid-2017). Note that HEP still needs to secure transportation arrangements for the LNG supplied from Tilbury and the supply agreement requires regulatory approval from B.C. and Hawaii.
- **Potential stock upside of \$1.** While we believe it’s too early to ascribe any value from a second Tilbury expansion to the stock today, investors could begin to impart a risk-adjusted weighting to valuation as further project milestones move into sharper focus over the next year. We believe the second expansion could be ~\$0.05 accretive to EPS. This in turn translates into ~\$1/sh of incremental net present value on top of our \$34 target price. Our calculation assumes an allowed ROE of 8.75% on deemed equity of 37.5%; every 100bps change in ROE moves our expected accretion by ~\$0.01.
- **Well positioned for further LNG-related developments.** With its gas infrastructure footprint on the Canadian West Coast, FTS is well-positioned for further projects related to B.C. LNG exports, in our opinion. The Tilbury site will still have spare land that could be utilized for future capacity adds beyond the potential second expansion. In addition, FTS is proposing a natural gas pipeline expansion to the proposed Woodfibre LNG project near Squamish. This small-scale LNG export project (2M tonnes a year) is expected to be placed in-service as early as 2017.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.4 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.57	21.3	1.28	3.8	81	22.7	1.5	7
Growth(%):								
5 Year:	-0.1		4.2			2.5		
10 Year:	4.2		9.0			9.9		
20 Year:	4.8		6.0			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 14-Sep-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( August 25, 2014): \$33.13  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 17.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of  Financial Group

# Fortis

(FTS-TSX)

September 12, 2014

Research Fact Sheet

Utilities - Power &amp; Utilities

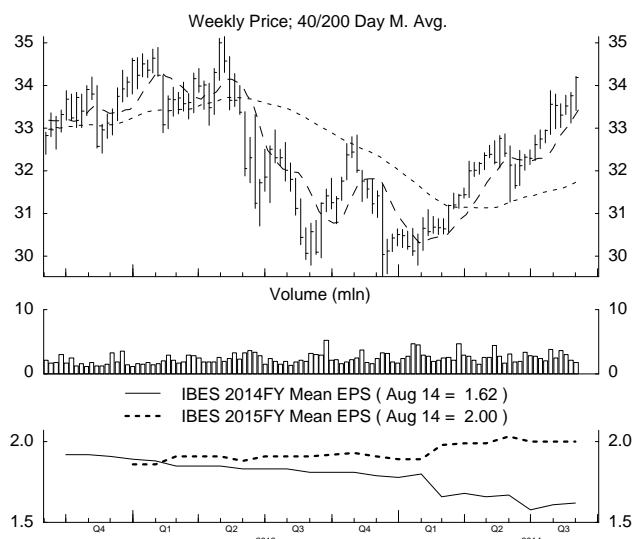
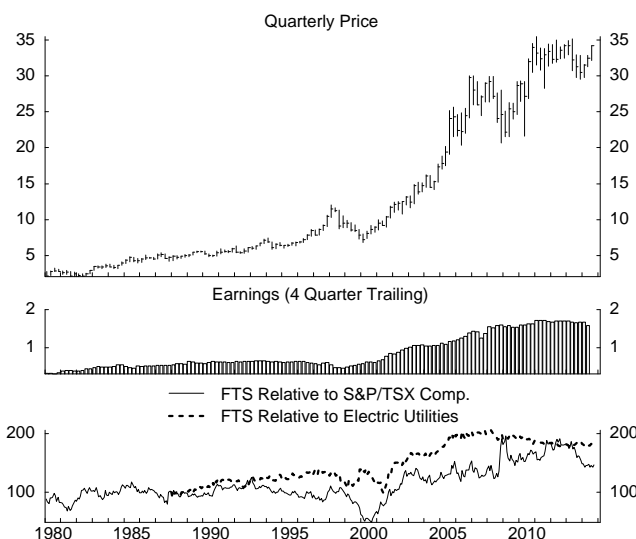
**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Eric Tang

Price (4-Sep)	\$34.18	52-Week High	\$34.21	
Target Price	\$34.00	52-Week Low	\$29.51	
Dividend	\$1.28	Book Value	\$22.73	
Yield	3.7%	Price/Book	1.5x	
Shares O/S (mm)	215.3	Mkt. Cap (\$mm)	\$7,360	
Float O/S (mm)	215.3	Float Cap (\$mm)	\$7,360	
Wkly Vol (000s)	2,666	Wkly \$ Vol (mm)	\$84.5	
Net Debt (\$mm)	\$7,244	Next Rep. Date	Nov (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014E	\$0.66 a	\$0.22 a	\$0.23	\$0.43
2015E	\$0.61	\$0.38	\$0.48	\$0.49

**Notes:** All values in C\$ **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8

(FY-Dec.)	2013A	2014E	2015E	2016E
<b>EPS</b>	\$1.66	\$1.55	\$1.96	\$2.01
<b>P/E</b>		22.1x	17.4x	17.0x
<b>Div.</b>	\$1.24	\$1.28	\$1.38	\$1.46
<b>EV (\$mm)</b>	\$15,486	\$17,930	\$22,534	\$23,005
<b>EBITDA (\$mm)</b>	\$1,393.0	\$1,678.2	\$2,245.5	\$2,341.1
<b>EV/EBITDA</b>	11.1x	10.7x	10.0x	9.8x
<b>Book Value (\$)</b>	\$22.39	\$24.81	\$25.48	\$26.15
<b>D/Tot. Cap. (%)</b>	53.4%	49.4%	54.3%	54.3%
<b>Debt/EBITDA</b>	5.2x	5.0x	4.9x	4.8x



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power (100%), Maritime Electric (100%),

FortisOntario (100%), Caribbean Utilities (59.5%), Turks and Caicos (100%), FortisAlberta (100%), FortisBC (100%), the FortisBC Energy Companies (100%), CH Energy Group (100%) and UNS Energy Corporation (100%). Its regulated utilities account for approximately

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

93% of the company's total assets and serve more than 3 million customers. *Website:* fortisinc.com

**Recent Results** – Fortis reported Q2/14 results that were modestly below our expectations (adjusted EPS of \$0.22 vs. our estimate of \$0.24) due to higher-than-expected corporate and softer results at Central Hudson, partially offset by a better-than-expected showing at FortisBC Energy.

**Corporate Developments** – On September 3, 2014, Fortis announced a \$600M bought deal offering of Series M First Preference Share.

On August 26, 2014, Hawaii Electric Power filed its “Power Supply Plan” outlining the execution of a LNG supply agreement with FortisBC on August 8. The agreement calls for the delivery of up to 800,000 tons of LNG per year for a term of up to 15 years.

On August 15, 2014, Fortis completed its acquisition of UNS Energy for a total transaction value of US\$4.5B. The transaction added approximately 657,000 electricity and gas customer to Fortis’ regulated portfolio.

On July 28, 2014, FortisBC announced the selection of Bechtel Canada Co. as the contractor for the Tilbury LNG Facility Expansion Project in Delta, BC.

On June 30, 2014, Fortis closed the issuance of US\$213M of Senior Unsecured Notes at an average rate of 3.51%.

On June 24, 2014, Fortis appointed Karl Smith as EVP, Chief Financial Officer, Fortis, effective June 30, 2014.

On March 28, 2014, Fortis announced the pricing of US\$500M of Senior Unsecured Notes with US\$213M issued on June 30, 2014 and US\$287M issued on September 15, 2014.

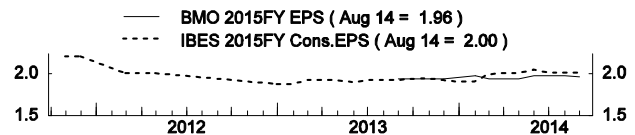
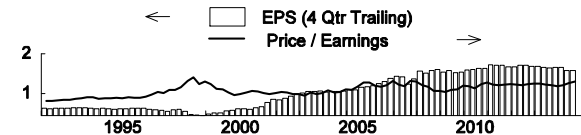
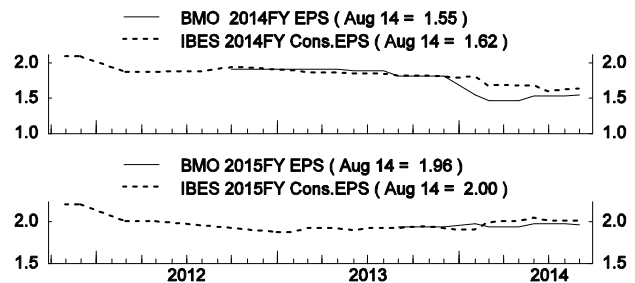
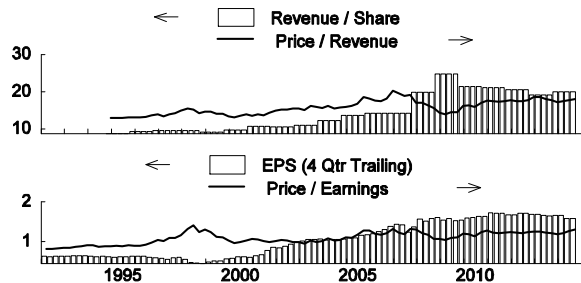
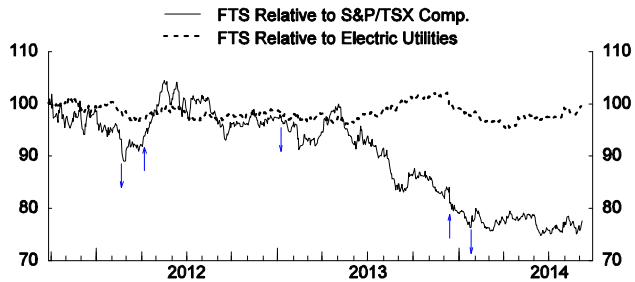
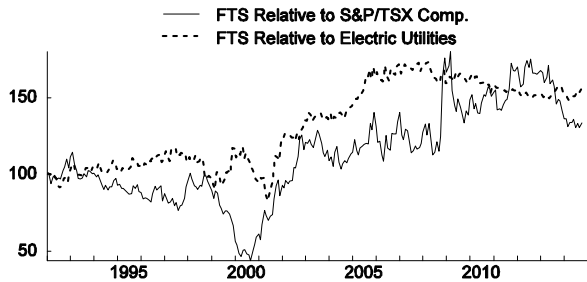
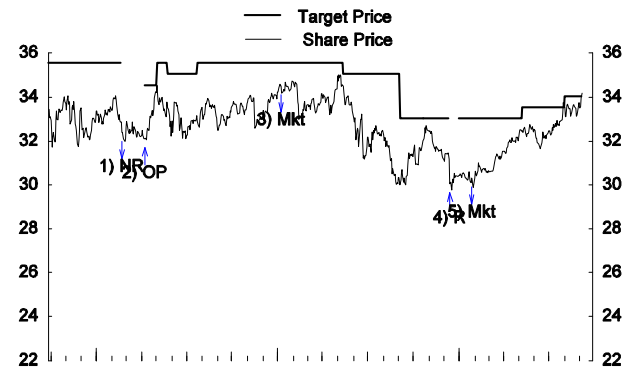
**Forecasts** – We are forecasting EPS (f.d) of \$1.55, \$1.96 and \$2.01 for 2014, 2015 and 2016, respectively.

**Valuation** – Our target price of \$34 is based on 17.0x our blended FY15/16E EPS (f.d) estimates.

**Recommendation** – At current levels, we believe the shares of Fortis are reasonably valued. Our rating is Market Perform.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.64	14.2 10.0	0.47	5.8 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	9
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.57	21.3	1.28	3.8	81	22.7	1.5	7
Growth(%):								
5 Year:	-0.1		4.2			2.5		
10 Year:	4.2		9.0			9.9		
20 Year:	4.8		6.0			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 27-Sep-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( September 4, 2014): \$34.18

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 17.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

September 30, 2014

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

## Recent Positive Trends Warrant Multiple Re-Rating

### Event

FTS has initiated a strategic review of its real estate portfolio.

### Impact & Analysis

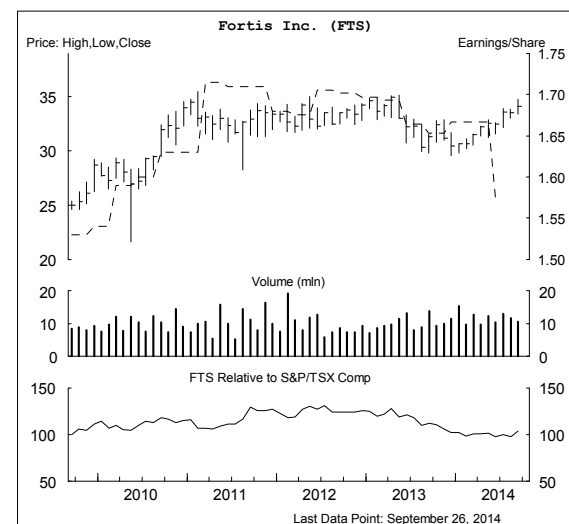
Key implications: (1) With the Waneta project poised to generate similar earnings as Fortis Properties beginning in early 2015, FTS likely no longer sees any further significant tax benefits from retaining a real estate portfolio. Taking advantage of favourable real estate valuations and providing FTS with increased financial flexibility to invest in and grow its business are likely other reasons driving the strategic review. (2) Though the strategic review includes consideration of an initial public offering or a partial sale of its real estate portfolio, we believe an outright sale is the preferred outcome for FTS. (3) On a consolidated basis, we estimate a total enterprise value of \$820-1,050M for FTS's real estate portfolio. This implies an EV/EBITDA multiple of 10.5-13.5x (blended cap rates of 7.5-9.5%), below the Canadian publicly traded REIT average of 15x but higher than FTS's multiple of 10x. This translates into potential EPS accretion of \$0.04-0.07 assuming the net proceeds are used to repay debt or to reinvest in future growth. (4) As uncertainty remains on the strategic review outcome for the real estate portfolio, we have maintained our forward estimates pending further additional details, which are expected sometime during 2015.

### Valuation & Recommendation

Our preliminary analysis of FTS's initiation of a strategic review of its real estate portfolio is a positive development in our books and warrants an upward multiple re-rating. Coupled with the recent close of the UNS acquisition and an expected step-function change in the company's dividend/growth profile beginning in 2015, we see a positive shift in investor sentiment on the FTS shares. Accordingly, we are increasing our target multiple to 18.0x (from 17.0x), with our target price increasing to \$36 from \$34. Based on FTS's relative return to our price target compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

**Price (29-Sep)** \$34.56  
**Target Price** \$36.00 ↑

**52-Week High** \$34.72  
**52-Week Low** \$29.51



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	\$1.66	\$1.55	\$1.96	\$2.01
P/E		22.3x	17.6x	17.2x
Div.	\$1.24	\$1.28	\$1.38	\$1.46
EV (\$mm)	\$15,486	\$18,014	\$22,638	\$23,110
EBITDA (\$mm)	\$1,393.0	\$1,678.4	\$2,244.6	\$2,339.2
EV/EBITDA	11.1x	10.7x	10.1x	9.9x
<b>Quarterly EPS</b>				
	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014E	\$0.66a	\$0.22a	\$0.23	\$0.43
2015E	\$0.61	\$0.38	\$0.48	\$0.49
Dividend	\$1.28	Yield		3.7%
Book Value	\$22.73	Price/Book		1.5x
Shares O/S (mm)	215.3	Mkt. Cap (mm)		\$7,442
Float O/S (mm)	215.3	Float Cap (mm)		\$7,442
Wkly Vol (000s)	2,626	Wkly \$ Vol (mm)		\$83.8
Net Debt (\$mm)	\$7,244	Next Rep. Date		Nov (E)

**Notes:** All values in C\$

**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INC (C\$) 2014E: \$1.65; 2015E: \$2.00; 2016E: \$2.10

Changes

**Target**  
 \$34.00 to \$36.00

## Recent Positive Trends Warrant Multiple Re-Rating

- **Maintaining Market Perform rating and increasing target price to \$36 (vs. \$34).** FTS's announcement that it has initiated a strategic review of its real estate portfolio has begun to focus investor attention on the underlying value of the company, with ~\$100M increase in the company's market capitalization yesterday. The strategic review is a positive development in our books and warrants an upward multiple re-rating. Accordingly, we have raised our target price to \$36 from \$34. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.
- **Initiates strategic review process for non-core real estate portfolio.** Although Fortis management had previously downplayed the possibility of monetizing its real estate portfolio, yesterday morning the company announced its intention to do just that. The initiation of a strategic review for its hotel and commercial real estate business (Fortis Properties segment) will involve the exploration of a sale of all or a portion of the assets, a sale of shares of Fortis Properties or an initial public offering. The review is expected to continue through the balance of 2014 and into 2015.
- **Why now?** FTS has long stated that its non-utility real estate operations support its utility growth and acquisition strategy – specifically that Fortis Properties provides flexibility in financial and tax planning not generally possible with respect to utilities because of regulatory constraints. That constraint involves the inability to recover financing costs associated with premiums paid on utility acquisitions through the regulatory compact. By generating taxable income from real estate assets, those financings costs are effectively utilized in the most tax efficient manner. With the Waneta hydro project poised to generate similar earnings as Fortis Properties beginning in early 2015 (~\$20M), the company likely no longer sees any further significant tax benefits from retaining a real estate portfolio. Taking advantage of favourable real estate valuations and providing FTS with increased financial flexibility to invest in and grow its business are likely other reasons driving the strategic review.
- **Framing Fortis Properties.** Established in 1989, Fortis Properties owns and operates 23 hotels (4,400 rooms) in eight Canadian provinces and 2.8 million sq. ft. of commercial and retail real estate (largely in Atlantic Canada). The hotel division competes in the mid-to-upper mid-market segments and includes major brands like Delta, Sheraton, Hilton, Holiday Inn, Ramada, and Best Western. The commercial real estate division is anchored by high quality tenants under long-term leases and sports a 93% occupancy compared to the national average of 90%. Fortis Properties only represents ~3% of FTS's asset base; during 2013, it generated EBITDA of \$78M, where 58% of operating income is derived from hotel operations (\$45M), with the remaining 42% (\$33M) from commercial real estate. Please see Exhibit 1 for more details on FTS's real estate portfolio.



**Exhibit 1: Fortis Properties Owns a Mix of Hotels and Commercial Real Estate**

Hotel	Location	# of Rooms	Conference Facilities (000's square feet)
Delta St. John's Hotel and Conference Centre	St. John's, NL	403	21
Holiday Inn St. John's-Government Centre	St. John's, NL	252	12
Sheraton Hotel Newfoundland	St. John's, NL	301	18
Mount Peyton Hotel	Grand Falls-Windsor, NL	149	5
Greenwood Inn Corner Brook Corner	Corner Brook, NL	102	5
Four Points by Sheraton	Halifax, NS	177	12
Holiday Inn Sydney - Waterfront	Sydney, NS	152	6
Delta Brunswick	Saint John, NB	254	18
Holiday Inn Kitchener - Waterloo	Kitchener-Waterloo, ON	184	13
Holiday Inn Peterborough - Waterfront	Peterborough, ON	153	7
Holiday Inn Sarnia	Point Edward, ON	216	11
Holiday Inn Cambridge	Cambridge, ON	143	7
Holiday Inn & Suites Windsor	Windsor, ON	214	17
Station Park All Suite Hotel	London, ON	126	2
Ramada Plaza Calgary Airport Hotel	Calgary, AB	210	9
Holiday Inn Conference Centre Edmonton South	Edmonton, AB	224	8
Holiday Inn Lethbridge	Lethbridge, AB	119	5
Holiday Inn Express and Suites Medicine Hat	Medicine Hat, AB	93	1
Best Western Medicine Hat	Medicine Hat, AB	122	-
Best Western Plus Winnipeg Airport Hotel	Winnipeg, MB	213	8
Hilton Suites Airport Suites	Winnipeg, MB	159	9
Holiday Inn Express Kelowna	Kelowna, BC	190	5
Delta Regina	Regina, SK	274	24
<b>Grand Total</b>		<b>4,430</b>	<b>223</b>

Commercial Property	Location	Type of Property	Gross Lease Area (000's square feet)
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	136
TD Place	St. John's, NL	Office	100
Fortis Building	St. John's, NL	Office	83
Fortis Place (opening Fall 2014)	St. John's, NL	Office	146
Water Streer Properties	St. John's, NL	Office/ Retail	60
Millbrook Mall	Corner Brook, NL	Retail	118
Fraser Mall	Gander, NL	Retail	99
Marystown Mall	Marystown, NL	Retail	93
Fortis Tower	Corner Brook, NL	Office	68
Maritime Centre	Halifax, NS	Office/ Retail	560
Brunswick Square	Saint John, NB	Office/ Retail	513
Kings Place	Fredericton, NB	Office/ Retail	293
Blue Cross Centre	Moncton, NB	Office/ Retail	325
Delta Regina	Regina, SK	Office	52
<b>Grand Total</b>			<b>2,834</b>

Source: 2013 AIF, Company Reports

- **We believe FTS prefers an outright sale of the real estate portfolio rather than a spin-out via initial public offering.** Though the strategic review includes consideration of an initial public offering or a partial sale of its real estate portfolio, we believe an outright sale is the preferred outcome for FTS. Even though a sale would result in tax leakage, an IPO would introduce corporate complexity, management distraction, and higher corporate costs. There also are challenges with selling or IPO'ing the entire real estate portfolio as a package. We have observed quite a number of hotel and commercial real estate transactions over the last year, but none involving a mix of both. We also understand that there are no Canadian publicly traded entities with a portfolio consisting both hotels and commercial real estate and thus a publicly traded FTS real estate vehicle would likely trade at a meaningful discount to

public market comps especially given the current choppy market context. As a result, we believe an outright sale of its hotel and commercial portfolio as two separate packages to pension plans, smaller private real estate players and/or publicly traded REITs would deliver the most value to FTS shareholders.

- **FTS's real estate assets will likely transact at the lower end of the valuation range.** The cap rate of hotel transactions we observed during 2013 ranged from 6% to 13% (Exhibit 2), with an average cap rate of 8.2%. The CBRE Q2/14 Cap Rate Survey (Exhibit 3) pegged downtown hotel cap rates at 6.5–9.75% across Canada with suburban hotels at 7.5–10.5%. The CBRE survey also notes that commercial real estate transacts at more favourable valuations, with expected cap rates of 5–8%, with Eastern Canadian cap rates at the higher end of the range (or lower valuation) compared to Toronto and Western Canada (i.e., Vancouver, Calgary).

**Exhibit 2: Select List of Private Hotel Transactions During 2013**

Date	Name	Location	Rooms	Price/Room	Cap Rate
Jan-13	Holiday Inn Winnipeg-South	Winnipeg, MB	170	\$64,700	10.0%
Jan-13	Residence Inn London Downtown	London, ON	116	\$103,500	10.0%
Feb-13	Travelodge Edmonton West	Edmonton, AB	220	\$59,100	6.0%
Mar-13	Price George Hotel	Halifax, NS	203	\$171,600	6.9%
Mar-13	Cambridge Suites Hotel Halifax	Halifax, NS	200	\$175,000	6.7%
Mar-13	Cambridge Suites Hotel Sydney	Sydney, NS	145	\$96,200	6.6%
Jun-13	Travelodge Medicine Hat/Circle T Motel	Medicine Hat, AB	128	\$27,900	7.9%
Jun-13	Courtyard by Marriott Toronto Vaughan	Vaughan, ON	144	\$119,800	7.3%
Jun-13	Travelodge Oshawa	Oshawa, ON	120	\$67,900	9.0%
Jul-13	Clarion Hotel & Conference Centre	Calgary, AB	184	\$98,400	7.4%
Aug-13	Holiday Inn Express Hotel & Suites Clarington	Clarington, ON	95	\$88,200	8.2%
Sep-13	Comfort Inn Burlington	Burlington, ON	99	\$45,500	7.8%
Sep-13	Comfort Inn London	London, ON	79	\$34,000	8.9%
Nov-13	Acclaim Hotel Calgary Airport	Calgary, AB	225	\$186,700	12.7%
<b>Average</b>			<b>152</b>	<b>\$95,607</b>	<b>8.2%</b>

Source: Colliers International

**Exhibit 3: Eastern Canada Real Estate Transacts at a Discount to the Rest of Canada**

	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Halifax
Downtown Office (Class A)	4.75-5.25%	5.50-6.00%	5.75-6.25%	5.25-5.75%	5.25-6.00%	6.00-6.50%
Downtown Office (Class B)	4.75-5.25%	6.50-7.00%	6.75-7.25%	5.75-6.25%	6.25-7.25%	7.25-7.75%
Retail (Neighbourhood)	5.50-6.00%	5.50-6.00%	5.75-6.25%	5.50-6.50%	6.25-7.00%	6.25-6.75%
Hotel (Downtown Full-Service)	6.50-7.50%	7.00-8.00%	7.25-8.25%	6.75-7.75%	7.50-8.50%	8.75-9.75%
Hotel (Suburban Limited-Service)	7.50-8.50%	8.00-9.00%	9.25-9.75%	8.00-9.00%	8.75-9.25%	9.50-10.50%

Source: CBRE Q2/14 Cap Rate Survey

- **We peg Fortis Properties at an enterprise value of \$820–1,050M.** Applying cap rates of 6–8% on \$33M of estimated commercial operating income gets us to a value of \$400–550M or ~\$150–200 per sq. ft. for FTS's commercial real estate assets. For FTS's hotel operations, we apply a cap rate range of 9–11% due to the hotels being mostly located in suburban areas; this gets us to an EV of \$400–500M for the hotel segment. On a consolidated basis, we estimate a total enterprise value of \$820–1,050M for the entire real estate assets (Exhibit 4). This implies an EV/EBITDA multiple of 10.5–13.4x, below the Canadian publicly traded REIT average of 15x but higher than FTS's corporate EV/EBITDA multiple of 10x. This translates into potential EPS accretion of \$0.04–0.07 assuming the net proceeds are used to repay debt or to reinvest in future growth (i.e., limiting future preferred share and/or debt issuances).

**Exhibit 4: We Peg Fortis Real Estate at an EV of \$820-1,050M; See \$0.04-0.07 Accretion**

	High	Mid	Low
Commercial Real Estate Operating Income	\$32.8	\$32.8	\$32.8
Expected Cap Rate for Commercial	6.00%	7.00%	8.00%
<b>EV of Real Estate Operations (\$M)</b>	<b>\$546.0</b>	<b>\$468.0</b>	<b>\$409.5</b>
Hotel Operating Income	\$45.2	\$45.2	\$45.2
Expected Cap Rate for Hotel	9.00%	10.00%	11.00%
<b>EV of Hotel Operations (\$M)</b>	<b>\$502.7</b>	<b>\$452.4</b>	<b>\$411.3</b>
<b>Consolidated EV (\$M)</b>	<b>\$1,048.7</b>	<b>\$920.4</b>	<b>\$820.8</b>
Implied Cap Rate	7.44%	8.47%	9.50%
Implied EV/EBITDA Multiple	13.4x	11.8x	10.5x
Debt Balance (\$M; Note 1)	(\$50.0)	(\$50.0)	(\$50.0)
<b>Net Equity Value</b>	<b>\$998.7</b>	<b>\$870.4</b>	<b>\$770.8</b>
Capital Gains Tax @ 25%	(\$43.7)	(\$27.7)	(\$15.2)
<b>Net Proceeds to Fortis (\$M)</b>	<b>\$955.0</b>	<b>\$842.7</b>	<b>\$755.6</b>
Future Funding Savings (Note 2)	\$43.0	\$37.9	\$34.0
Expected Loss of Earnings from Fortis Properties	(\$23.5)	(\$23.5)	(\$23.5)
<b>Potential Net Earnings Uplift (2016E)</b>	<b>\$19.5</b>	<b>\$14.5</b>	<b>\$10.5</b>
2016E Weighted Average Shares Outstanding (f.d)	284.6	284.6	284.6
<b>EPS (f.d) Accretion</b>	<b>\$0.07</b>	<b>\$0.05</b>	<b>\$0.04</b>

Notes:

(1) Management estimates

(2) We assume net proceeds from real estate are used to pay down existing debt or to avoid future planned issuance of new debt or preferred shares at a cost of 4.5%

Source: Company reports; BMO Capital markets

- **Unchanged estimates.** As uncertainty remains on the strategic review outcome for the real estate portfolio, we have maintained our forward estimates pending further additional details: EPS (f.d.) of \$1.55 in 2014E, \$1.96 in 2015E, and \$2.01 in 2016E.
- **Maintaining Market Perform rating and increasing target price to \$36 (prior \$34).** Our preliminary analysis of FTS's initiation of a strategic review of its real estate portfolio is a positive development in our books and warrants an upward multiple re-rating. Coupled with the recent close of the UNS acquisition and an expected step-function change in the company's dividend/growth profile beginning in 2015, we see a positive shift in investor sentiment on the FTS shares. Accordingly, we are increasing our target multiple to 18.0x (from 17.0x), with our target price increasing by \$2 (+5.9%) to \$36 from \$34. The target multiple is below its 10-year historical average of ~18.5x reflecting the company's higher exposure to U.S.-domiciled utilities, which tend to trade at a discount to Canadian utility franchises. Based on FTS's relative return to our price target compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

**Exhibit 5: Calculation of Our Target Price**

FTS Valuation	Multiple	2014E	2015E	2016E	
Adj. EPS (f.d)		\$1.55	\$1.96	\$2.01	
Equity value/sh	18.0x	\$27.86	\$35.28	\$36.16	
Avg. of FY15/16E		\$36.00			
P/E Sensitivity					
	17.0x	17.5x	18.0x	18.5x	19.0x
	\$33.74	\$34.73	\$35.72	\$36.71	\$37.70

Source: BMO Capital Markets

## Exhibit 6: Summary of Financial Forecasts

Fortis Inc.													13-16E	
Financial Estimates (in \$mm)	2013	Q1/14	Q2/14	Q3/14E	Q4/14E	2014E	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	CAGR	
<b>Regulated Gas Utilities - Canadian</b>													4.1%	
FortisBC Energy Companies	\$127.0	\$79.0	\$12.0	(\$13.0)	\$52.9	\$130.9	\$83.0	\$14.0	(\$11.0)	\$55.3	\$141.3	\$143.4		
<b>Regulated Gas &amp; Electric Utility - United States</b>														
UNS Energy	-	-	-	12.0	10.0	22.0	20.9	40.1	80.3	19.3	160.6	166.3		
Central Hudson	23.0	18.0	7.0	13.4	13.1	51.5	17.9	8.5	15.4	15.1	56.9	56.1		
	23.0	18.0	7.0	25.4	23.1	73.5	38.8	48.6	95.7	34.4	217.5	222.5		
<b>Regulated Electric Utilities - Canadian</b>													10.1%	
FortisAlberta	\$94.0	\$25.0	\$26.0	\$27.0	\$25.5	\$103.5	\$30.0	\$28.5	\$29.0	\$28.8	\$116.3	\$125.6		
FortisBC Electric	50.0	18.0	7.0	11.0	13.0	49.0	19.0	8.0	12.0	13.8	52.8	53.9		2.5%
Newfoundland Power	36.0	10.0	11.0	8.0	10.5	39.5	10.0	11.0	8.0	10.1	39.1	40.5		4.0%
Other Canadian Electric Utilities	22.0	7.0	5.0	7.0	4.0	23.0	7.2	5.2	7.3	4.7	24.4	25.4	4.9%	
	202.0	60.0	49.0	53.0	53.0	215.0	66.2	52.6	56.3	57.4	232.6	245.4	6.7%	
Regulated Electric Utilities - Caribbean	23.0	5.0	8.0	6.0	4.6	23.6	4.4	6.3	6.1	6.4	23.2	23.0	0.1%	
Non-Regulated - Fortis Generation	17.0	6.0	6.0	8.0	5.0	25.0	6.0	9.0	14.0	10.1	39.1	46.0	39.3%	
Non-Regulated - Non-Utility	18.0	5.0	7.0	5.0	4.0	21.0	6.0	8.0	5.0	4.1	23.2	23.5	9.2%	
Corporate and Other	(72.0)	(30.0)	(41.0)	(33.8)	(37.0)	(141.8)	(33.7)	(33.4)	(33.3)	(33.3)	(133.7)	(140.0)	24.8%	
<b>Total Adjusted Earnings</b>	<b>338.0</b>	<b>143.0</b>	<b>48.0</b>	<b>50.6</b>	<b>105.5</b>	<b>347.1</b>	<b>170.7</b>	<b>105.2</b>	<b>132.8</b>	<b>134.5</b>	<b>543.2</b>	<b>563.7</b>	<b>18.6%</b>	
Average Shares Outstanding (basic)	202.5	213.6	214.8	214.8	244.1	222.1	273.9	273.9	273.9	273.9	273.9	277.6		
Average Shares Outstanding (diluted)	209.3	220.9	215.3	222.1	251.4	229.4	281.2	281.2	281.2	281.2	281.2	284.6		
<b>Dividends Per Share</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$1.38</b>	<b>\$1.46</b>	<b>5.6%</b>	
EPS - reported (diluted)	\$1.63	\$0.66	\$0.22	\$0.23	\$0.43	\$1.54	\$0.61	\$0.38	\$0.48	\$0.49	\$1.96	\$2.01		
Adjusted EPS - basic	\$1.67	\$0.67	\$0.22	\$0.24	\$0.43	\$1.56	\$0.62	\$0.38	\$0.48	\$0.49	\$1.98	\$2.03	6.8%	
<b>Adjusted EPS - diluted</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.22</b>	<b>\$0.23</b>	<b>\$0.43</b>	<b>\$1.55</b>	<b>\$0.61</b>	<b>\$0.38</b>	<b>\$0.48</b>	<b>\$0.49</b>	<b>\$1.96</b>	<b>\$2.01</b>	<b>6.6%</b>	

Source: BMO Capital Markets

## Exhibit 7: Consolidated Summary Sheet



## Market Perform

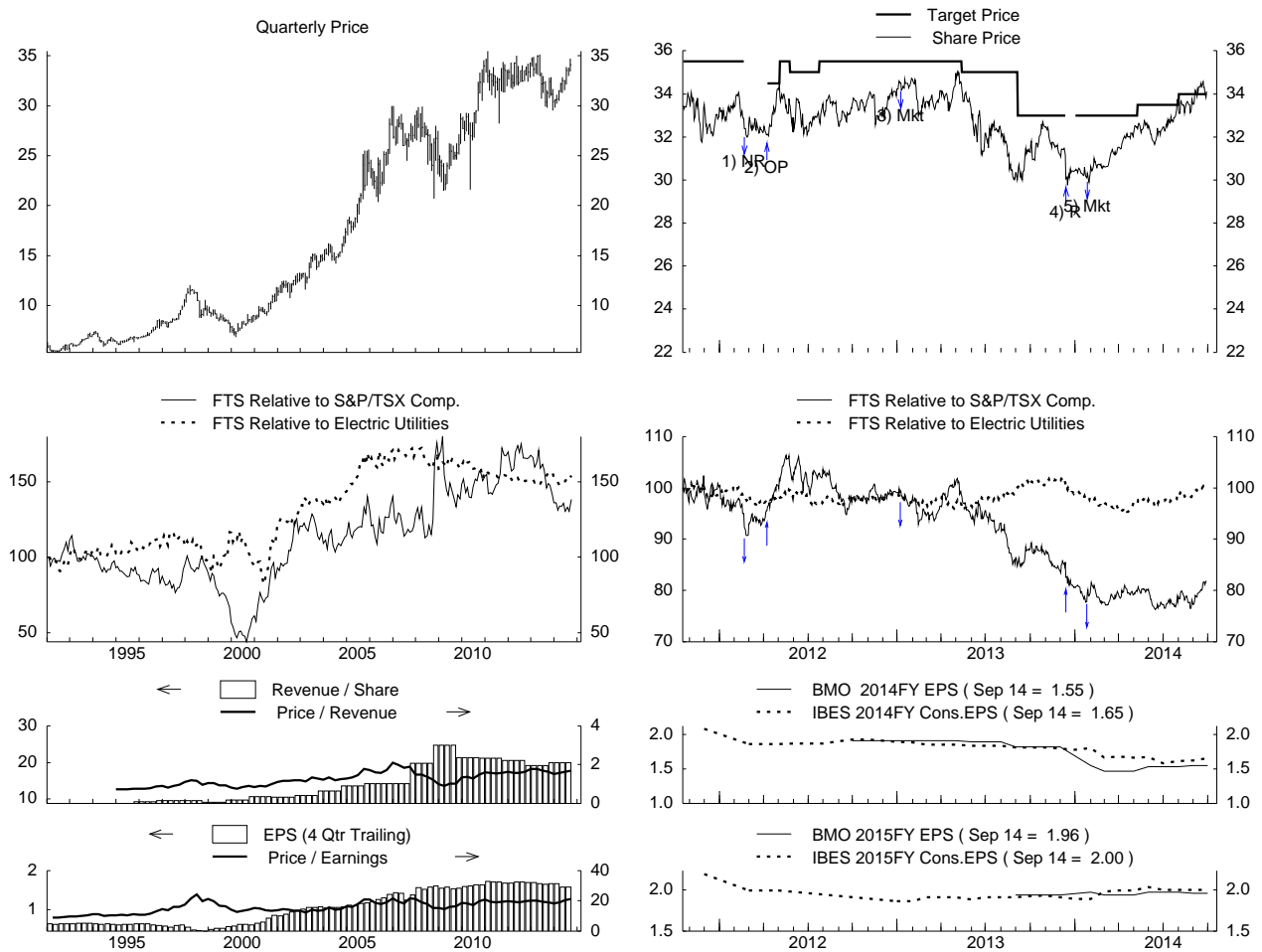
12-Month Target Price: \$36.00  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$34.56  
 ROR: 7.9%

## Fortis Inc. (FTS)

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	CAGR 2013A- 2016E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.56	\$1.98	\$2.03	6.8%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.66</b>	<b>\$1.55</b>	<b>\$1.96</b>	<b>\$2.01</b>	6.6%
<i>First Call Consensus (EPS)</i>								\$1.62	\$2.00	\$2.09	8.0%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.66	\$4.73	\$5.62	\$5.81	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.38	\$1.46	5.6%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.9%	69.6%	71.9%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	26.6%	27.0%	24.5%	25.1%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	222.1	273.9	277.6	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	197.2	209.3	229.4	281.2	284.6	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.81	\$25.48	\$26.15	
<b>Market Valuation</b>											
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.56	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	18.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	22.3	17.6	17.2	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	11.5	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	10.7	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.7	10.1	9.9	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.7%	4.0%	4.2%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	868.0	(820.6)	869.9	975.7	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,424.0	9,254.2	10,098.0	10,336.4	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	375.0	375.0	375.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,529.0	1,829.0	1,829.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,748.5</u>	<u>7,027.1</u>	<u>7,307.1</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,668.0	17,086.1	20,199.1	20,823.1	
<b>Balance Sheet (%)</b>											
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	6.4%	-4.8%	4.3%	4.7%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	47.0%	54.2%	50.0%	49.6%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.7%	2.2%	1.9%	1.8%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.0%	8.9%	9.1%	8.8%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>39.5%</u>	<u>34.8%</u>	<u>35.1%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,074.6	6,645.3	6,895.5	19.4%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,678.4	2,244.6	2,339.2	18.9%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	347.1	543.2	563.7	18.6%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	944.0	1,051.5	1,540.3	1,614.0	19.6%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,442.3)	(2,111.7)	(1,631.5)	
<b>Financial Leverage</b>											
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	7,292.0	8,433.6	10,968.0	11,312.0	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	5.2x	5.0x	4.9x	4.8x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	53.4%	49.4%	54.3%	54.3%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	14.2 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8

Range\*: 26.9 8.4

Current\* 1.57 21.3 1.28 3.8 81 22.7 1.5 7

Growth(%):

5 Year:	-0.1	4.2	2.5
10 Year:	4.2	9.0	9.9
20 Year:	4.8	6.0	7.3

\* Current EPS is the 4 Quarter Trailing to Q2/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 18-Oct-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( September 26, 2014): \$34.12  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 18.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets™ is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates' ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns™ is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

© COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

October 2, 2014

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

## Investor Day Drives Home Message of Visible Five-Year Growth

### Event

Fortis hosted its inaugural Toronto investor day yesterday.

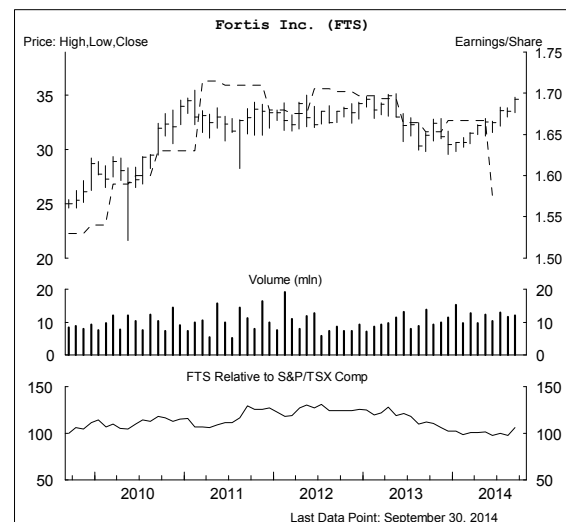
### Impact & Analysis

Key implications: (1) On the heels of closing the UNS acquisition, FTS's 2015-2018E capital spending program increases to ~\$6.9B from ~\$5.3B. Should the entirety of this growth capital be deployed, management expects that by 2018 not only would it achieve a ~7% CAGR in rate base (including Waneta), its earnings quality would also modestly improve, whereby the stable regulated-based businesses increase to 92% vs. 90% in 2013. (2) Management expressed a high degree of confidence in additional opportunities associated with B.C. LNG totalling over \$1B, or a potential 27% increase in FortisBC's existing rate base. This in turn would lift the company's four-year CAGR guidance to ~8.5% vs. the much-discussed ~7%. (3) In terms of its organic growth program from 2015-2018 (\$6.9B in capex), management sees ample liquidity and balance sheet capacity to fund the capital plan without issuing new common equity. However, any meaningful acquisitions or additional LNG opportunities will likely need external funding. (4) As we came out of the investor day with largely neutral expectations at the margin with the capital expenditure guidance in line with our outlook, our EPS (f.d.) estimates are unchanged: \$1.55 in 2014E, \$1.96 in 2015E, and \$2.01 in 2016E (implying a three-year EPS CAGR of 6.6%).

### Valuation & Recommendation

While the aforementioned ~7% growth guidance was largely expected, there was greater emphasis on the prospective development opportunities mainly related to B.C. LNG could elevate that growth rate to ~8.5%. Earlier this week, we raised our target price to \$36 (vs. \$34) to reflect our expectation of a positive shift in investor sentiment driven by optimism regarding the company's growth profile and the planned sale of real estate; the more fulsome 77-page investor day presentation effectively reaffirmed that earlier thinking. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.

**Price (1-Oct)** \$34.57 **52-Week High** \$34.81  
**Target Price** \$36.00 **52-Week Low** \$29.51



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	\$1.66	\$1.55	\$1.96	\$2.01
P/E		22.3x	17.6x	17.2x
Div.	\$1.24	\$1.28	\$1.38	\$1.46
EV (\$mm)	\$15,486	\$18,016	\$22,640	\$23,113
EBITDA (\$mm)	\$1,393.0	\$1,678.4	\$2,244.6	\$2,339.2
EV/EBITDA	11.1x	10.7x	10.1x	9.9x
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014E	\$0.66a	\$0.22a	\$0.23	\$0.43
2015E	\$0.61	\$0.38	\$0.48	\$0.49
Dividend	\$1.28			3.7%
Book Value	\$22.73			Price/Book
Shares O/S (mm)	215.3			1.5x
Float O/S (mm)	215.3			Mkt. Cap (mm)
Wkly Vol (000s)	2,626			\$7,444
Net Debt (\$mm)	\$7,244			Float Cap (mm)
				\$7,444
				Wkly \$ Vol (mm)
				\$83.8
				Next Rep. Date
				Nov (E)

**Notes:** All values in C\$

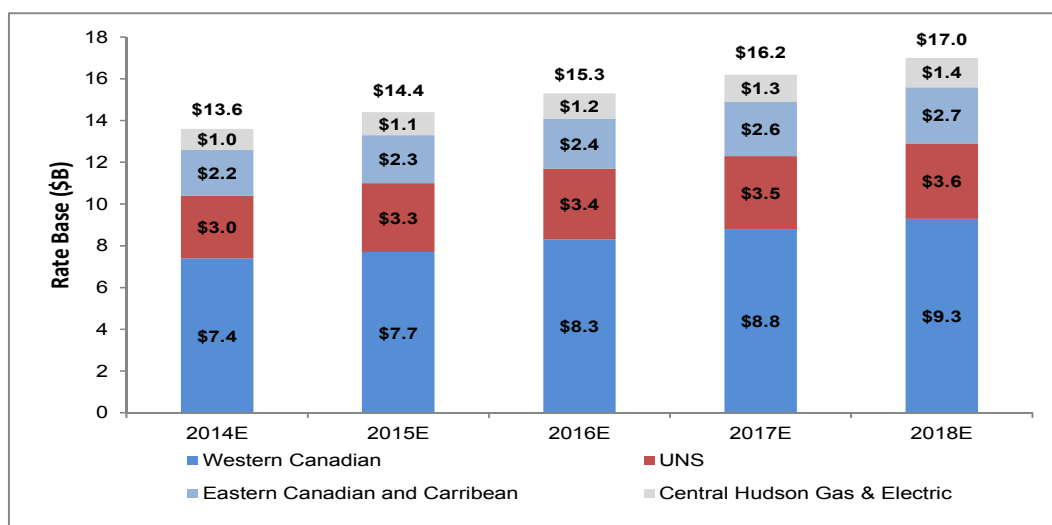
**Major Shareholders:** Widely held

**First Call Mean Estimates:** FORTIS INC (C\$) 2014E: \$1.65; 2015E: \$2.00; 2016E: \$2.10

## Investor Day Drives Home Message of Visible Five-Year Growth

- Maintaining Market Perform rating and \$36 target price.** Fortis delivered a series of crisp presentations at its well-attended inaugural Toronto investor day yesterday, the net of which reaffirmed our view that Fortis provides a beacon of visible, utility-driven growth at attractive levels approaching ~7%. While the aforementioned growth profile was largely expected, there was greater emphasis on the prospective development opportunities mainly related to B.C. LNG, with \$1B+ in active projects under development that could elevate that growth rate to ~8.5% – a level well above the company’s historical norms. Earlier this week, we raised our target price to \$36 (vs. \$34) to reflect our expectation of a positive shift in investor sentiment driven by our optimism regarding the company’s growth profile and the planned sale of real estate; the more fulsome 77-page investor day presentation effectively reaffirmed that earlier thinking. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.
- Reaffirms ~7% rate base growth through 2018.** On the heels of closing the UNS acquisition, FTS’s capital spending program increases to ~\$6.9B from ~\$5.3B (2015–2018E). Should the entirety of this growth capital be deployed, management expects that by 2018 not only would it achieve a ~7% CAGR in rate base (including Waneta), its earnings quality would also modestly improve, whereby the stable regulated-based businesses will increase to 92% vs. 90% in 2013.

### Exhibit 1: Multi-Year Capital Program Supports ~7% CAGR Through 2018



Source: 2014 Investor Day Presentation

- Further LNG-related opportunities could elevate growth to ~8.5%.** Management expressed a high degree of confidence in additional opportunities associated with B.C. LNG beyond its Tilbury LNG Phase 1A project (expansion of capacity to 36,000 GJ/d vs. 5,000 GJ/d at a cost of \$400M included in rate base). These prospective opportunities include an additional expansion at the 35-acre Tilbury site (Phase 1B to add 140,000 GJ/d) and existing natural gas infrastructure to service a proposed brownfield LNG export facility (Woodfibre) near Squamish, B.C. Should these developments move forward, management sees \$1B+

capital opportunity, or a 27% increase in FortisBC's existing rate base. This in turn would lift the company's four-year CAGR guidance to ~8.5% vs. the much-discussed ~7%. Longer term, there could be further staged expansions at Tilbury with a full design build out to 3 million tonnes per year (450,000 GJ/day of liquefaction), with the difference being that the capital would likely be recovered on a non-regulated basis.

## Exhibit 2: \$1B of Potential LNG-Related Opportunities Not Reflected in Our Outlook

	Tilbury Phase 1B	Woodfibre LNG Pipeline	Future Tilbury Expansions
<b>Production Capacity</b>	140,000 GJ/day liquefaction	Supports 2.1 million tonnes/annum of LNG production	Full design build to 450,000 GJ/day
<b>Estimated Capital</b>	\$450M	\$600M	TBD
<b>Status</b>	Contingent on conditional LNG contract with Hawaiian Electric	Contingent on Pacific Oil & Gas' Woodfibre LNG export facility which is still subject to various approvals	Early-stage prospective
<b>Expected COD</b>	Late 2017	Q1/2017	TBD

Source: 2014 Investor Day Presentation

- **Strong funding position.** We expect a portion of the proceeds of the sale of its real estate portfolio (we assume the assets fetch \$0.8–1B) will be utilized to permanently finance the US\$0.5B remaining balance associated with the UNS acquisition. In terms of its organic growth program from 2015–2018 (\$6.9B in capex), management sees ample liquidity (\$2.5B available on credit lines) and balance sheet capacity (including DRIP of \$100M annually) to fund the capital plan without issuing new common equity. However, any meaningful acquisitions or additional LNG opportunities will likely need external funding.
- **Unchanged estimates.** As we came out of the investor day with largely neutral expectations at the margin with the capital expenditure guidance in-line with our outlook, our EPS (f.d.) estimates are unchanged: \$1.55 in 2014E, \$1.96 in 2015E, and \$2.01 in 2016E (implying a three-year EPS CAGR of 6.6%).
- **Maintaining Market Perform rating and \$36 target price.** Fortis's inaugural investor day was successful in reaffirming our thesis for Fortis, in that the company is a beacon for visible, utility-driven growth at attractive levels approaching ~7%. While we came out of the investor day with largely neutral expectations at the margin, there was a good level of details offered and an overall credible strategy communicated. Earlier this week, we raised our target price to \$36 (vs. \$34) to reflect our expectation of a positive shift in investor sentiment driven by our optimism regarding the company's growth profile and the planned sale of real estate; the more fulsome 77-page investor day presentation effectively reaffirmed that earlier thinking. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.

## Exhibit 3: Calculation of Our Target Price

FTS Valuation	Multiple	2014E	2015E	2016E	
Adj. EPS (f.d)		\$1.55	\$1.96	\$2.01	
Equity value/sh	18.0x	\$27.86	\$35.28	\$36.16	
Avg. of FY15/16E			\$36.00		
<u>P/E Sensitivity</u>					
	17.0x	17.5x	18.0x	18.5x	19.0x
	\$33.74	\$34.73	\$35.72	\$36.71	\$37.70

Source: BMO Capital Markets

## Exhibit 4: 2014 Investor Day Agenda

Investor Day Agenda	
Company Overview	Barry Perry, <i>President &amp; (incoming) Chief Executive Officer, Fortis</i>
Overview on Western Canadian Operations	John Walker, <i>Executive VP, Western Canadian Operations, Fortis</i>
Overview on UNS Energy	David Hutchens, <i>President &amp; Chief Executive Officer, UNS Energy Corporation</i>
Overview on Eastern Canadian and Caribbean Operations	Barry Perry (in place of) Earl Ludlow, <i>Executive VP, Eastern Canadian &amp; Caribbean Operations, Fortis</i>
Overview on Central Hudson Gas & Electric Operations	James Laurito, <i>President &amp; (incoming) CEO, Central Hudson Gas &amp; Electric</i>
Financial Overview	Karl Smith, <i>Executive VP &amp; Chief Financial Officer, Fortis</i>
Wrap-up	Barry Perry, <i>President &amp; (incoming) Chief Executive Officer, Fortis</i>

Source: 2014 Investor Day

## Exhibit 5: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2013	Q1/14	Q2/14	Q3/14E	Q4/14E	2014E	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	13-16E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$127.0	\$79.0	\$12.0	(\$13.0)	\$52.9	\$130.9	\$83.0	\$14.0	(\$11.0)	\$55.3	\$141.3	\$143.4	4.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	-	-	-	12.0	10.0	22.0	20.9	40.1	80.3	19.3	160.6	166.3	
Central Hudson	23.0	18.0	7.0	13.4	13.1	51.5	17.9	8.5	15.4	15.1	56.9	56.1	
	23.0	18.0	7.0	25.4	23.1	73.5	38.8	48.6	95.7	34.4	217.5	222.5	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$94.0	\$25.0	\$26.0	\$27.0	\$25.5	\$103.5	\$30.0	\$28.5	\$29.0	\$28.8	\$116.3	\$125.6	10.1%
FortisBC Electric	50.0	18.0	7.0	11.0	13.0	49.0	19.0	8.0	12.0	13.8	52.8	53.9	2.5%
Newfoundland Power	36.0	10.0	11.0	8.0	10.5	39.5	10.0	11.0	8.0	10.1	39.1	40.5	4.0%
Other Canadian Electric Utilities	22.0	7.0	5.0	7.0	4.0	23.0	7.2	5.2	7.3	4.7	24.4	25.4	4.9%
	202.0	60.0	49.0	53.0	53.0	215.0	66.2	52.6	56.3	57.4	232.6	245.4	6.7%
Regulated Electric Utilities - Caribbean	23.0	5.0	8.0	6.0	4.6	23.6	4.4	6.3	6.1	6.4	23.2	23.0	0.1%
Non-Regulated - Fortis Generation	17.0	6.0	6.0	8.0	5.0	25.0	6.0	9.0	14.0	10.1	39.1	46.0	39.3%
Non-Regulated - Non-Utility	18.0	5.0	7.0	5.0	4.0	21.0	6.0	8.0	5.0	4.1	23.2	23.5	9.2%
Corporate and Other	(72.0)	(30.0)	(41.0)	(33.8)	(37.0)	(141.8)	(33.7)	(33.4)	(33.3)	(33.3)	(133.7)	(140.0)	24.8%
<b>Total Adjusted Earnings</b>	<b>338.0</b>	<b>143.0</b>	<b>48.0</b>	<b>50.6</b>	<b>105.5</b>	<b>347.1</b>	<b>170.7</b>	<b>105.2</b>	<b>132.8</b>	<b>134.5</b>	<b>543.2</b>	<b>563.7</b>	<b>18.6%</b>
Average Shares Outstanding (basic)	202.5	213.6	214.8	214.8	244.1	222.1	273.9	273.9	273.9	273.9	273.9	277.6	
Average Shares Outstanding (diluted)	209.3	220.9	215.3	222.1	251.4	229.4	281.2	281.2	281.2	281.2	281.2	284.6	
<b>Dividends Per Share</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$1.38</b>	<b>\$1.46</b>	<b>5.6%</b>
EPS - reported (diluted)	\$1.63	\$0.66	\$0.22	\$0.23	\$0.43	\$1.54	\$0.61	\$0.38	\$0.48	\$0.49	\$1.96	\$2.01	
Adjusted EPS - basic	\$1.67	\$0.67	\$0.22	\$0.24	\$0.43	\$1.56	\$0.62	\$0.38	\$0.48	\$0.49	\$1.98	\$2.03	6.8%
<b>Adjusted EPS - diluted</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.22</b>	<b>\$0.23</b>	<b>\$0.43</b>	<b>\$1.55</b>	<b>\$0.61</b>	<b>\$0.38</b>	<b>\$0.48</b>	<b>\$0.49</b>	<b>\$1.96</b>	<b>\$2.01</b>	<b>6.6%</b>

Source: BMO Capital Markets



## Exhibit 6: Consolidated Summary Sheet



## Fortis Inc. (FTS)

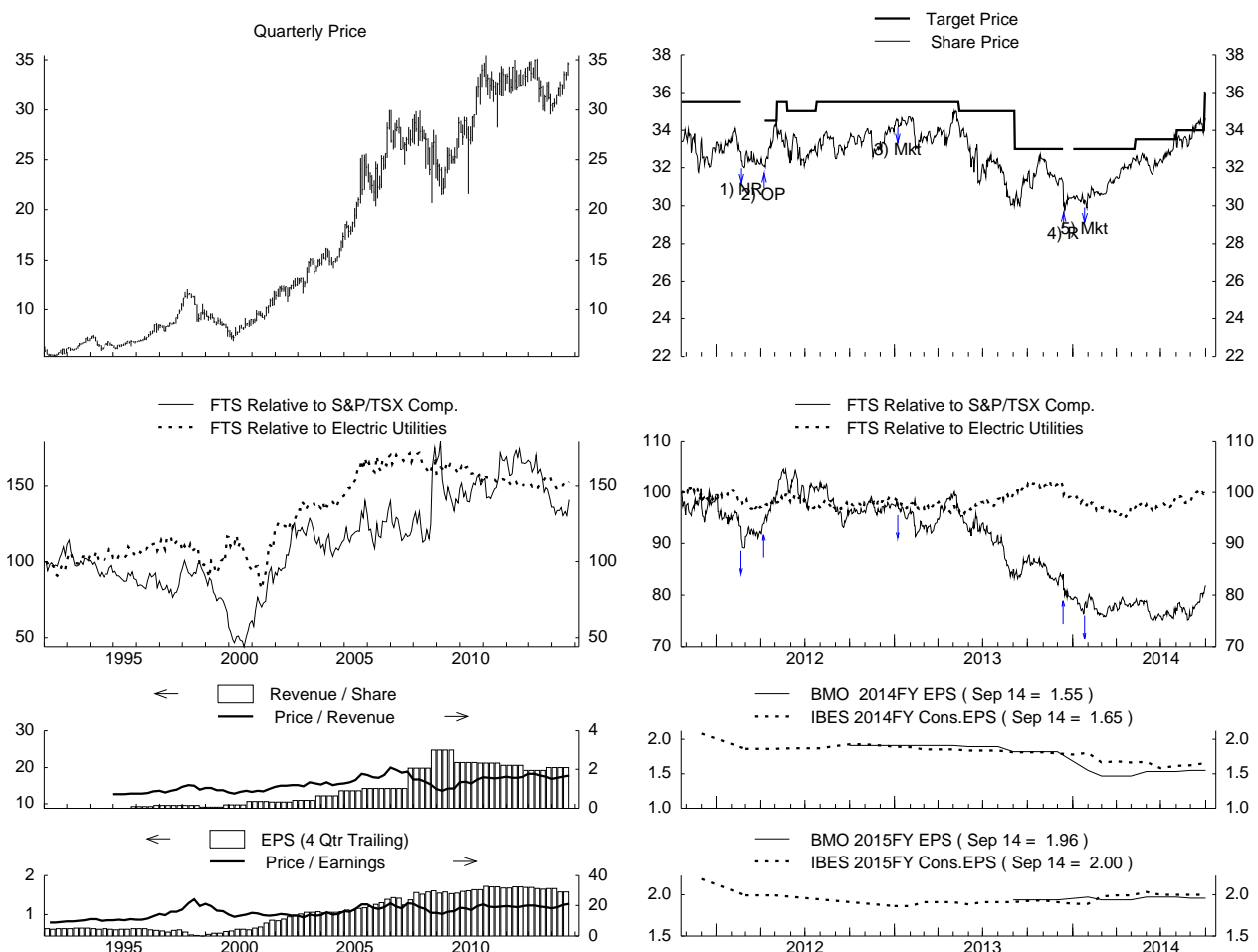
## Market Perform

12-Month Target Price: \$36.00  
Analyst: Ben Pham, CFA  
(416) 359-4061  
Current Price: \$34.57  
ROR: 7.8%

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	CAGR 2013A- 2016E
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.56	\$1.98	\$2.03	6.8%
Earnings Per Share (Diluted)	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.66	\$1.55	\$1.96	\$2.01	6.6%
First Call Consensus (EPS)								\$1.65	\$1.99	\$2.10	8.2%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.38	\$4.73	\$4.66	\$4.73	\$5.62	\$5.81	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.38	\$1.46	5.6%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.9%	69.6%	71.9%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.5%	25.4%	26.6%	27.0%	24.5%	25.1%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	222.1	273.9	277.6	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	197.2	209.3	229.4	281.2	284.6	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.81	\$25.48	\$26.15	
<b>Market Valuation</b>											
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$34.57	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	18.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	22.3	17.6	17.2	
EV/EBITDA: High	12.4	10.4	10.9	11.2	11.4	11.0	11.5	-	-	-	
EV/EBITDA: Low	11.5	9.0	9.7	9.9	11.0	10.6	10.7	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	10.7	10.1	9.9	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.7%	4.0%	4.2%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	853.0	584.0	554.0	305.0	176.0	99.0	868.0	(820.6)	869.9	975.7	
Debt (L-T)	4,578.0	4,840.0	5,237.0	5,565.0	5,679.0	5,783.0	6,424.0	9,254.2	10,098.0	10,336.4	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	375.0	375.0	375.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,529.0	1,829.0	1,829.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,748.5</u>	<u>7,027.1</u>	<u>7,307.1</u>	
	8,633.7	9,325.7	9,817.7	10,293.0	10,852.0	11,292.0	13,668.0	17,086.1	20,199.1	20,823.1	
<b>Balance Sheet (%)</b>											
Debt (S-T)	9.9%	6.3%	5.6%	3.0%	1.6%	0.9%	6.4%	-4.8%	4.3%	4.7%	
Debt (L-T)	53.0%	51.9%	53.3%	54.1%	52.3%	51.2%	47.0%	54.2%	50.0%	49.6%	
Minority Interest	1.3%	1.6%	1.3%	1.6%	1.9%	2.7%	2.7%	2.2%	1.9%	1.8%	
Preferred Shares	5.1%	7.2%	6.8%	8.9%	8.4%	9.8%	9.0%	8.9%	9.1%	8.8%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.1%</u>	<u>32.7%</u>	<u>32.5%</u>	<u>32.1%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>39.5%</u>	<u>34.8%</u>	<u>35.1%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,074.6	6,645.3	6,895.5	19.4%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,678.4	2,244.6	2,339.2	18.9%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	347.1	543.2	563.7	18.6%
Funds from Operations	490.0	622.0	678.0	734.0	795.0	898.0	944.0	1,051.5	1,540.3	1,614.0	19.6%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,442.3)	(2,111.7)	(1,631.5)	
<b>Financial Leverage</b>											
Net Debt	5,476.0	5,468.0	5,835.0	5,914.0	5,855.0	5,882.0	7,292.0	8,433.6	10,968.0	11,312.0	
Net Debt/EBITDA	6.7x	5.2x	5.5x	5.1x	5.0x	4.7x	5.2x	5.0x	4.9x	4.8x	
Net Debt/Total Book Capitalization	63.4%	58.6%	59.4%	57.5%	54.0%	52.1%	53.4%	49.4%	54.3%	54.3%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	FTS - Rating as of 20-Oct-11 = OP		
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0		Date	Rating Change	Share Price
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	12	1 21-Feb-12	OP to NR	\$32.38
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11	2 6-Apr-12	NR to OP	\$32.11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11	3 7-Jan-13	OP to Mkt	\$34.52
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10	4 12-Dec-13	Mkt to R	\$30.04
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9	5 24-Jan-14	R to Mkt	\$30.31
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7			
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9			
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9			
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12			
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12			
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12			
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10			
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10			
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11			
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9			
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8			
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8			
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9			
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8			
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8			
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8			
Range*		26.9 8.4		7.1 2.5			2.5 1.0				
Current*	1.57	21.3	1.28	3.8	81	22.7	1.5	7			

Growth(%):

5 Year: -0.1

10 Year: 4.2

20 Year: 4.8

\* Current EPS is the 4 Quarter Trailing to Q2/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price ( September 30, 2014): \$34.62

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 18.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will only disclose its and its affiliates’ ownership interest in the subject issuer if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to, retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns® is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$37.42**  
**Target Price:**      **\$36.00**

November 7, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## First Glance: Q3/14 Adj. EPS in Line With Our Expectations

After normalizing for non-recurring expenses (\$0.16/sh) related to the UNS Energy acquisition, Fortis' adj. EPS (fd) were \$0.23 in Q3/14 (\$0.23 in Q3/13), in line with our outlook of \$0.23. We did not normalize for ~\$0.11 of additional interest expense associated with the convertible debentures issued to finance UNS, as we already had it in our numbers (EPS would have been \$0.33 per share excluding the interest). The company reiterated a capital program of ~\$1.8B in 2014 and ~\$9.0B in 2014-2018, which would translate to a rate base CAGR of +7% over that time period. Conference call today, November 7, at 10:00 a.m. ET; Tel: 1-877-223-4471 or 647-788-4922.

### Our View:

- The quarter itself was messy and included several short-term impacts that detract from the recurring earnings power of the business. Corporate costs were higher than expected due to short-term dilution from financings and retirement expenses. Low rainfall in Belize and the under-earning CH Energy utility both exacerbated the weakness. However, UNS posted a strong first showing since being acquired in August (\$37M vs. our \$12M estimate) while its legacy regulated utilities are still delivering steady rate base growth.
- As non-recurring expenses and near-term dilution move into the rear-view mirror, we see several developments that could lead to a significant earnings bounce-back in 2015 and 2016. For example, FTS' Waneta hydroelectric dam expansion in B.C. remains on budget (\$900M gross; FTS owns 51%) and on track for a spring 2015 in-service date; this project could add at least \$20M in high-quality earnings once commissioned. In addition, construction has begun on the \$400M Tilbury LNG expansion in B.C., which is expected to contribute to earnings in H2/16.
- Upcoming regulatory decisions should also benefit the company's bottom line. For example, CH Energy filed in July for new rates that could result in a significant revenue increase beginning in mid-2015 and a Canadian-like allowed ROE of 9% (decision expected H1/15). In Alberta, FTS is recognizing only 60% of revenues associated with capital trackers, while other utilities have recently been approved for 90%; Alberta profits should improve once regulatory treatment of capital trackers are resolved, pending a Q1/15 decision. Also, incentive earnings are now available in B.C. following approval of multi-year performance-based regulation plans in September.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 6.



## Exhibit 1: Q3/14 Results vs. BMOCM Expectations

	Q3/14A	BMOCM Q3/14E	% Variance	Q3/13A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
Fortis BC Energy Companies	(13.0)	(13.0)	0%	(13.0)	0%	
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy <sup>(1)</sup>	37.0	12.0	208%	-	n/a	Seasonally strong quarter
Central Hudson	8.0	13.4	-40%	12.0	-33%	Higher depreciation and operating expenses
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>45.0</b>	<b>25.4</b>	<b>77%</b>	<b>12.0</b>	<b>275%</b>	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta <sup>(2)</sup>	27.0	27.0	0%	25.0	8%	
FortisBC Electric	9.0	11.0	-18%	11.0	-18%	
Eastern Canadian	13.0	15.0	-13%	14.0	-7%	Rebasing of rates resulted in higher earnings in the 1H/14 and lower earnings in Q3/14
<b>Total Regulated Electric Utilities - Canadian</b>	<b>49.0</b>	<b>53.0</b>	<b>-8%</b>	<b>50.0</b>	<b>-2%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	8.0	6.0	33%	6.0	33%	Electricity sales growth and favourable exchange rate
<b>Non-Regulated - Fortis Generation</b>	4.0	8.0	-50%	8.0	-50%	Low rainfall in Belize
<b>Non-Regulated - Non-Utility</b>	9.0	5.0	80%	6.0	50%	Higher-than-expected depreciation
<b>Corporate and Other</b>	(53.0)	(33.8)	57%	(21.0)	152%	Retirement expenses and higher-than-expected convertible interest expense
<b>Net Earnings Applicable to Common Shares</b>	<b>49.0</b>	<b>50.6</b>	<b>-3%</b>	<b>48.0</b>	<b>2%</b>	
Average Shares (Basic)	215.6	214.8		212.0		
Average Shares (Diluted)	216.1	222.1		212.7		
Adjusted EPS (basic)	\$0.23	\$0.24	-4%	\$0.23	0%	
<b>Adjusted EPS (diluted)</b>	<b>\$0.23</b>	<b>\$0.23</b>	<b>-1%</b>	<b>\$0.23</b>	<b>0%</b>	

## Note:

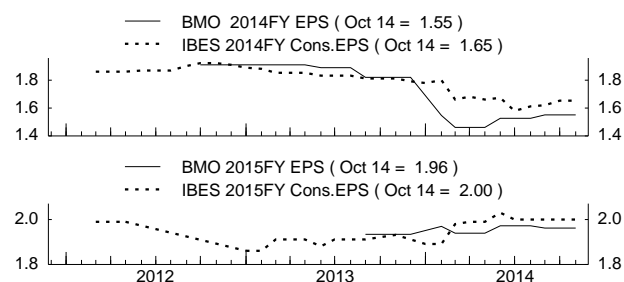
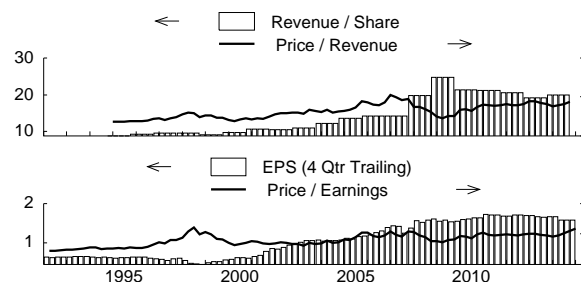
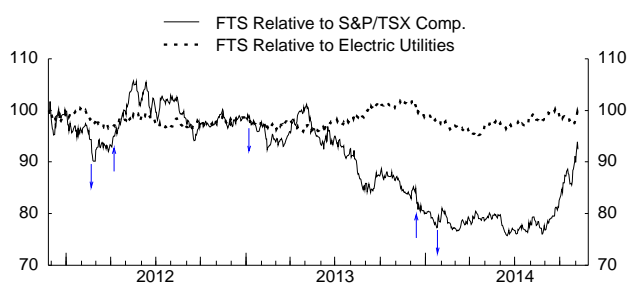
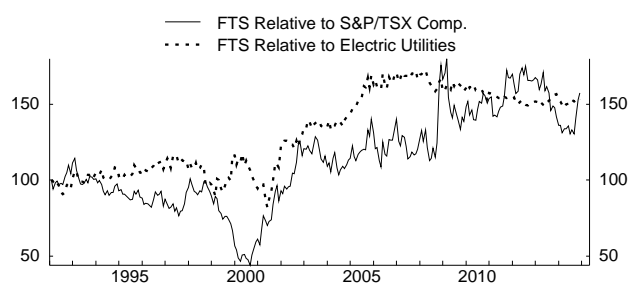
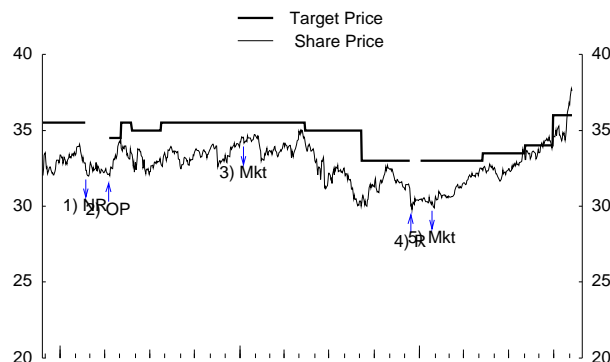
(1) Results are from the date of acquisition (August 15, 2014)

(2) Includes restoration costs of \$1.5M in Q3/13

(3) Results exclude expenses related to benefits (\$20M) offered to close the UNS Energy acquisition and expenses (\$15M) related to the acquisition of UNS Energy in Q3/14

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.57	23.3	1.28	3.5	81	22.7	1.6	7
Growth(%):								
5 Year:	0.6		4.2			2.5		
10 Year:	4.1		9.0			9.9		
20 Year:	4.7		6.0			7.3		

\* Current EPS is the 4 Quarter Trailing to Q2/2014.  
\* Valuation metrics are based on high and low for the fiscal year.  
\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 25-Nov-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price ( November 5, 2014): \$37.60

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 18.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (September 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

November 10, 2014

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

## Q3 – The Last of the Down Quarters

### Event

Fortis's third quarter results were in line with our expectations (adj. EPS of \$0.23 vs. our estimate of \$0.23), but they reflected several short-term impacts that masked the true earning power of the business.

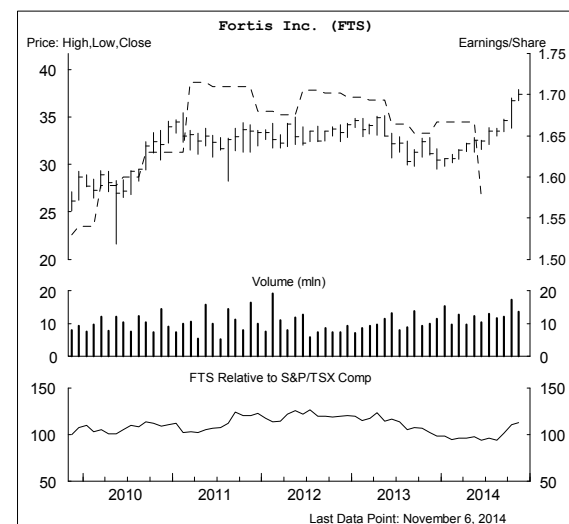
### Impact & Analysis

Key implications: (1) FTS reiterated a capital spending program of ~\$1.8B in 2014 and ~\$9.0B in 2014-2018; this would translate to a rate base CAGR of +7% over that time period. (2) Following several years of lackluster growth, we see several developments that could kick-start earnings growth in 2015 and 2016. For example, FTS's Waneta hydroelectric project in B.C. remains on budget and on track for a spring 2015 in-service date; this project should add at least \$20M in earnings. In addition, construction has begun on the \$400M Tilbury LNG expansion in B.C., which is expected to contribute to earnings in H2/16. (3) Regulatory decisions should also benefit the company's bottom line. For example, CH Energy filed in July for new rates that could result in a significant revenue increase beginning in mid-2015. In Alberta, FTS is only recognizing 60% of revenues associated with capital trackers, while other utilities have recently been approved for 90%. Also, incentive earnings are now available in B.C. following approval of multi-year PBR programs. (4) We have updated our estimates to reflect Q3 actuals and lower corporate expenses in Q4/14 due to timing. As a result, our 2014 EPS estimate (f.d.) is now \$1.59 (vs. \$1.55) while our 2015/16 estimates are unchanged at \$1.96/\$2.01.

### Valuation & Recommendation

Overall, we were encouraged to see the strong underlying demand trends at recently acquired UNS Energy as well as management's ability to execute on its growth initiatives. As non-recurring expenses and near-term dilution are finally moving into the rear-view mirror, we see a bounce back in earnings in 2015E and 2016E and a continued improvement in investor sentiment on the FTS shares. We are increasing our target price to \$38 (vs. \$36) on the back of that improvement and to reflect recent positive sentiment towards defensive-oriented investments and the low bond yield environment. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.

**Price (7-Nov)** \$37.74  
**Target Price** \$38.00 ↑  
**52-Week High** \$37.93  
**52-Week Low** \$29.51



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	\$1.66	\$1.59 ↑	\$1.96	\$2.01
P/E		23.7x	19.3x	18.8x
Div.	\$1.24	\$1.28	\$1.38	\$1.46
EV (\$mm)	\$15,486	\$21,681	\$24,511	\$24,874
EBITDA (\$mm)	\$1,393.0	\$1,721.9	\$2,295.0	\$2,396.0
EV/EBITDA	11.1x	12.6x	10.7x	10.4x
<b>Quarterly EPS</b>				
	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014E	\$0.66a	\$0.22a	\$0.23a	\$0.47 ↑
2015E	\$0.61	\$0.38	\$0.48	\$0.49
Dividend	\$1.28			
Book Value	\$22.99			
Shares O/S (mm)	216.0			
Float O/S (mm)	216.0			
Wkly Vol (000s)	2,793			
Net Debt (\$mm)	\$12,879			
Yield				3.4%
Price/Book				1.6x
Mkt. Cap (mm)				\$8,152
Float Cap (mm)				\$8,152
Wkly \$ Vol (mm)				\$90.3
Next Rep. Date				Feb (E)

Notes: All values in C\$

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INC (C\$) 2014E: \$1.66; 2015E: \$1.99; 2016E: \$2.12

#### Changes

**Annual EPS**  
 2014E \$1.55 to \$1.59

**Quarterly EPS**  
 Q4/14E \$0.43 to \$0.47

**Target**  
 \$36.00 to \$38.00

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 6 to 8.



### Q3 – The Last of the Down Quarters

- **Maintaining Market Perform rating and increasing target price to \$38 (vs. \$36).** Fortis's third quarter results were in line with our expectations (adj. EPS of \$0.23 vs. our estimate of \$0.23), but they reflected several short-term impacts that masked the true earning power of the business. Overall, we were encouraged to see the strong underlying demand trends at recently acquired UNS Energy as well as management's ability to execute on its growth initiatives. As non-recurring expenses and near-term dilution are finally moving into the rear-view mirror, we see a bounce back in earnings in 2015E and 2016E and a continued improvement in investor sentiment on the FTS shares. We are increasing our target price to \$38 (vs. \$36) on the back of that improvement and to reflect recent positive sentiment towards defensive-oriented investments and the low bond yield environment. Based on relative returns across the regulated utility complex, we continue to rate FTS shares Market Perform.
- **Earnings should improve in 2015E and 2016E.** As non-recurring expenses and near-term dilution move into the rear-view mirror, we see several developments that could lead to a significant earnings improvement in 2015E and 2016E. For example, FTS's Waneta hydroelectric dam expansion in B.C. remains on budget (\$900M gross; FTS owns 51%) and on track for a spring 2015 in-service date; this project should add at least \$20M in high-quality earnings once commissioned. In addition, construction has begun on the \$400M Tilbury LNG expansion in B.C., which is expected to contribute to earnings in H2/16. Overall, FTS plans to invest ~\$1.8B of capital in 2014 and ~\$9.0B in 2014–2018; this would translate to a rate base CAGR of +7% over that time period.
- **Upcoming regulatory decisions should also benefit the company's bottom line.** For example, CH Energy filed in July for new rates that could result in a significant revenue increase beginning in mid-2015 and a Canadian-like allowed ROE of 9% (decision expected H1/15). In Alberta, FTS is only recognizing 60% of revenues associated with capital trackers, while other utilities have recently been approved for 90%; Alberta profits should improve once regulatory treatment of capital trackers are resolved pending a Q1/15 decision. Also, incentive earnings are now available in B.C. following approval of multi-year performance-based regulation plans in September.
- **Revised estimates.** We have updated our estimates to reflect Q3 actuals and lower corporate expenses in Q4/14 due to timing. As a result, our 2014 EPS estimate (f.d.) is now \$1.59 (vs. \$1.55) while our 2015/16 estimates are unchanged at \$1.96/\$2.01. Note that our 2014 estimate includes the convertible debenture cost (after-tax) associated with the UNS Energy acquisition (~\$0.22/sh).
- **Maintaining Market Perform rating and increasing target price to \$38 (vs. \$36).** We are raising our target to \$38 (from \$36) on the back of an increase in our target P/E multiple to 19.0x (vs. 18.0x) as sentiment towards defensive investments have improved and bond yields have remained low. The multiple is above its 10-year historical average of ~18.5x. Based on FTS's relative return to our target price compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

## Exhibit 1: Calculation of Our Target Price

FTS Valuation	Multiple	2014E	2015E	2016E
Adj. EPS (f.d.)		\$1.59	\$1.96	\$2.01
Equity value/sh	19.0x	\$30.22	\$37.26	\$38.15

Avg. of FY15/16E	\$38.00
------------------	---------

## P/E Sensitivity

18.0x	18.5x	19.0x	19.5x	20.0x
\$35.72	\$36.72	\$37.71	\$38.70	\$39.69

Source: BMO Capital Markets

- **Messy third quarter print.** After normalizing for non-recurring expenses (\$0.16/sh) related to the UNS Energy acquisition, Fortis's adj. EPS (f.d.) was \$0.23 in Q3/14 (\$0.23 in Q3/13), in line with our outlook of \$0.23. We did not normalize for ~\$0.11 per share of additional interest expense associated with the convertible debentures issued to finance UNS as we already had it in our numbers (EPS would have been \$0.33 ex. the interest). The quarter itself was messy and included several short-term impacts that detract from the recurring earning power of the business. Corporate costs were higher than expected due to short-term dilution from financings and retirement expenses. Rainfall in Belize was low and the under-earning CH Energy utility both exacerbated the weakness. However, UNS posted a strong first showing since being acquired in August (\$37M vs. our \$12M estimate) while the company's legacy regulated utilities are still delivering steady rate base growth.

## Exhibit 2: Q3/14 Results vs. BMOCM Expectations

	Q3/14A	BMOCM Q3/14E	% Variance	Q3/13A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
Fortis BC Energy Companies	(13.0)	(13.0)	0%	(13.0)	0%	
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy <sup>(1)</sup>	37.0	12.0	208%	-	n/a	Seasonally strong quarter
Central Hudson	8.0	13.4	-40%	12.0	-33%	Higher depreciation and operating expenses
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>45.0</b>	<b>25.4</b>	<b>77%</b>	<b>12.0</b>	<b>275%</b>	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta <sup>(2)</sup>	27.0	27.0	0%	25.0	8%	
FortisBC Electric	9.0	11.0	-18%	11.0	-18%	
Eastern Canadian	13.0	15.0	-13%	14.0	-7%	Rebasing of rates resulted in higher earnings in the 1H/14 and lower earnings in Q3/14
<b>Total Regulated Electric Utilities - Canadian</b>	<b>49.0</b>	<b>53.0</b>	<b>-8%</b>	<b>50.0</b>	<b>-2%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	8.0	6.0	33%	6.0	33%	Electricity sales growth and favourable exchange rate
<b>Non-Regulated - Fortis Generation</b>	4.0	8.0	-50%	8.0	-50%	Low rainfall in Belize
<b>Non-Regulated - Non-Utility</b>	9.0	5.0	80%	6.0	50%	
<b>Corporate and Other</b>	(53.0)	(33.8)	57%	(21.0)	152%	Retirement expenses and higher-than-expected convertible interest expense
<b>Net Earnings Applicable to Common Shares</b>	<b>49.0</b>	<b>50.6</b>	<b>-3%</b>	<b>48.0</b>	<b>2%</b>	
Average Shares (Basic)	215.6	214.8		212.0		
Average Shares (Diluted)	216.1	222.1		212.7		
Adjusted EPS (basic)	\$0.23	\$0.24	-4%	\$0.23	0%	
<b>Adjusted EPS (diluted)</b>	<b>\$0.23</b>	<b>\$0.23</b>	<b>-1%</b>	<b>\$0.23</b>	<b>0%</b>	

Note:

(1) Results are from the date of acquisition (August 15, 2014)

(2) Includes restoration costs of \$1.5M in Q3/13

(3) Results exclude expenses related to benefits (\$20M) offered to close the UNS Energy acquisition and expenses (\$15M) related to the acquisition of UNS Energy in Q3/14

Source: BMO Capital Markets, Company Reports

## Exhibit 3: Upcoming Events

Q4/14	Expected decision on AUC 2013 GCOC
Q4/14	Expected decision on FortisAlberta's 2015 Annual Rates Application
Q1/15	Expected decision on FortisAlberta's 2013, 2014 and 2015 combined capital tracker applications
Spring 2015	Expected commissioning of Waneta hydro facility
1H15	Expected decision on Central Hudson general rate application
During 2015	Expected filing of Newfoundland Power's 2016 GRA
2H16	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports

## Exhibit 4: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2013	Q1/14	Q2/14	Q3/14	Q4/14E	2014E	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	13-16E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$127.0	\$79.0	\$12.0	(\$13.0)	\$52.9	\$130.9	\$83.0	\$14.0	(\$11.0)	\$55.3	\$141.3	\$143.4	4.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	-	-	-	37.0	12.5	49.5	20.9	40.2	80.3	19.3	160.6	166.3	
Central Hudson	23.0	18.0	7.0	8.0	12.5	45.5	17.9	8.5	15.4	15.1	56.9	56.1	
	23.0	18.0	7.0	45.0	25.0	95.0	38.8	48.6	95.7	34.4	217.5	222.4	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$94.0	\$25.0	\$26.0	\$27.0	\$25.5	\$103.5	\$30.0	\$28.5	\$29.0	\$28.8	\$116.3	\$125.5	10.1%
FortisBC Electric	50.0	18.0	7.0	9.0	15.0	49.0	19.0	8.0	12.0	13.8	52.8	53.9	2.5%
Eastern Canadian	58.0	17.0	16.0	13.0	16.5	62.5	17.2	16.2	15.3	14.8	63.5	65.9	4.3%
	202.0	60.0	49.0	49.0	57.0	215.0	66.2	52.7	56.3	57.4	232.6	245.3	6.7%
Regulated Electric Utilities - Caribbean	23.0	5.0	8.0	8.0	5.0	26.0	4.8	6.8	6.7	7.0	25.2	25.8	3.9%
Non-Regulated - Fortis Generation	17.0	6.0	6.0	4.0	5.0	21.0	6.0	9.0	14.0	10.1	39.1	46.0	39.3%
Non-Regulated - Non-Utility	18.0	5.0	7.0	9.0	5.0	26.0	6.0	8.0	5.0	4.1	23.2	23.5	9.2%
Corporate and Other	(72.0)	(30.0)	(41.0)	(53.0)	(28.8)	(152.8)	(32.9)	(32.6)	(32.5)	(32.5)	(130.5)	(138.9)	24.5%
<b>Total Adjusted Earnings</b>	<b>338.0</b>	<b>143.0</b>	<b>48.0</b>	<b>49.0</b>	<b>121.1</b>	<b>361.1</b>	<b>171.9</b>	<b>106.5</b>	<b>134.1</b>	<b>135.8</b>	<b>548.4</b>	<b>567.5</b>	<b>18.9%</b>
Average Shares Outstanding (basic)	202.5	213.6	214.8	215.6	254.9	224.8	276.5	276.5	276.5	276.5	276.5	280.2	
Average Shares Outstanding (diluted)	209.3	220.9	215.3	216.1	262.2	232.1	283.8	283.8	283.8	283.8	283.8	286.6	
<b>Dividends Per Share</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$1.38</b>	<b>\$1.46</b>	<b>5.6%</b>
EPS - reported (diluted)	\$1.63	\$0.66	\$0.22	\$0.06	\$0.47	\$1.41	\$0.61	\$0.38	\$0.48	\$0.49	\$1.96	\$2.01	
Adjusted EPS - basic	\$1.67	\$0.67	\$0.22	\$0.23	\$0.48	\$1.61	\$0.62	\$0.39	\$0.49	\$0.49	\$1.98	\$2.03	6.7%
<b>Adjusted EPS - diluted</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.22</b>	<b>\$0.23</b>	<b>\$0.47</b>	<b>\$1.59</b>	<b>\$0.61</b>	<b>\$0.38</b>	<b>\$0.48</b>	<b>\$0.49</b>	<b>\$1.96</b>	<b>\$2.01</b>	<b>6.6%</b>

Source: BMO Capital Markets

## Exhibit 5: Consolidated Summary Sheet



## Fortis Inc. (FTS)

## Market Perform

12-Month Target Price: \$38.00

Analyst: Ben Pham, CFA

(416) 359-4061

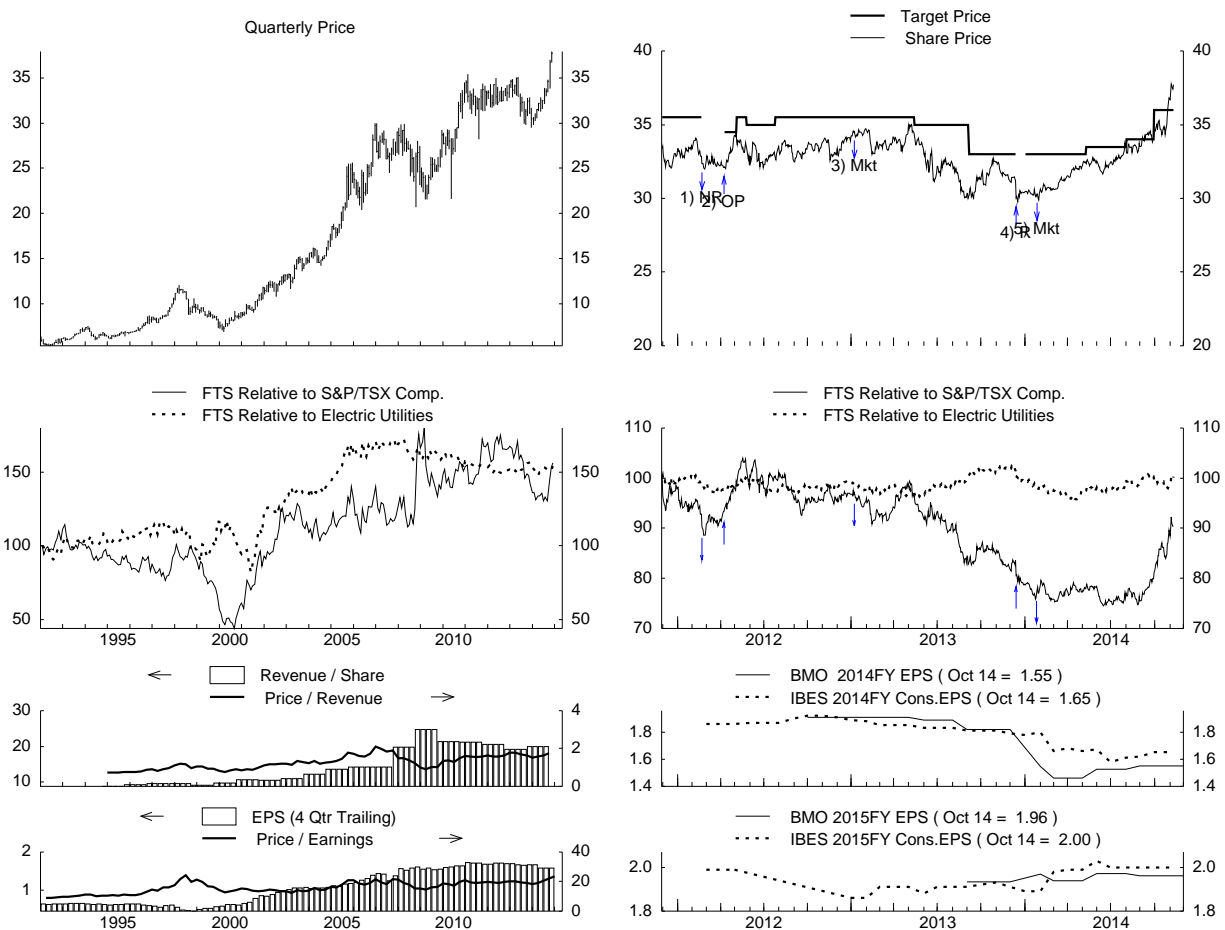
Current Price: \$37.74

ROR: 4.1%

	Year Ended 31 December										CAGR 2013A- 2016E
	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.55	\$1.71	\$1.67	\$1.61	\$1.98	\$2.03	6.7%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.54</b>	<b>\$1.69</b>	<b>\$1.66</b>	<b>\$1.59</b>	<b>\$1.96</b>	<b>\$2.01</b>	6.6%
<i>First Call Consensus (EPS)</i>								\$1.66	\$1.99	\$2.12	8.5%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.44	\$4.73	\$4.66	\$4.65	\$5.57	\$5.75	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.38	\$1.46	5.6%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	74.8%	70.4%	74.3%	79.7%	69.6%	72.1%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.1%	25.4%	26.6%	27.5%	24.8%	25.4%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	224.8	276.5	280.2	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	197.2	209.3	232.1	283.8	286.6	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.63	\$25.31	\$25.97	
<b>Market Valuation</b>											
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	-	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$37.74	-	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	22.8	20.4	21.1	-	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	21.1	18.9	18.0	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	23.7	19.2	18.8	
EV/EBITDA: High	12.5	10.4	10.9	11.3	11.4	11.0	11.5	-	-	-	
EV/EBITDA: Low	11.6	9.0	9.7	10.0	11.0	10.6	10.7	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	12.6	10.7	10.4	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	-	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.4%	3.7%	3.9%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	947.0	568.0	538.0	467.0	144.0	132.0	401.0	1,973.7	1,782.4	1,904.6	
Debt (L-T)	4,529.0	4,900.0	5,292.0	5,447.0	5,711.0	5,750.0	6,891.0	9,021.0	10,091.0	10,191.0	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	375.0	375.0	375.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,829.0	1,829.0	1,829.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,993.6</u>	<u>4,773.6</u>	<u>6,762.1</u>	<u>7,043.4</u>	<u>7,324.6</u>	
	8,678.7	9,369.7	9,856.7	10,337.0	10,852.0	11,293.6	13,669.6	19,960.8	21,120.8	21,624.1	
<b>Balance Sheet (%)</b>											
Debt (S-T)	10.9%	6.1%	5.5%	4.5%	1.3%	1.2%	2.9%	9.9%	8.4%	8.8%	
Debt (L-T)	52.2%	52.3%	53.7%	52.7%	52.6%	50.9%	50.4%	45.2%	47.8%	47.1%	
Minority Interest	1.3%	1.5%	1.2%	1.6%	1.9%	2.7%	2.7%	1.9%	1.8%	1.7%	
Preferred Shares	5.1%	7.1%	6.8%	8.8%	8.4%	9.8%	9.0%	9.2%	8.7%	8.5%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.0%</u>	<u>32.5%</u>	<u>32.4%</u>	<u>32.0%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>33.9%</u>	<u>33.3%</u>	<u>33.9%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,160.8	6,733.9	6,957.3	19.8%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,721.9	2,295.0	2,396.0	19.8%
Net Earnings	187.4	252.5	262.0	281.0	281.5	324.0	338.0	361.1	548.4	567.5	18.9%
Funds from Operations	490.0	622.0	678.0	734.0	806.0	898.0	944.0	1,044.6	1,539.5	1,611.3	19.5%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,442.3)	(2,111.7)	(1,630.4)	
<b>Financial Leverage</b>											
Net Debt	5,521.0	5,512.0	5,874.0	5,958.0	5,855.0	5,882.0	7,292.0	10,994.7	11,873.4	12,095.6	
Net Debt/EBITDA	6.8x	5.2x	5.5x	5.2x	5.0x	4.7x	5.2x	6.4x	5.2x	5.0x	
Net Debt/Total Book Capitalization	63.6%	58.8%	59.6%	57.6%	54.0%	52.1%	53.3%	55.1%	56.2%	55.9%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %	FTS - Rating as of 29-Nov-11 = OP		
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12			
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11			
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11	1	21-Feb-12	OP to NR
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10	2	6-Apr-12	NR to OP
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9	3	7-Jan-13	OP to Mkt
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	7	4	12-Dec-13	Mkt to R
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	9	5	24-Jan-14	R to Mkt
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9			
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9			
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12			
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12			
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12			
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10			
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10			
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11			
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9			
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8			
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8			
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9			
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8			
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8			
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8			
Range*		26.9 8.4		7.1 2.5			2.5 1.0				
Current*	1.57	23.3	1.28	3.5	81	22.7	1.6	7			
Growth(%):											
5 Year:	0.6		4.2			2.5					
10 Year:	4.1		9.0			9.9					
20 Year:	4.7		6.0			7.3					

\* Current EPS is the 4 Quarter Trailing to Q2/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

Last Price ( November 7, 2014): \$37.74

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (September 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.



**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets™ is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns™ is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$38.31**  
**Target Price:**      **\$38.00**

December 17, 2014  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## 6.25% Dividend Increase

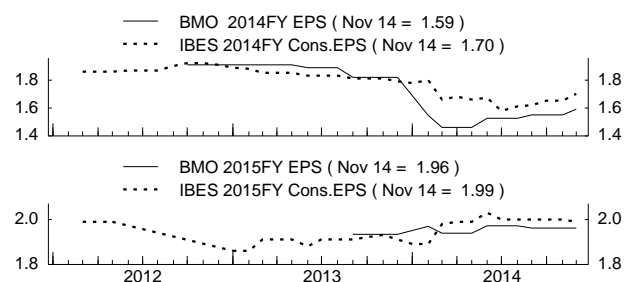
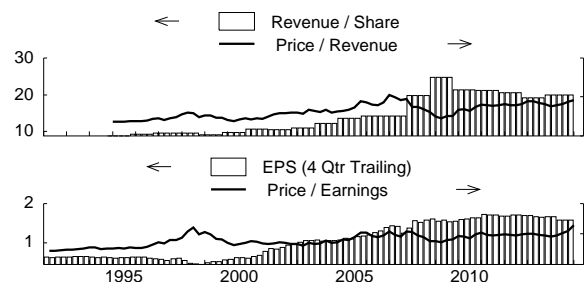
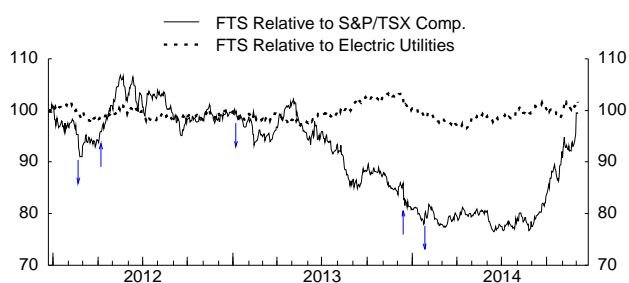
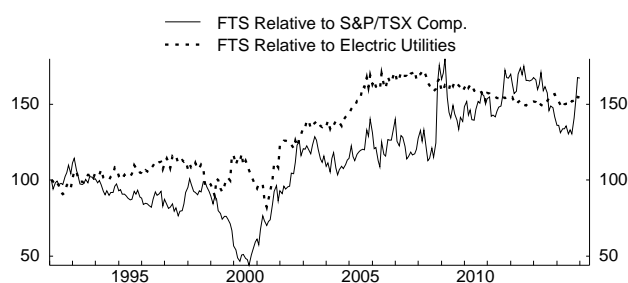
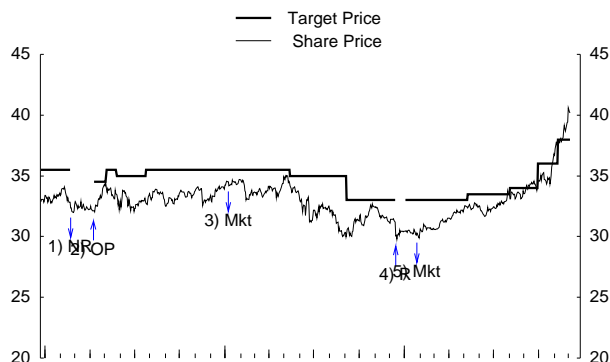
Fortis' board of directors has approved a 6.25% increase in the company's quarterly common share dividend to \$0.34/sh from the current quarterly rate of \$0.32/sh. As a result of this announcement, the new annualized common share dividend will be \$1.36/sh (vs. \$1.28/sh previously), implying a 3.5% yield at current prices. The first quarterly payment of \$0.34 per common share is payable on and after March 1, 2015, to common shareholders of record at the close of business on February 17, 2015.

### Our View:

- We see the dividend increase as a positive development for the stock. Although the increase was largely in line with expectations (\$0.34 vs. consensus of \$0.3375 and our estimate of \$0.345), we believe the market is ascribing premium value to stocks with above-average dividend growth profiles underpinned by low-risk regulated utility projects. We note that the forecast payout ratio for 2015 is expected to remain under 70% versus the 2010-2014E average of ~73.6%.
- In our view, the higher dividend is supported by strong underlying demand trends at recently acquired UNS Energy as well as management's ability to execute on its growth initiatives. In addition, the company's Waneta hydroelectric dam expansion in B.C. is on track for a spring 2015 in-service date; we believe this project should add at least \$20M in high-quality earnings once commissioned.
- The company has had a long-term track record of raising the dividend annually and we expect this trend to continue. In the last quarterly conference call, management reiterated rate base growth of ~7% on average through 2018. Though we see the stock trading at full valuation levels (P/E of 19.1x our 2016E estimate) in the context of forward bond yield expectations of 3%, we note that the stock offers consistent earnings/dividend growth that should result in modest stock price appreciation over time.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1992	0.64	10.0 8.4	0.38	7.1 6.0	60	5.3	1.2 1.0	12
1993	0.64	11.4 8.9	0.40	7.0 5.5	63	5.5	1.3 1.0	11
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.4 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 8.4		7.1 2.5			2.5 1.0	
Current*	1.58	25.8	1.28	3.2	81	23.0	1.8	7
Growth(%):								
5 Year:	0.6		4.2			2.8		
10 Year:	4.1		9.0			10.1		
20 Year:	4.7		5.7			7.4		

\* Current EPS is the 4 Quarter Trailing to Q3/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 22-Dec-11 = OP

Date	Rating Change	Share Price
1 21-Feb-12	OP to NR	\$32.38
2 6-Apr-12	NR to OP	\$32.11
3 7-Jan-13	OP to Mkt	\$34.52
4 12-Dec-13	Mkt to R	\$30.04
5 24-Jan-14	R to Mkt	\$30.31

Last Price (December 2, 2014): \$40.18

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.0x the average of our FY15/16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (September 30, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Andrew Breichmanas, Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2014 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---



# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$39.30**  
**Target Price:**      **\$40.50**

February 19, 2015  
Utilities - Power & Utilities

**Ben Pham, CFA**      **416-359-4061**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

Eric Tang      416-359-8110  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

## First Glance: Q4/14 Results Lower Than Expected; Initiates 2015 Capex Budget of \$2.2B

Fortis' adj. EPS (basic) were \$0.44 in Q4/14 (\$0.47 in Q4/13), lower than our outlook of \$0.47 and consensus of \$0.49 (range of \$0.44-0.53). Liquidity position is strong with \$2.2B of credit facility room as at year-end 2014. Conference call today, February 19, at 10:00 a.m. ET; Tel: 1-877-223-4471 or 647-788-4922.

### Our View:

- Relative to our model, the EPS variance was largely driven by lower-than-expected earnings contribution from Central Hudson (higher costs during the current two-year rate freeze), partially offset by a strong showing at UNS Energy, which was acquired in August 2014. Earnings from FTS' remaining business segments were largely in line with our expectations. Please see Exhibit 1 for more details of the variance.
- The company initiated a 2015 capital budget of \$2.2B, consistent with our current estimate of \$2.2B and up from \$1.7B in 2014. Spending this year is expected to be primarily driven by UNS Energy and its Western Canadian Utilities (Waneta hydro facility, Tilbury LNG expansion, FortisAlberta). Over the five-year period 2015-2019, the company's capital program is expected to be ~\$9.0B, of which 38% relates to Canadian regulated electric utilities, 20% at Canadian regulated gas utilities, 35% in the U.S., 5% to Caribbean regulated electric utilities, and the remaining 2% to non-regulated operations. This capital spending program should support +6.5% rate base growth on average over the next five years.
- Significant regulatory processes are ongoing in Alberta and New York. In Alberta, decisions with respect to the generic cost of capital and FortisAlberta's combined capital tracker application (2013-2015) are both expected in Q1/15. In New York, a joint settlement proposal was filed in February that provides for new rates at Central Hudson (NY) which reflect an allowed ROE of 9% and deemed equity of 48% beginning July 1, 2015, for a three-year period. We understand that public hearings are slated for March/April 2015, with a regulatory decision expected as early as June 2015.
- FTS highlighted that a decision on strategic options (full or partial sale or IPO) for its hotel and real estate business (previously announced in September 2014) is expected to be made in the second quarter of 2015.

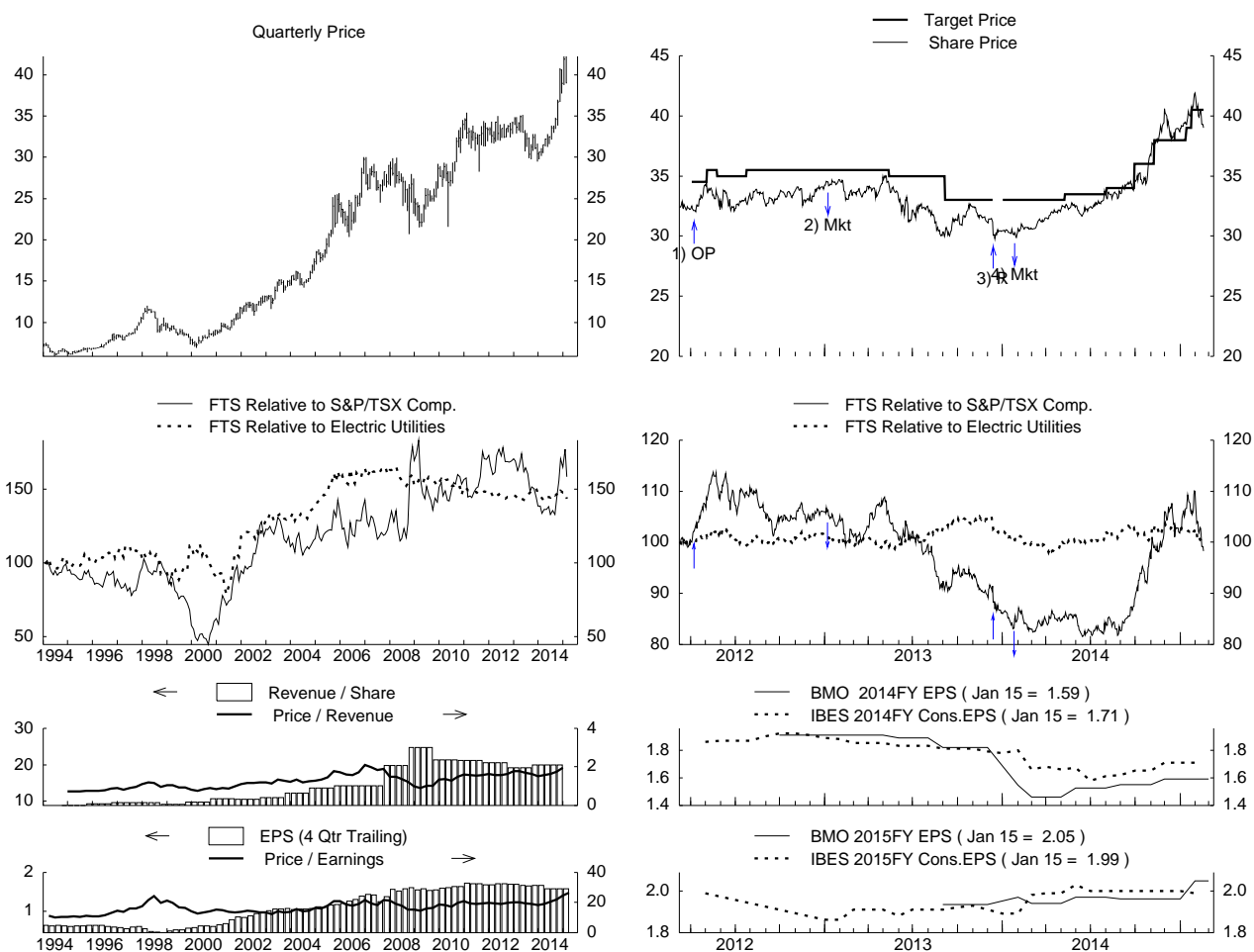
This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 6.

## Exhibit 1: Q4/14 Results vs. BMOCM Expectations

	Q4/14A	BMOCM Q4/14E	% Variance	Q4/13A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
Fortis BC Energy Companies	\$49.0	\$52.9	-7%	\$50.0	-2%	
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy	23.0	12.5	85%	-	n/a	Higher-than-expected increase in retail customer electricity rates
Central Hudson	4.0	12.5	-68%	11.0	-64%	Higher depreciation and operating expenses during two-year rate freeze
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>27.0</b>	<b>25.0</b>	8%	11.0	145%	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta	25.0	25.5	-2%	18.0	39%	
FortisBC Electric	12.0	15.0	-20%	13.0	-8%	Seasonality
Eastern Canadian	14.0	16.5	-15%	14.0	0%	
<b>Total Regulated Electric Utilities - Canadian</b>	<b>51.0</b>	<b>57.0</b>	-11%	<b>45.0</b>	13%	
<b>Regulated Electric Utilities - Caribbean</b>	6.0	5.0	19%	8.0	-25%	Favourable foreign exchange associated with the translation of USD earnings
<b>Non-Regulated - Fortis Generation</b>	4.0	5.0	-20%	4.0	0%	
<b>Non-Regulated - Non-Utility</b>	7.0	5.0	40%	3.0	133%	
<b>Corporate and Other</b>	(30.0)	(28.8)	4%	(21.0)	43%	
<b>Net Earnings Applicable to Common Shares</b>	<b>\$114.0</b>	<b>\$121.1</b>	-6%	<b>\$100.0</b>	14%	
Adjusted EPS (basic)	\$0.44	\$0.48	-7%	\$0.47	-6%	
<b>Adjusted EPS (diluted)</b>	<b>\$0.43</b>	<b>\$0.47</b>	-7%	<b>\$0.47</b>	-7%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	9
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.58	26.6	1.28	3.1	81	23.0	1.8	7
Growth(%):								
5 Year:	0.5		4.2			4.3		
10 Year:	4.0		9.0			8.2		
20 Year:	4.8		5.7			7.1		

\* Current EPS is the 4 Quarter Trailing to Q3/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 8-Mar-12 = NR

Date	Rating Change	Share Price
1 6-Apr-12	NR to OP	\$32.11
2 7-Jan-13	OP to Mkt	\$34.52
3 12-Dec-13	Mkt to R	\$30.04
4 24-Jan-14	R to Mkt	\$30.31

Last Price (February 17, 2015): \$39.03  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---



# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform**Industry Rating:** Market Perform

February 20, 2015

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

416-359-4061

Eric Tang  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

416-359-8110

## Q4 – Multi-Year Positive Growth Trends on Track

### Event

Fortis' fourth quarter results were lower than expected (adj. EPS of \$0.44/sh vs. consensus of \$0.49 and our estimate of \$0.48) as Central Hudson continues to under-earn (~7% ROE) due to a two-year rate freeze. The key here is that this is a temporary headwind that should normalize by H2/15 and therefore should have no impact on FTS's favourable long-term growth trends. Furthermore, management noted on the call that 38% of their assets are located in the U.S., with the stronger US\$ providing a nice tailwind for future EPS (every 5% move is worth \$0.04).

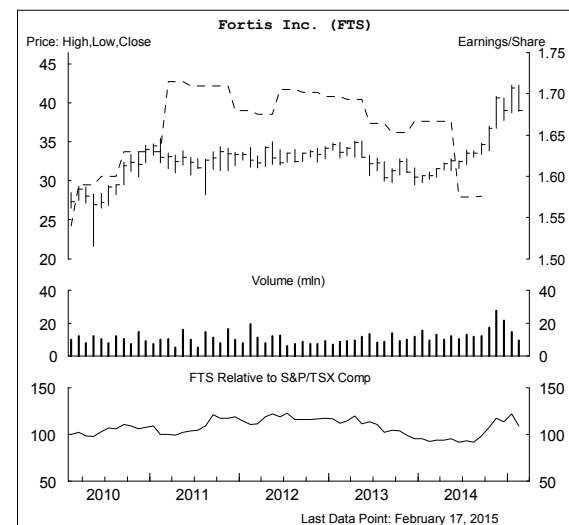
### Impact & Analysis

Key implications: (1) The company initiated a 2015 capital budget of \$2.2B consistent with our current estimate of \$2.2B and up from \$1.7B in 2014. Over the five-year period 2015-2019, the company's capital program is expected to reach ~\$9.0B. This capital spending program should support +6.5% rate base growth on average over the next five years. (2) In Alberta, decisions with respect to the cost of capital and FortisAlberta's combined capital tracker application are both expected in Q1/15. In NY, a joint settlement proposal was filed in February that provides for new rates at Central Hudson that reflect an allowed ROE of 9% and deemed equity of 48% beginning July 1, 2015 for a three-year period. (3) FTS highlighted that a decision on strategic options for its hotel and real estate business is expected to be made in Q2/15. We believe the most likely outcome is an outright sale of the portfolio and estimate potential net proceeds of \$755-955M. (4) We have updated our estimates, largely to reflect Q4 actuals, higher corporate expense, and to dial back overly optimistic estimates at Central Hudson. This results in our 2015E EPS (f.d.) decreasing to \$2.00 (vs. \$2.05) and 2016E to \$2.06 (vs. \$2.07).

### Valuation & Recommendation

Our capital spending assumptions are consistent with management guidance and we are making no major change to our 2016E EPS estimate (\$2.06), which sits below consensus of \$2.14. Accordingly, we maintain our \$40.50 target price and Market Perform rating on the FTS shares.

Price (19-Feb) \$39.41 52-Week High \$42.23  
Target Price \$40.50 52-Week Low \$30.50



(FY-Dec.)	2013A	2014A	2015E	2016E
EPS	\$1.66	\$1.57	\$2.00↓	\$2.06↓
P/E			19.7x	19.1x
Div.	\$1.24	\$1.28	\$1.36	\$1.44
EV (\$mm)	\$15,486	\$20,390	\$23,945	\$24,289
EBITDA (\$mm)	\$1,393.0	\$1,711.0	\$2,396.3	\$2,491.4
EV/EBITDA	11.1x	11.9x	10.0x	9.7x
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014A	\$0.67	\$0.22	\$0.23	\$0.43
2015E	\$0.61↓	\$0.39↓	\$0.48↓	\$0.51
Dividend	\$1.36			3.5%
Book Value	\$24.90			1.6x
Shares O/S (mm)	276.0			\$10,877
Float O/S (mm)	276.0			\$10,877
Wkly Vol (000s)	3,399			\$120.6
Net Debt (\$mm)	\$10,601			Next Rep. Date
				May (E)

Notes: All values in C\$

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INC (C\$) 2015E: \$2.01; 2016E: \$2.14

#### Changes

#### Annual EPS

2015E \$2.05 to \$2.00  
2016E \$2.07 to \$2.06

#### Quarterly EPS

Q1/15E \$0.64 to \$0.61  
Q2/15E \$0.40 to \$0.39  
Q3/15E \$0.51 to \$0.48

## Q4 – Multi-Year Positive Growth Trends on Track

- **Maintain Market Perform rating and \$40.50 target price.** Fortis' fourth quarter results were lower than expected (adj. EPS of \$0.44/sh vs. consensus of \$0.49 and our estimate of \$0.48) as Central Hudson continues to under-earn (~7% ROE) due to a two-year rate freeze. The key here is that this is a temporary headwind that should normalize by H2/15 when rates are re-based and therefore should have no impact to FTS's favourable long-term growth trends. Furthermore, management noted on the call that 38% of their assets are located in the U.S., with the stronger US\$ providing a nice tailwind for future EPS (every 5% move is worth 4c). Our capital spending assumptions are consistent with management guidance and we are making no major change to our 2016E EPS estimate (\$2.06), which sits below consensus of \$2.14. Accordingly, we maintain our \$40.50 target price and Market Perform rating on the FTS shares.
- **2015 capital spending outlook – \$2.2B.** The company initiated a 2015 capital budget of \$2.2B (includes non-utility capex), consistent with our current estimate of \$2.2B and up from \$1.7B in 2014. Spending this year is expected to be primarily driven by UNS Energy and Western Canadian projects (Waneta hydro facility, Tilbury LNG expansion, FortisAlberta). Over the five-year period 2015-2019, the company's capital program is expected to reach ~\$9.0B, of which 38% relates to Canadian regulated electric utilities, 20% at Canadian regulated gas utilities, 35% in the U.S., 5% to Caribbean regulated electric utilities, and the remaining 2% to non-regulated operations. This capital spending program should support +6.5% rate base growth on average over the next five years.

### Exhibit 1: Capital Expenditure Outlook

Capital Expenditures (\$M)	2015E	2014A
FortisBC Energy	385	332
FortisAlberta	417	348
FortisBC Electric	103	92
Eastern Canadian	159	166
Electric Caribbean	125	71
Central Hudson	165	126
UNS Energy	684	444
<b>Subtotal - Regulated Utilities</b>	<b>\$2,038</b>	<b>\$1,579</b>
FortisGeneration	78	102
Non-Utility	36	44
<b>Subtotal - Non-Regulated</b>	<b>\$114</b>	<b>\$146</b>
<b>Total</b>	<b>\$2,152</b>	<b>\$1,725</b>

Source: Company Report

- **Significant regulatory processes are currently ongoing in Alberta and New York.** In Alberta, decisions with respect to the generic cost of capital and FortisAlberta's combined capital tracker application (2013-2015) are both expected in Q1/15. In New York, a joint settlement proposal was filed in February that provides for new rates at Central Hudson (NY) that reflect an allowed ROE of 9% and deemed equity of 48% beginning July 1, 2015 for a

three-year period. We understand that public hearings are slated for March/April 2015, with a regulatory decision expected as early as June 2015.

- **Decision on real estate strategic review expected in Q2/15.** FTS highlighted that a decision on strategic options (full or partial sale or IPO) for its hotel and real estate business (previously announced in September 2014) is expected to be made in the second quarter of 2015. We believe the most likely outcome is an outright sale of the portfolio and estimate potential net proceeds of \$755-955M, implying cap rates of 7.5-9.5% overall.
- **Revised estimates.** We have updated our estimates, largely to reflect Q4 actuals, higher corporate expense, and to dial back overly optimistic estimates at Central Hudson. This results in our 2015 EPS estimate (f.d.) decreasing to \$2.00 (vs. \$2.05) and 2016 to \$2.06 (vs. \$2.07).
- **Reiterate \$40.50 target price and Market Perform rating.** Our \$40.50 target price is based on a P/E multiple of 19.5x our 2016E EPS (f.d.) estimate. The multiple is above its 10-year historical average of ~18.7x, reflecting higher-than-average rate base growth prospects, increased diversification and optionality, and support from low bond yields. Based on FTS' relative return to our target price compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

#### Exhibit 2: Calculation of Our Target Price

FTS Valuation	Multiple	2014	2015E	2016E
Adj. EPS (f.d.)		\$1.57	\$2.00	\$2.06
Equity value/sh	19.5x	\$30.70	\$38.94	\$40.23

2016E	\$40.50
-------	---------

#### P/E Sensitivity

18.5x	19.0x	19.5x	20.0x	20.5x
\$38.16	\$39.20	\$40.23	\$41.26	\$42.29

Source: BMO Capital Markets

- **Fourth quarter results.** Fortis' adj. EPS (basic) was \$0.44/sh in Q4/14 (\$0.47 in Q4/13), lower than our outlook of \$0.48 per share and consensus of \$0.49 (range of \$0.44-0.53). Liquidity position is strong with \$2.2B of credit facility room as at year-end 2014. Relative to our model, the EPS variance was largely driven by lower-than-expected earnings contribution from Central Hudson (higher costs during current two-year rate freeze), partially offset by a strong showing at UNS Energy which was acquired in August 2014. Earnings from FTS' remaining business segments were largely in line with our expectations.

## Exhibit 3: Q4/14 Results vs. BMOCM Expectations

	Q4/14A	BMOCM Q4/14E	% Variance	Q4/13A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
Fortis BC Energy Companies	\$49.0	\$52.9	-7%	\$50.0	-2%	
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy	23.0	12.5	85%	-	n/a	Higher-than-expected increase in retail customer electricity rates
Central Hudson	4.0	12.5	-68%	11.0	-64%	Higher depreciation and operating expenses during two-year rate freeze
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>27.0</b>	<b>25.0</b>	<b>8%</b>	<b>11.0</b>	<b>145%</b>	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta	25.0	25.5	-2%	18.0	39%	Seasonality
FortisBC Electric	12.0	15.0	-20%	13.0	-8%	
Eastern Canadian	14.0	16.5	-15%	14.0	0%	
<b>Total Regulated Electric Utilities - Canadian</b>	<b>51.0</b>	<b>57.0</b>	<b>-11%</b>	<b>45.0</b>	<b>13%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	<b>6.0</b>	<b>5.0</b>	<b>19%</b>	<b>8.0</b>	<b>-25%</b>	Favourable foreign exchange associated with the translation of USD earnings
<b>Non-Regulated - Fortis Generation</b>	<b>4.0</b>	<b>5.0</b>	<b>-20%</b>	<b>4.0</b>	<b>0%</b>	
<b>Non-Regulated - Non-Utility</b>	<b>7.0</b>	<b>5.0</b>	<b>40%</b>	<b>3.0</b>	<b>133%</b>	
<b>Corporate and Other</b>	<b>(30.0)</b>	<b>(28.8)</b>	<b>4%</b>	<b>(21.0)</b>	<b>43%</b>	
<b>Net Earnings Applicable to Common Shares</b>	<b>\$114.0</b>	<b>\$121.1</b>	<b>-6%</b>	<b>\$100.0</b>	<b>14%</b>	
Adjusted EPS (basic)	\$0.44	\$0.48	-7%	\$0.47	-6%	
<b>Adjusted EPS (diluted)</b>	<b>\$0.43</b>	<b>\$0.47</b>	<b>-7%</b>	<b>\$0.47</b>	<b>-7%</b>	

Source: BMO Capital Markets, Company Reports

## Exhibit 4: Upcoming Events

Q1/15	Expected decision on Alberta Generic Cost of Capital
Q1/15	Expected decision on FortisAlberta's 2013, 2014 and 2015 combined capital tracker applications
Spring 2015	Expected commissioning of Waneta hydro facility
1H15	Expected decision on Central Hudson general rate application
1H15	Expected filing of Newfoundland Power's 2016 GRA
End of 2015	Expected commissioning of the Pinal transmission line (UNS Energy)
Late 2016	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports

## Exhibit 5: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2013	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	13-16E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$127.0	\$79.0	\$12.0	(\$13.0)	\$49.0	\$127.0	\$83.0	\$14.0	(\$11.0)	\$55.3	\$141.3	\$143.4	4.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	\$0.0	\$0.0	\$0.0	\$37.0	\$23.0	\$60.0	\$21.9	\$42.2	\$81.0	\$23.6	\$168.8	\$167.8	
Central Hudson	23.0	18.0	7.0	8.0	4.0	37.0	19.1	9.5	17.2	17.9	63.8	69.8	
	23.0	18.0	7.0	45.0	27.0	97.0	41.1	51.7	98.2	41.6	232.6	237.7	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$94.0	\$25.0	\$26.0	\$27.0	\$25.0	\$103.0	\$30.0	\$28.5	\$29.0	\$28.8	\$116.3	\$125.5	10.1%
FortisBC Electric	50.0	18.0	7.0	9.0	12.0	46.0	19.0	8.0	12.0	13.8	52.8	53.9	2.5%
Eastern Canadian	58.0	17.0	16.0	13.0	14.0	60.0	17.2	16.2	14.1	16.0	63.5	65.9	4.3%
	202.0	60.0	49.0	49.0	51.0	209.0	66.2	52.7	55.1	58.6	232.6	245.3	6.7%
Regulated Electric Utilities - Caribbean	23.0	5.0	8.0	8.0	6.0	27.0	5.2	7.4	7.2	7.5	27.3	29.3	8.4%
Non-Regulated - Fortis Generation	17.0	6.0	6.0	4.0	4.0	20.0	6.0	9.0	14.0	10.1	39.1	46.0	39.3%
Non-Regulated - Non-Utility	18.0	5.0	7.0	9.0	7.0	28.0	5.5	7.1	6.0	5.2	23.8	24.1	10.2%
Corporate and Other	(72.0)	(28.0)	(41.0)	(53.0)	(30.0)	(152.0)	(33.8)	(33.8)	(33.8)	(33.9)	(135.3)	(139.6)	24.7%
<b>Total Adjusted Earnings</b>	<b>338.0</b>	<b>145.0</b>	<b>48.0</b>	<b>49.0</b>	<b>114.0</b>	<b>356.0</b>	<b>173.1</b>	<b>108.1</b>	<b>135.7</b>	<b>144.5</b>	<b>561.4</b>	<b>586.0</b>	<b>20.1%</b>
Average Shares Outstanding (basic)	202.5	213.6	214.8	215.6	258.3	225.6	277.8	277.8	277.8	277.8	277.8	281.6	
Average Shares Outstanding (diluted)	209.3	220.9	208.4	209.2	265.7	226.1	285.1	285.1	285.1	285.1	285.1	288.0	
<b>Dividends Per Share</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$1.36</b>	<b>\$1.44</b>	<b>5.1%</b>
EPS - reported (diluted)	\$1.63	\$0.66	\$0.22	\$0.06	\$0.43	\$1.37	\$0.61	\$0.39	\$0.48	\$0.51	\$2.00	\$2.06	
Adjusted EPS - basic	\$1.67	\$0.68	\$0.22	\$0.23	\$0.44	\$1.58	\$0.62	\$0.39	\$0.49	\$0.52	\$2.02	\$2.08	7.6%
<b>Adjusted EPS - diluted</b>	<b>\$1.66</b>	<b>\$0.67</b>	<b>\$0.22</b>	<b>\$0.23</b>	<b>\$0.43</b>	<b>\$1.57</b>	<b>\$0.61</b>	<b>\$0.39</b>	<b>\$0.48</b>	<b>\$0.51</b>	<b>\$2.00</b>	<b>\$2.06</b>	<b>7.6%</b>

Source: BMO Capital Markets

## Exhibit 6: Consolidated Summary Sheet



## Fortis Inc. (FTS)

## Market Perform

12-Month Target Price: \$40.50

Analyst: Ben Pham, CFA

(416) 359-4061

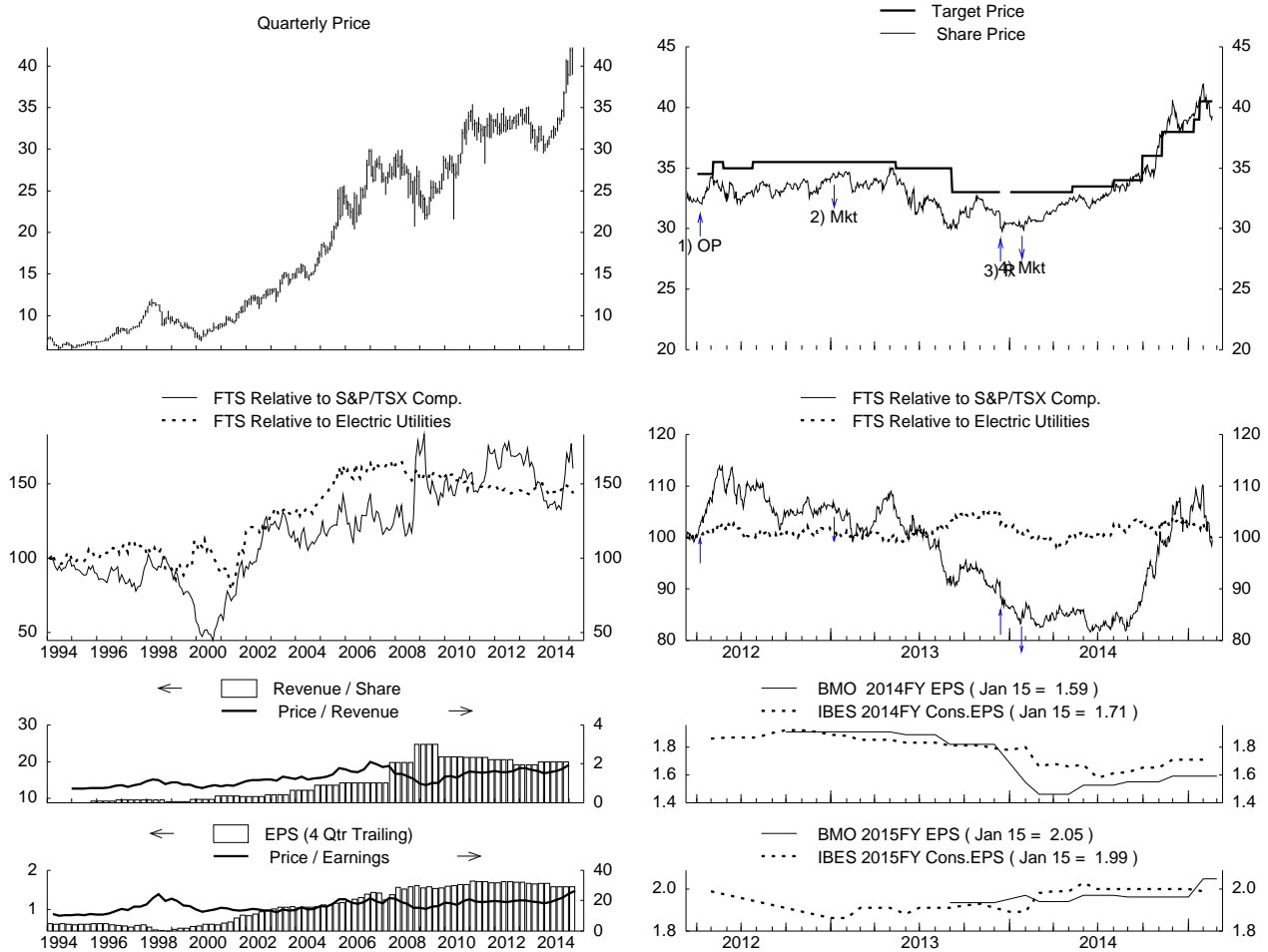
Current Price: \$39.41

ROR: 6.2%

	Year Ended 31 December										CAGR 2013A- 2016E
	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.58	\$2.02	\$2.08	7.6%
Earnings Per Share (Diluted)	\$1.29	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.66	\$1.57	\$2.00	\$2.06	7.6%
First Call Consensus (EPS)									\$2.01	\$2.14	8.8%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.44	\$4.73	\$4.66	\$4.90	\$5.75	\$5.95	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.36	\$1.44	5.1%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.1%	67.3%	69.2%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.1%	25.4%	26.6%	26.1%	23.7%	24.2%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	225.6	277.8	281.6	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	197.2	209.3	226.1	285.1	288.0	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.90	\$25.63	\$26.36	
<b>Market Valuation</b>											
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	\$40.83	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	\$29.78	-	-	
Price: Current	-	-	-	-	-	-	-	-	\$39.41	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	25.9	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	18.0	18.9	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	-	19.7	19.1	
EV/EBITDA: High	12.5	10.4	10.9	11.3	11.4	11.0	11.5	12.9	-	-	
EV/EBITDA: Low	11.6	9.0	9.7	10.0	11.0	10.6	10.7	11.4	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	-	10.0	9.8	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	3.1%	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	4.3%	-	-	
Yield: Current	-	-	-	-	-	-	-	-	3.5%	3.7%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	947.0	568.0	538.0	467.0	144.0	132.0	401.0	1,196.0	304.9	402.4	
Debt (L-T)	4,529.0	4,900.0	5,292.0	5,447.0	5,711.0	5,750.0	6,891.0	9,405.0	10,475.0	10,575.0	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	421.0	421.0	421.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,820.0	1,825.0	1,825.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,871.0</u>	<u>7,167.9</u>	<u>7,470.1</u>	
	8,678.7	9,369.7	9,856.7	10,337.0	10,852.0	11,292.0	13,668.0	19,713.0	20,193.8	20,693.6	
<b>Balance Sheet (%)</b>											
Debt (S-T)	10.9%	6.1%	5.5%	4.5%	1.3%	1.2%	2.9%	6.1%	1.5%	1.9%	
Debt (L-T)	52.2%	52.3%	53.7%	52.7%	52.6%	50.9%	50.4%	47.7%	51.9%	51.1%	
Minority Interest	1.3%	1.5%	1.2%	1.6%	1.9%	2.7%	2.7%	2.1%	2.1%	2.0%	
Preferred Shares	5.1%	7.1%	6.8%	8.8%	8.4%	9.8%	9.0%	9.2%	9.0%	8.8%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.0%</u>	<u>32.5%</u>	<u>32.4%</u>	<u>32.0%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>34.9%</u>	<u>35.5%</u>	<u>36.1%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,401.0	6,977.2	7,181.5	21.1%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,711.0	2,396.3	2,491.4	21.4%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	356.0	561.4	586.0	20.1%
Funds from Operations	490.0	622.0	678.0	734.0	806.0	898.0	944.0	1,106.0	1,596.5	1,676.4	21.1%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,725.0)	(2,177.2)	(1,673.2)	
<b>Financial Leverage</b>											
Net Debt	5,521.0	5,512.0	5,874.0	5,958.0	5,855.0	5,882.0	7,292.0	10,601.0	10,779.9	10,977.4	
Net Debt/EBITDA	6.8x	5.2x	5.5x	5.2x	5.0x	4.7x	5.2x	6.2x	4.5x	4.4x	
Net Debt/Total Book Capitalization	63.6%	58.8%	59.6%	57.6%	54.0%	52.1%	53.4%	53.8%	53.4%	53.0%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.58	26.6	1.28	3.1	81	23.0	1.8	7

Growth(%):

5 Year:	0.5	4.2	4.3
10 Year:	4.0	9.0	8.2
20 Year:	4.8	5.7	7.1

\* Current EPS is the 4 Quarter Trailing to Q3/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 9-Mar-12 = NR

Date	Rating Change	Share Price
1 6-Apr-12	NR to OP	\$32.11
2 7-Jan-13	OP to Mkt	\$34.52
3 12-Dec-13	Mkt to R	\$30.04
4 24-Jan-14	R to Mkt	\$30.31

Last Price ( February 18, 2015): \$39.30  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates’ ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns® is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

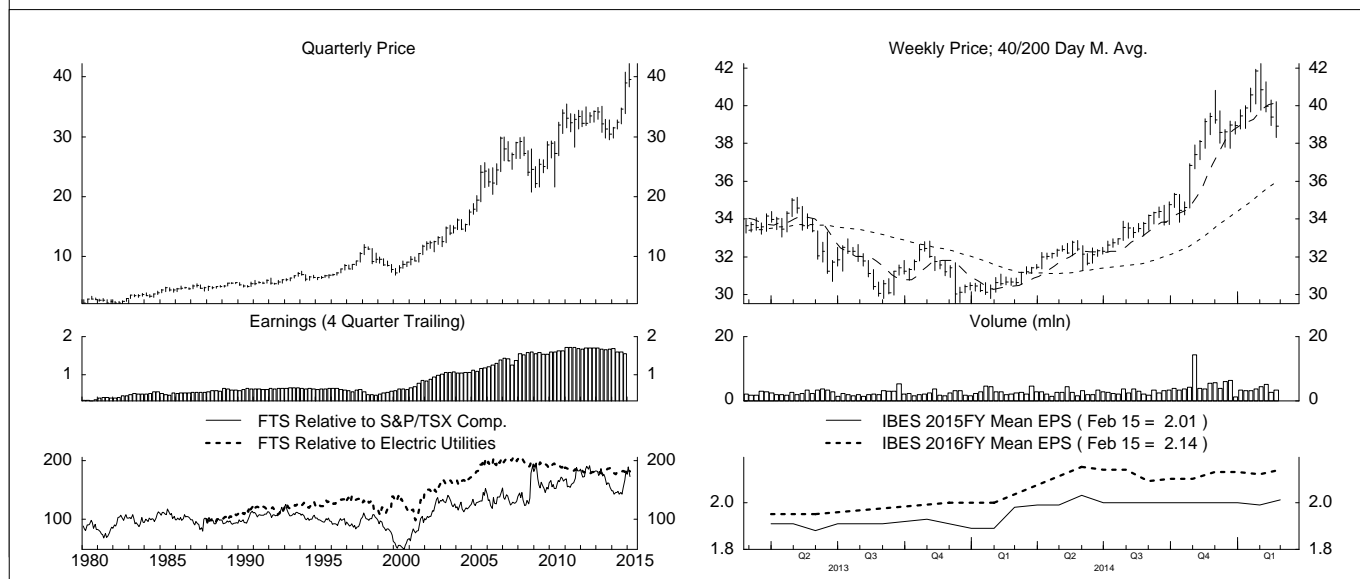
**March 6, 2015**  
 Research Fact Sheet  
 Utilities - Power & Utilities

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 (416) 359-4061  
 ben.pham@bmo.com  
 Eric Tang

Price (26-Feb)	\$38.91	52-Week High	\$42.23	
Target Price	\$40.50	52-Week Low	\$30.51	
Dividend	\$1.36	Book Value	\$24.90	
Yield	3.5%	Price/Book	1.6x	
Shares O/S (mm)	276.0	Mkt. Cap (\$mm)	\$10,739	
Float O/S (mm)	276.0	Float Cap (\$mm)	\$10,739	
Wkly Vol (000s)	3,445	Wkly \$ Vol (mm)	\$123.2	
Net Debt (\$mm)	\$10,601	Next Rep. Date	May (E)	
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014A	\$0.67	\$0.22	\$0.23	\$0.43
2015E	\$0.61	\$0.39	\$0.48	\$0.51

**Notes:** All values in C\$ **Disclosures:** 1, 2, 3, 4, 5, 6AC, 8

(FY-Dec.)	2013A	2014A	2015E	2016E
<b>EPS</b>	\$1.66	\$1.57	\$2.00	\$2.06
<b>P/E</b>			19.5x	18.9x
<b>Div.</b>	\$1.24	\$1.28	\$1.36	\$1.44
<b>EV (\$mm)</b>	\$15,486	\$20,390	\$23,800	\$24,096
<b>EBITDA (\$mm)</b>	\$1,393.0	\$1,711.0	\$2,389.5	\$2,497.1
<b>EV/EBITDA</b>	11.1x	11.9x	10.0x	9.6x
<b>Book Value (\$)</b>	\$22.39	\$24.90	\$25.63	\$26.36
<b>D/Tot. Cap. (%)</b>	53.4%	53.8%	53.3%	52.9%
<b>Debt/EBITDA</b>	5.2x	6.2x	4.5x	4.4x



**Company Description** – Fortis Inc. (Fortis) is a publicly listed holding company with four key businesses: electric utility operations, regulated natural gas distribution, non-regulated electric power generation and non-utility property activities. Gas and electric utility operations include Newfoundland Power, Maritime Electric, FortisOntario, Caribbean Utilities (59.5%), Turks and Caicos, FortisAlberta, FortisBC, the FortisBC Energy Companies, CH Energy Group and UNS Energy Corporation. Its

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to the back pages.

regulated utilities account for approximately 93% of the company's total assets and serve more than 3 million customers. *Website:* fortisinc.com

**Recent Results** – Fortis' adjusted EPS (basic) was \$0.44/sh in Q4/14, lower than our outlook of \$0.48 per share and consensus of \$0.49. Relative to our model, the EPS variance was largely driven by lower-than-expected earnings contribution from Central Hudson (higher costs during current two-year rate freeze), partially offset by a strong

showing at UNS Energy, which was acquired in August 2014.

**Corporate Developments** – On February 9, 2015, Fortis announced that it would host its inaugural U.S. Investor Day on April 1, 2015 in New York.

On February 2, 2015, FortisBC finalized a 10-year LNG supply agreement with BC Ferries to fuel new vessels. FortisBC will supply up to 300,000 GJ of LNG per year from its Tilbury facility located in Delta, B.C.

On December 17, 2014, Fortis increased its annual dividend by 6.25% to \$1.36/sh from \$1.28/sh.

On October 28, 2014, Fortis issued 58.2M common shares at a price of \$30.72/sh upon conversion of \$1.8B of its 4% convertible unsecured subordinated debentures. The convertible debentures were previously issued as part of the financing for the UNS Energy acquisition.

On October 21, 2014, FortisBC started construction of its \$400M Tilbury LNG facility expansion project in Delta, BC. The expansion is expected to be completed by Q4/16

and would add 1.1M GJ of LNG to storage and 34,000 GJ per day of liquefaction capacity.

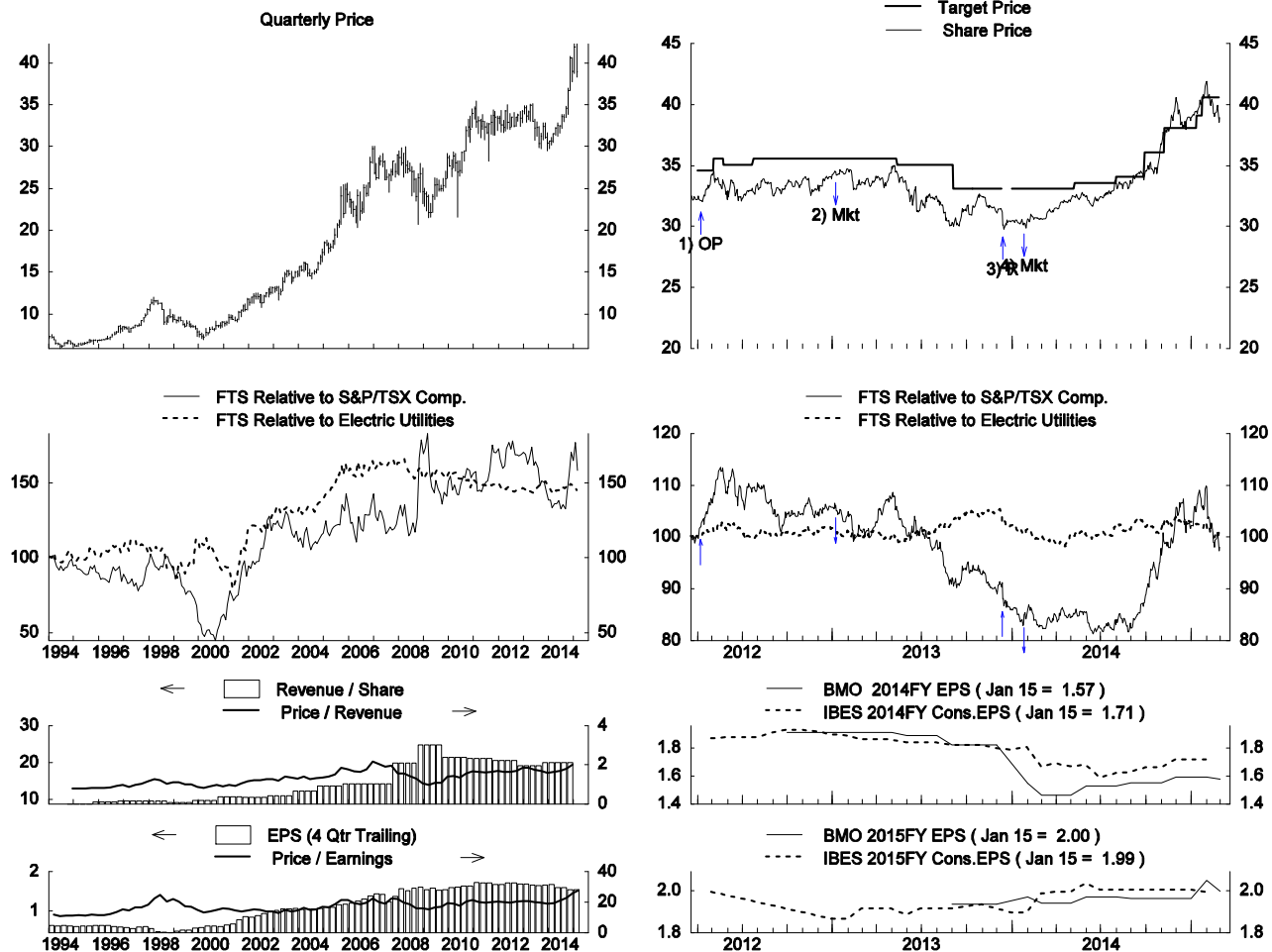
On September 29, 2014, Fortis initiated a review of strategic options for its hotels and commercial real estate business under its wholly owned subsidiary, Fortis Properties. Fortis Properties owned and operated 23 hotels and 2.8 million square feet of commercial and retail real estate in Canada.

**Forecasts** – We are forecasting adjusted EPS (fully diluted) of \$2.00 and \$2.06 for 2015 and 2016, respectively.

**Valuation** – Our target price of \$40.50 is based on 19.5x our 2016E adjusted EPS (f.d.) estimate.

**Recommendation** – At current levels, we believe the shares of Fortis are reasonably valued. We rate Fortis Market Perform.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	7
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	9
1999	0.58	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	12
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.98	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	22.4	1.8 1.3	7
Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.55	27.0	1.28	3.1	83	24.9	1.7	6
Growth(%):								
5 Year:	0.1		4.2			6.0		
10 Year:	3.9		9.0			9.1		
20 Year:	4.7		5.7			7.5		

\* Current EPS is the 4 Quarter Trailing to Q4/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

FTS - Rating as of 19-Mar-12 = NR

Date	Rating Change	Share Price
1 6-Apr-12	NR to OP	\$32.11
2 7-Jan-13	OP to Mkt	\$34.52
3 12-Dec-13	Mkt to R	\$30.04
4 24-Jan-14	R to Mkt	\$30.31

Last Price ( February 26, 2015): \$38.91

Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.



**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exception: Alex Arfaei). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

“BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$38.37**  
**Target Price:**      **\$40.50**

April 2, 2015  
Utilities - Power & Utilities

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

**416-359-4061**

Eric Tang  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

**416-359-8110**

## Key Highlights From U.S. Investor Day

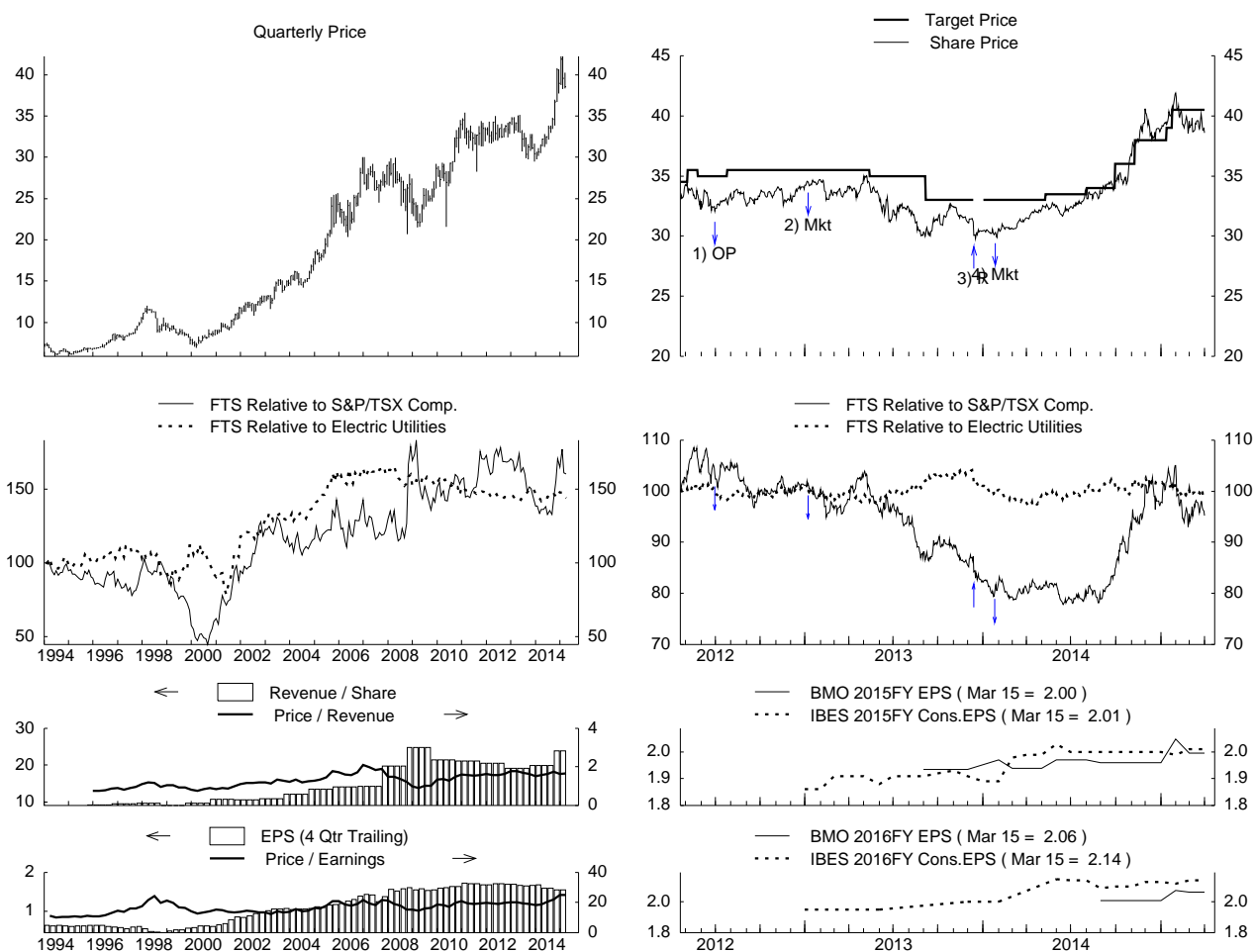
Fortis delivered a series of detailed presentations at its New York investor day yesterday, the net of which reaffirmed our view that the company provides a beacon of visible, utility-driven growth at attractive levels of ~6.5%. While the capital spending trends and growth guidance was largely unchanged from past disclosures, there was more detail with respect to some of the utility projects underpinning its five-year capital program. The decision from Fortis's strategic review of its hotel and real estate business is still expected to be announced in Q2/15.

### Our View:

- FTS reiterated a capital spending program of \$2.2B in 2015 and \$9B through 2019. Should the entirety of this growth capital be deployed, management expects that by 2019 it would achieve a ~6.5% CAGR in rate base. More importantly, management sees ample liquidity and balance sheet capacity to fund this capital plan without issuing new common shares (other than the DRIP which provides \$100M per annum). On top of that, we believe the expected proceeds from the real estate and hotels business could be used for shareholder-friendly initiatives in the near term, such as debt repayment, share buybacks, and/or dividend increases.
- What rang loud and clear during the session is that management is focused on organic growth and execution of the aforementioned capital program during 2015, while acquisitions have taken a back seat. Though we would not be surprised to see an opportunistic acquisition materialize in the U.S. of a smaller scale than UNS Energy, we note that currency and relative valuations are now less favourable while the pool of potential U.S. acquisitions has shrunk following last year's M&A utility frenzy.
- Management expressed a high degree of confidence in additional infrastructure opportunities associated with B.C. LNG that are not incorporated in its capital spending forecasts, or our estimates. These prospective opportunities include further expansion of the Tilbury LNG facility, and Woodfibre gas pipeline expansion. Should these developments move forward, management sees its 5-year capex increasing to \$10.1B (vs. ~\$9.1B), which would elevate its rate base CAGR to ~7.5% (vs. ~6.5%). We understand that regulatory approval of an LNG export contract with Hawaii Electric (Tilbury) will likely not be forthcoming until mid-2016, while proponents of the Woodfibre LNG export project are not expected to make a final investment decision until end of this year.
- Management highlighted that it is considering a U.S. listing, with a decision likely before end of 2015. With over ~40% of its asset base currently in the U.S., this would be a logical move in our books. Every 5% increase in the USD (vs CAD) benefits EPS by \$0.04.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	7
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	9
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	9
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	24.9	1.6 1.2	7
Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.55	24.9	1.36	3.5	88	24.9	1.5	6
Growth(%):								
5 Year:	-0.5		4.0			6.0		
10 Year:	3.4		9.1			9.1		
20 Year:	4.9		6.1			7.5		

\* Current EPS is the 4 Quarter Trailing to Q4/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 19-Apr-12 = OP

Date	Rating Change	Share Price
1 28-Jun-12	R to OP	\$32.09
2 7-Jan-13	OP to Mkt	\$34.52
3 12-Dec-13	Mkt to R	\$30.04
4 24-Jan-14	R to Mkt	\$30.31

Last Price ( March 31, 2015): \$ND  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exceptions: Alex Arfaei and Brodie Woods). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (December 31, 2014)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.



**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by Iain Reid, Tony Robson, David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---

# Fortis

(FTS-TSX)

**Stock Rating:**      **Market Perform**  
**Stock Price:**      **\$39.07**  
**Target Price:**      **\$40.50**

May 5, 2015  
 Utilities - Power & Utilities

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

**416-359-4061**

Eric Tang  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

## First Glance: Q1/15 Above Expectations on Seasonality

Fortis' adj. EPS (basic) were \$0.65/sh in Q1/15 (\$0.63 in Q1/14), higher than our outlook of \$0.64 per share and consensus of \$0.62 per share (range of \$0.57–0.66). Beats mainly occurred in regulated utilities on seasonality, with the partial offsetting deltas primarily being non-regulated generation and real estate.

### Our View:

- **UNS Energy: Miss** - \$20M vs. our \$22M on seasonality offset by a stronger USD supporting segment results. Recall, ~75% of UNS earnings are generated in Q2 and Q3. In January 2015, UNS Energy closed the purchase of an additional ownership interest in the Springerville Unit 1 for US\$46M (in line).
- **Central Hudson: Beat** - \$22M vs. our \$19M on favourable F/X (\$3M benefit) and energy-efficiency incentives. With respect to the General Rate Application, a final joint proposal that was completed in April is expected to go to the regulator in June for consideration and approval (decision expected in Q2/15).
- **FortisAlberta: Miss** - \$31M (after adjusting for a positive \$10M capital tracker regulatory adjustment) vs. our \$35M, but up 24% y/y.
- **FortisBC Energy: Beat** - \$88M vs. our \$83M and up 11% from last year on greater seasonality due to end of the rate stabilization mechanism. The \$440M Tilbury 1A project is still expected to be completed end of 2016.
- **FortisBC Electric: Beat** - \$23M vs. our \$19M on seasonality (deferral mechanisms, timing of power purchase costs).
- **Fortis Generation: Miss** - \$3M vs. our estimate of \$6M due to weak hydrology conditions in Belize. The 335MW Waneta hydro expansion project (51% FTS) in B.C. came online six weeks earlier than expected (early April) and on budget (\$900M gross).
- **Non-utility: Miss** - Loss of \$2M compared to our estimate of \$6M primarily due to costs associated with the ongoing strategic review, which is still expected to be completed in Q2/15.
- **Other:** The Caribbean was inline, with a beat in Eastern Canadian.
- **Guidance.** 2015 capex of \$2.2B reiterated (\$550M was invested in Q1/15). We are currently modelling for ~\$2.15B.
- Please see Exhibit 1 on the following page for more details of the variance.
- **Earnings call today at 10:00 a.m. ET.** The dial-in number is 1-877-223-4471 or 647-788-4922.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 3 to 6.

## Exhibit 1: Q1/15 Results vs. BMO Capital Markets Expectations

	Q1/15A	BMOCM Q1/15E	% Variance	Q1/14A	Y/Y Chg. %
<b>Regulated Gas Utilities - Canadian</b>					
FortisBC Energy Companies	\$88.0	\$83.0	6%	\$79.0	11%
<b>Regulated Gas &amp; Electric Utility - United States</b>					
UNS Energy	20.0	21.9	-9%	-	n/a
Central Hudson	22.0	19.1	15%	18.0	22%
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>42.0</b>	<b>41.1</b>	2%	18.0	133%
<b>Regulated Electric Utilities - Canadian</b>					
FortisAlberta <sup>(1)</sup>	31.0	35.2	-12%	25.0	24%
FortisBC Electric	23.0	19.0	21%	18.0	28%
Eastern Canadian	19.0	17.2	10%	17.0	12%
<b>Total Regulated Electric Utilities - Canadian</b>	<b>73.0</b>	<b>71.4</b>	2%	<b>60.0</b>	22%
<b>Regulated Electric Utilities - Caribbean</b>	5.0	5.2	-3%	5.0	0%
<b>Non-Regulated - Fortis Generation</b>	3.0	6.0	-50%	6.0	-50%
<b>Non-Regulated - Non-Utility<sup>(2)</sup></b>	(2.0)	5.5	-137%	0.0	n/a
<b>Corporate and Other<sup>(3)(4)(5)</sup></b>	(30.0)	(33.8)	-11%	(33.0)	-9%
<b>Net Earnings Applicable to Common Shares</b>	<b>\$179.0</b>	<b>\$178.3</b>	0%	<b>\$135.0</b>	33%
Average Shares (basic)	276.7	277.8		213.6	
Average Shares (diluted)	283.1	285.1		220.9	
<b>Adjusted EPS (basic)</b>	<b>\$0.65</b>	<b>\$0.64</b>	1%	<b>\$0.63</b>	2%
Adjusted EPS (diluted)	\$0.64	\$0.63	1%	\$0.62	3%

## Notes:

(1) Excludes \$10M GCOC and capital tracker revenue adjustment associated with 2013 and 2014 in Q1/15

(2) Adjusted for \$5M related to earnings from discontinued operations (Griffith) in Q1/14

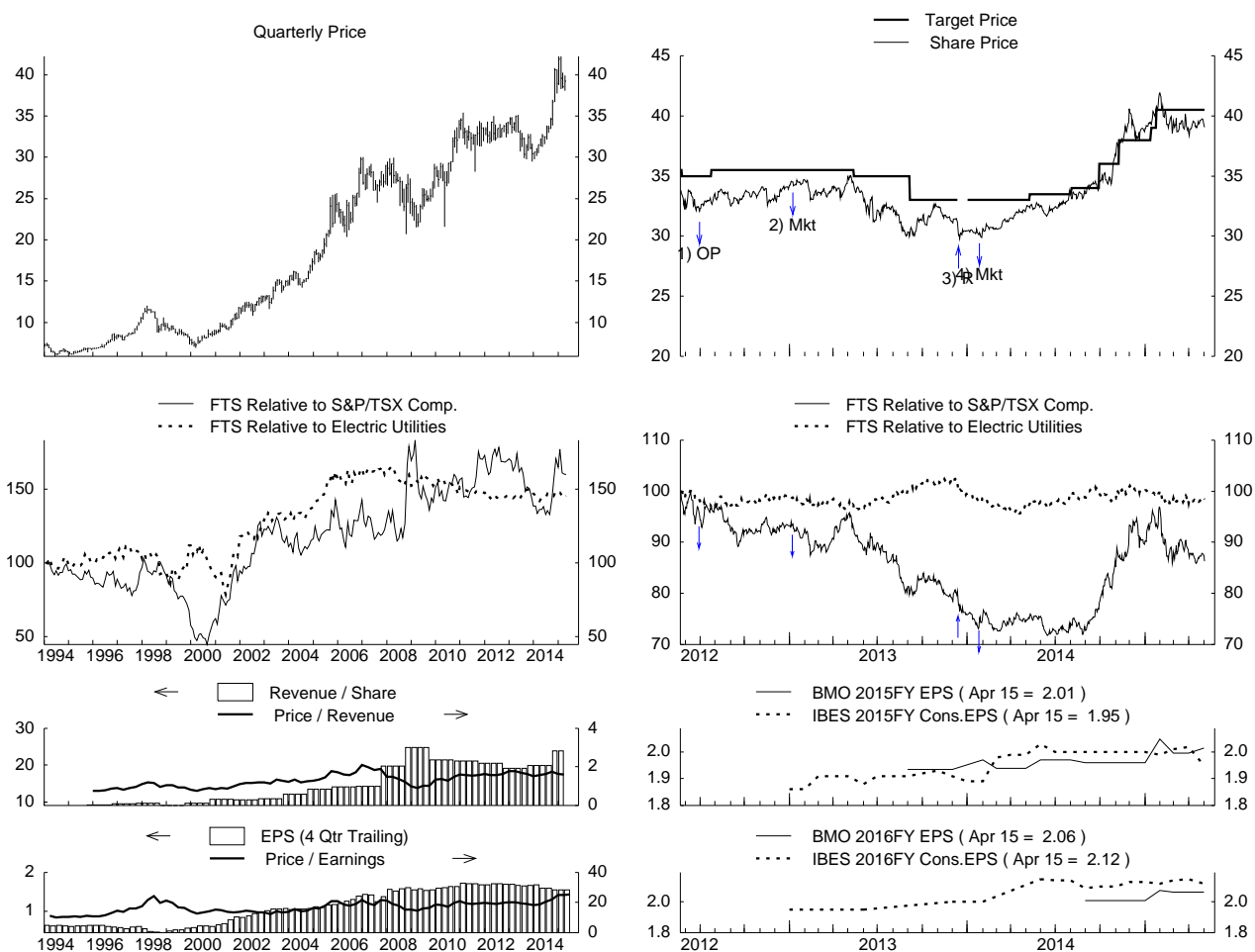
(3) Corporate for Q1/14 exclude approximately \$1M in acquisition-related expenses relating to the UNS acquisition

(4) Excludes foreign exchange gain of \$9M in Q1/15 and \$4M in Q1/14

(5) Corporate expenses include \$11M related to interest expense on convertible debentures in Q1/14

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	11
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	10
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	9
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	7
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	9
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.6	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	9
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	24.9	1.6 1.2	7
Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.55	25.3	1.36	3.5	88	24.9	1.6	6
Growth(%):								
5 Year:	-0.5		4.0			6.0		
10 Year:	3.4		9.1			9.1		
20 Year:	4.9		6.1			7.5		

\* Current EPS is the 4 Quarter Trailing to Q4/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 22-May-12 = OP

Date	Rating Change	Share Price
1 28-Jun-12	R to OP	\$32.09
2 7-Jan-13	OP to Mkt	\$34.52
3 12-Dec-13	Mkt to R	\$30.04
4 24-Jan-14	R to Mkt	\$30.31

Last Price ( May 1, 2015): \$39.07  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exceptions: Alex Arfaei and Brodie Woods). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (March 31, 2015)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.7%	18.6%	58.2%	42.7%	55.5%	54.1%
Hold	Market Perform	51.4%	10.4%	38.5%	52.1%	41.9%	40.5%
Sell	Underperform	4.9%	9.4%	3.3%	5.2%	2.6%	5.5%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.



**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---

# Fortis

(FTS-TSX)

**Stock Rating:** Market Perform  
**Industry Rating:** Market Perform

May 6, 2015

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

## Q1 – Results Demonstrate Solid Momentum for 2015

### Event

FTS' first quarter results were higher than expected (adj. EPS basic of \$0.65 vs. our estimate of \$0.64 and consensus of \$0.62) due to strength in regulated utility on seasonality, partially offset by softer results in non-regulated.

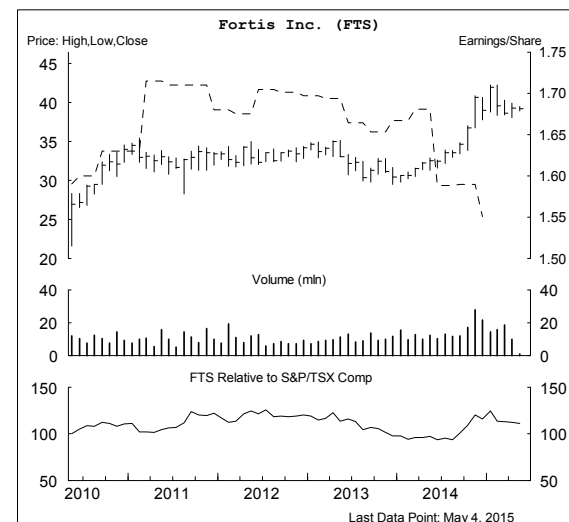
### Impact & Analysis

Key implications: (1) FTS reaffirmed its 2015 capital spending outlook of \$2.2B, after having spent \$550M in Q1/15. Looking out over the next five-year period 2015-2019, the company's capital program is expected to reach ~\$9.0B. This capex should support +6.5% rate base growth, while potential upside to +7.5% is possible should further LNG-related opportunities (~\$1B) come to fruition. (2) In terms of major growth initiatives, the 335MW Waneta hydro expansion project (51% FTS) in B.C. was completed on April 1 – six weeks earlier than expected – and came in on budget (\$900M gross). The \$440M Tilbury 1A expansion is still expected to be completed by end of 2016. (3) On the regulatory front, a 2016 cost of capital review in Alberta has commenced, while one in B.C. is expected to be initiated later in the year. A final joint proposal for Central Hudson's rate application was completed in April and is expected to go to the regulator in June for approval. (4) We have updated our estimates, largely to reflect Q1 actuals, revised seasonality, lower corporate costs, and to assume sale of FTS Properties mid-year. Our 2015 EPS estimate (f.d.) is unchanged at \$2.01 while our 2016 estimate is increased to \$2.07 (vs. \$2.06).

### Valuation & Recommendation

While the earnings beat appeared to be largely driven by seasonality, it was otherwise a solid quarter with robust capital spending and rate base growth trends. Regulatory headwinds have surfaced in many of FTS' core markets, with regulated ROEs more likely to surprise to the downside rather than the upside as we head through 2016. However, earnings fundamentals continue to improve and management remains focused on realizing the value of its real estate portfolio. Based on FTS' relative return to our unchanged target price (\$40.50) compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

**Price (5-May)** \$38.89 **52-Week High** \$42.23  
**Target Price** \$40.50 **52-Week Low** \$31.26



(FY-Dec.)	2013A	2014A	2015E	2016E
EPS	\$1.66	\$1.57	\$2.01	\$2.07↑
P/E			19.3x	18.8x
Div.	\$1.24	\$1.28	\$1.36	\$1.44
EV (\$mm)	\$15,486	\$20,390	\$23,653	\$23,921
EBITDA (\$mm)	\$1,393.0	\$1,711.0	\$2,369.0	\$2,449.9
EV/EBITDA	11.1x	11.9x	10.0x	9.8x
<b>Quarterly EPS</b>				
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
2013A	\$0.66	\$0.32	\$0.23	\$0.47
2014A	\$0.67	\$0.22	\$0.23	\$0.43
2015E	\$0.64a	\$0.43↑	\$0.44↓	\$0.50↓
Dividend	\$1.36	<b>Yield</b>		3.5%
Book Value	\$26.39	<b>Price/Book</b>		1.5x
Shares O/S (mm)	277.5	<b>Mkt. Cap (mm)</b>		\$10,792
Float O/S (mm)	277.5	<b>Float Cap (mm)</b>		\$10,792
Wkly Vol (000s)	3,542	<b>Wkly \$ Vol (mm)</b>		\$130.5
Net Debt (\$mm)	\$11,213	<b>Next Rep. Date</b>		Aug (E)

Notes: All values in C\$

Major Shareholders: Widely held

First Call Mean Estimates: FORTIS INC (C\$) 2015E: \$1.95; 2016E: \$2.12

**Changes**  
**Annual EPS**  
 2016E \$2.06 to \$2.07

**Quarterly EPS**  
 Q2/15E \$0.39 to \$0.43  
 Q3/15E \$0.48 to \$0.44  
 Q4/15E \$0.51 to \$0.50

## Q1 – Results Demonstrate Solid Momentum for 2015

- **First quarter results above expectations.** Fortis' adj. EPS (basic) was \$0.65/sh in Q1/15 (\$0.63 in Q1/14), higher than our outlook of \$0.64 per share and consensus of \$0.62 per share (range of \$0.57-0.66). Beats mainly occurred in regulated utilities on seasonality, with the partial offsetting deltas primarily being non-regulated generation and real estate. Please see Exhibit 1 for more details of the variance.

### Exhibit 1: Q1/15 Results vs. BMOCM Expectations

	Q1/15A	BMOCM Q1/15E	% Variance	Q1/14A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
FortisBC Energy Companies	\$88.0	\$83.0	6%	\$79.0	11%	Greater seasonality due to end of rate stabilization mechanism
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy	20.0	21.9	-9%	-	n/a	Seasonality offset by a stronger USD
Central Hudson	22.0	19.1	15%	18.0	22%	Favorable F/X and energy-efficiency incentives
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>42.0</b>	<b>41.1</b>	<b>2%</b>	<b>18.0</b>	<b>133%</b>	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta <sup>(1)</sup>	31.0	35.2	-12%	25.0	24%	Seasonality (deferral mechanisms, timing of power purchase costs)
FortisBC Electric	23.0	19.0	21%	18.0	28%	
Eastern Canadian	19.0	17.2	10%	17.0	12%	
<b>Total Regulated Electric Utilities - Canadian</b>	<b>73.0</b>	<b>71.4</b>	<b>2%</b>	<b>60.0</b>	<b>22%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	5.0	5.2	-3%	5.0	0%	Weak hydrology conditions in Belize, Upstate New York and Ontario
<b>Non-Regulated - Fortis Generation</b>	3.0	6.0	-50%	6.0	-50%	
<b>Non-Regulated - Non-Utility<sup>(2)</sup></b>	(2.0)	5.5	-137%	0.0	n/a	
<b>Corporate and Other<sup>(3)(4)(5)</sup></b>	(30.0)	(33.8)	-11%	(33.0)	-9%	Higher cost due to ongoing strategic review
<b>Net Earnings Applicable to Common Shares</b>	<b>\$179.0</b>	<b>\$178.3</b>	<b>0%</b>	<b>\$135.0</b>	<b>33%</b>	Lower corporate interest expense
Average Shares (basic)	276.7	277.8		213.6		
Average Shares (diluted)	283.1	285.1		220.9		
<b>Adjusted EPS (basic)</b>	<b>\$0.65</b>	<b>\$0.64</b>	<b>1%</b>	<b>\$0.63</b>	<b>2%</b>	
Adjusted EPS (diluted)	\$0.64	\$0.63	1%	\$0.62	3%	

Notes:

(1) Excludes \$10M GCOC and capital tracker revenue adjustment associated with 2013 and 2014 in Q1/15

(2) Adjusted for \$5M related to earnings from discontinued operations (Griffith) in Q1/14

(3) Corporate for Q1/14 exclude approximately \$1M in acquisition-related expenses relating to the UNS acquisition

(4) Excludes foreign exchange gain of \$9M in Q1/15 and \$4M in Q1/14

(5) Corporate expenses include \$11M related to interest expense on convertible debentures in Q1/14

Source: BMO Capital Markets, Company Reports

- **Strong capital spending outlook.** FTS reaffirmed its 2015 capital spending outlook of \$2.2B, after having spent \$550M in Q1/15 (we are currently modelling for ~\$2.15B). Looking out over the next five-year period 2015-2019, the company's capital program is expected to reach ~\$9.0B, of which 36% relates to Canadian regulated electric utilities, 20% at Canadian regulated gas utilities, 37% in the U.S., 5% to Caribbean regulated electric utilities, and the remaining 2% to non-regulated operations. This capital spending program should support +6.5% rate base growth on average over the next five years, with potential upside to +7.5% should further LNG-related opportunities (~\$1B) come to fruition (i.e., Woodfibre pipeline expansion, Tilbury 1B).
- **Waneta expansion project completed.** The 335MW Waneta hydro expansion project (51% FTS) in B.C. was completed on April 1 – six weeks earlier than expected – and came in on budget (\$900M gross). All of the power is being sold to B.C. Hydro (100% Government of B.C.) and FortisBC Electric under 40-year contracts.

- **Tilbury 1A expansion on track.** The \$440M Tilbury LNG 1A expansion (second LNG tank and a new liquefier) is still expected to be completed by end of 2016. The LNG tank concrete foundation is complete and construction of the tank wall and bottom steel plate has commenced.
- **On to the next round of cost of capital reviews.** After having gone through a lengthy cost of capital review process in Alberta (2013-2015), management is now turning its attention to 2016 cost of capital reviews in Alberta and B.C. In passing, management noted that a final joint proposal for Central Hudson's rate application (effective July 1, 2015 for three years) was completed in April and is expected to go to the regulator in June for consideration and approval (decision expected in Q2/15).
- **Decision on real estate strategic review expected in Q2/15.** A decision on strategic options (full or partial sale or IPO) for its hotel and real estate business (previously announced in September 2014) is expected to be made in Q2/15. We now model for mid-year transaction close, with potential net proceeds of \$755-955M.
- **Revised estimates.** We have updated our estimates, largely to reflect Q1 actuals, revised seasonality, lower corporate costs, and to assume sale of FTS Properties mid-year. Our 2015 EPS estimate (f.d.) is unchanged at \$2.01 while our 2016 est. is increased to \$2.07 (vs. \$2.06).
- **Reiterate \$40.50 target price.** As there is only a slight change in our 2016 EPS estimate, our target price remains at \$40.50 (based on a forward P/E multiple of 19.5x). The multiple is above its 10-year historical average of ~18.8x, reflecting higher-than-average rate base growth prospects, increased diversification and optionality, and support from low bond yields.
- **Maintain Market Perform rating.** While the earnings beat appeared to be largely driven by seasonality, it was otherwise a solid quarter with robust capital spending and rate base growth trends. Regulatory headwinds have surfaced in many of FTS' core markets (i.e., Alberta), with regulated ROEs more likely to surprise to the downside rather than the upside as we head through 2016. However, earnings fundamentals continue to improve and management remains focused on realizing the value of its real estate portfolio. Based on FTS' relative return to our price target compared to the other companies we cover in the regulated utility complex, we continue to rate FTS shares Market Perform.

### Exhibit 2: Calculation of Our Target Price

FTS Valuation	Multiple	2014	2015E	2016E
Adj. EPS (f.d)		\$1.57	\$2.01	\$2.07
Equity value/sh	19.5x	\$30.70	\$39.19	\$40.30
2016E				\$40.50
<u>P/E Sensitivity</u>				
18.5x	19.0x	19.5x	20.0x	20.5x
\$38.23	\$39.26	\$40.30	\$41.33	\$42.36

Source: BMO Capital Markets

## Exhibit 3: Upcoming Events

Q2/15	Decision on strategic review of FTS Properties
Q2/15	Expected decision on Central Hudson General Rate Application
Q2/15	Expected decision on FEI 2015 Annual Rates Application
Q2/15	Expected decision on FortisBC Electric 2015 Annual Rates Application
2H15	Expected decision on FortisAlberta 2013-2015 Capital Tracker Compliance filing
By Nov. 30, 2015	FEI to file application for 2016 ROE and common equity
End of 2015	Expected commissioning of the Pinal transmission line (UNS Energy)
End of 2015	Expected FID on Woodfibre LNG facility (3rd party)
Q1/16	Expected decision on FortisAlberta 2016/2017 Capital Tracker Application
1H16	Expected filing of Newfoundland Power's 2016 GRA
Late 2016	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports

## Exhibit 4: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2013	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	13-16E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$127.0	\$79.0	\$12.0	(\$13.0)	\$49.0	\$127.0	\$88.0	\$13.0	(\$11.8)	\$52.1	\$141.3	\$143.4	4.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	\$0.0	\$0.0	\$0.0	\$37.0	\$23.0	\$60.0	\$20.0	\$50.0	\$72.0	\$26.8	\$168.8	\$170.0	
Central Hudson	23.0	18.0	7.0	8.0	4.0	37.0	22.0	11.0	17.2	16.4	66.7	69.8	
	23.0	18.0	7.0	45.0	27.0	97.0	42.0	61.0	89.2	43.2	235.4	239.8	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$94.0	\$25.0	\$26.0	\$27.0	\$25.0	\$103.0	\$31.0	\$31.0	\$31.0	\$29.0	\$122.0	\$125.5	10.1%
FortisBC Electric	50.0	18.0	7.0	9.0	12.0	46.0	23.0	7.6	9.5	12.7	52.8	53.9	2.5%
Eastern Canadian	58.0	17.0	16.0	13.0	14.0	60.0	19.0	16.8	13.8	13.9	63.5	65.9	4.3%
	202.0	60.0	49.0	49.0	51.0	209.0	73.0	55.4	54.3	55.6	238.3	245.3	6.7%
Regulated Electric Utilities - Caribbean	23.0	5.0	8.0	8.0	6.0	27.0	5.0	8.0	7.2	7.1	27.3	29.3	8.4%
Non-Regulated - Fortis Generation	17.0	6.0	6.0	4.0	4.0	20.0	3.0	8.7	13.7	9.7	35.1	44.2	37.5%
Non-Regulated - Non-Utility	18.0	5.0	7.0	9.0	7.0	28.0	(2.0)	5.0	0.0	0.0	3.0	0.0	-100.0%
Corporate and Other	(72.0)	(28.0)	(41.0)	(53.0)	(30.0)	(152.0)	(30.0)	(30.0)	(28.7)	(28.5)	(117.1)	(113.7)	16.4%
<b>Total Adjusted Earnings</b>	<b>338.0</b>	<b>145.0</b>	<b>48.0</b>	<b>49.0</b>	<b>114.0</b>	<b>356.0</b>	<b>179.0</b>	<b>121.1</b>	<b>124.0</b>	<b>139.1</b>	<b>563.3</b>	<b>588.3</b>	<b>20.3%</b>
Average Shares Outstanding (basic)	202.5	213.6	214.8	215.6	258.3	225.6	276.7	277.8	277.8	277.8	277.8	281.6	
Average Shares Outstanding (diluted)	209.3	220.9	208.4	209.2	265.7	226.1	283.1	284.2	284.2	284.2	284.2	288.6	
<b>Dividends Per Share</b>	<b>\$1.24</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$0.32</b>	<b>\$1.28</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$1.36</b>	<b>\$1.44</b>	<b>5.1%</b>
EPS - reported (diluted)	\$1.63	\$0.66	\$0.22	\$0.06	\$0.43	\$1.37	\$0.71	\$0.43	\$0.44	\$0.50	\$2.08	\$2.07	
Adjusted EPS - basic	\$1.67	\$0.68	\$0.22	\$0.23	\$0.44	\$1.58	\$0.65	\$0.44	\$0.45	\$0.50	\$2.03	\$2.09	7.8%
<b>Adjusted EPS - diluted</b>	<b>\$1.66</b>	<b>\$0.67</b>	<b>\$0.22</b>	<b>\$0.23</b>	<b>\$0.43</b>	<b>\$1.57</b>	<b>\$0.64</b>	<b>\$0.43</b>	<b>\$0.44</b>	<b>\$0.50</b>	<b>\$2.01</b>	<b>\$2.07</b>	<b>7.6%</b>

Source: BMO Capital Markets



## Exhibit 5: Consolidated Summary Sheet



## Market Perform

12-Month Target Price: \$40.50

Analyst: Ben Pham, CFA

(416) 359-4061

Current Price: \$38.89

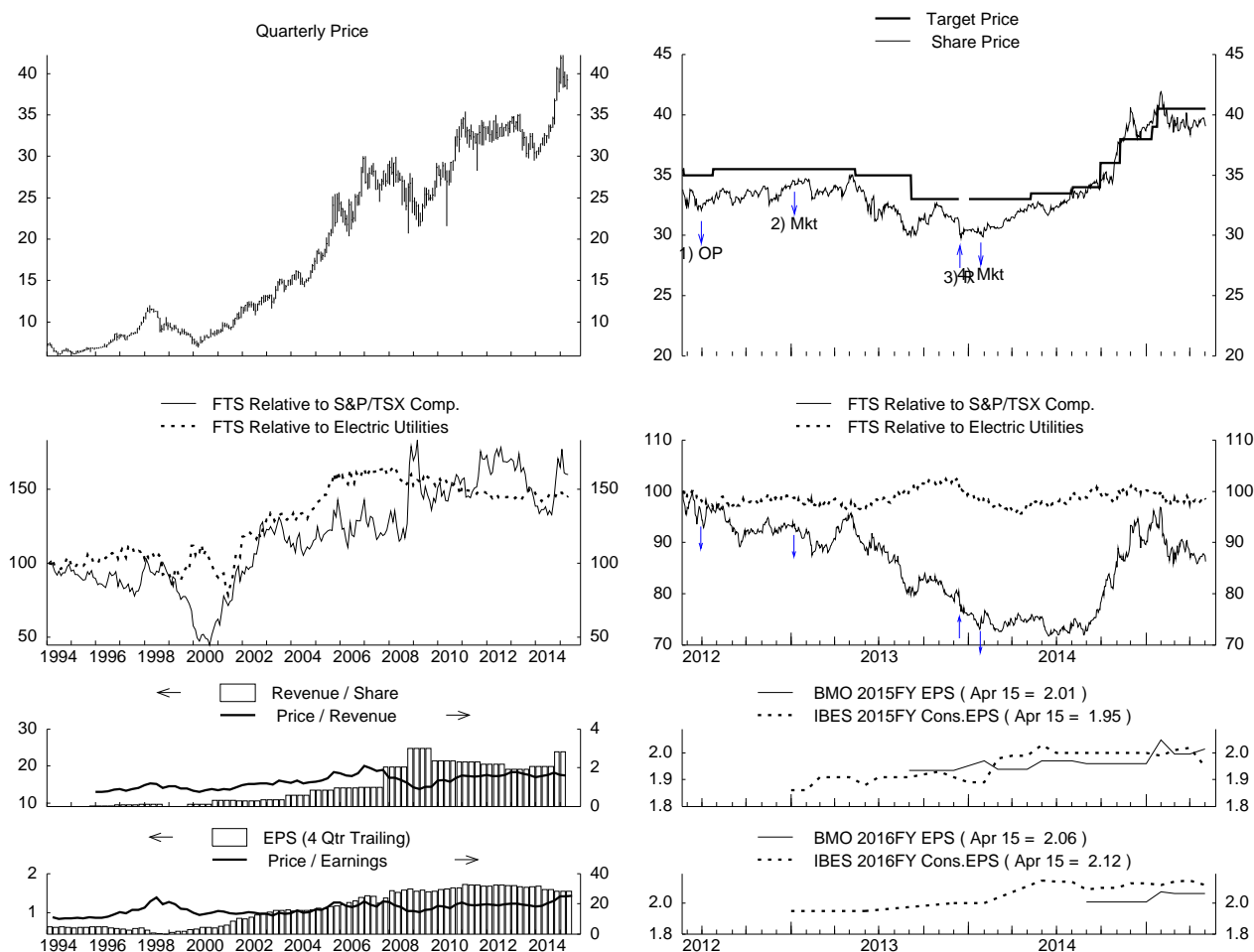
ROR: 7.6%

## Fortis Inc. (FTS)

	Year Ended 31 December										CAGR 2013A- 2016E
	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	
Earnings Per Share (Basic)	\$1.36	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.58	\$2.03	\$2.09	7.8%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.29</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.66</b>	<b>\$1.57</b>	<b>\$2.01</b>	<b>\$2.07</b>	7.6%
First Call Consensus (EPS)									\$1.95	\$2.12	8.6%
Cash Flow Per Share	\$3.56	\$3.95	\$3.98	\$4.25	\$4.44	\$4.73	\$4.66	\$4.90	\$5.72	\$5.93	
Dividends Per Share	\$0.82	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.36	\$1.44	5.1%
Payout Ratio (% of EPS)	60.2%	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.1%	67.1%	68.9%	
Payout Ratio (% of FFO)	23.0%	25.3%	26.1%	26.4%	26.1%	25.4%	26.6%	26.1%	23.8%	24.3%	
Average Shares (basic - mm)	137.6	157.4	170.2	172.9	181.6	190.0	202.5	225.6	277.8	281.6	
Average Shares (diluted - mm)	160.9	173.7	186.2	187.1	190.0	197.2	209.3	226.1	284.2	288.6	
Net Book Value	\$16.72	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.90	\$25.63	\$26.37	
<b>Market Valuation</b>											
Price: High	\$30.00	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	\$40.83	-	-	
Price: Low	\$24.50	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	\$29.78	-	-	
Price: Current	-	-	-	-	-	-	-	-	\$38.89	-	
P/E Ratio: High	23.3	19.2	19.1	21.3	21.2	20.5	21.1	25.9	-	-	
P/E Ratio: Low	19.0	13.2	14.3	16.0	19.7	19.0	18.0	18.9	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	-	19.4	18.8	
EV/EBITDA: High	12.5	10.4	10.9	11.3	11.4	11.0	11.5	12.9	-	-	
EV/EBITDA: Low	11.6	9.0	9.7	10.0	11.0	10.6	10.7	11.4	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	-	10.0	9.8	
Yield: High Price	2.7%	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	3.1%	-	-	
Yield: Low Price	3.3%	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	4.3%	-	-	
Yield: Current	-	-	-	-	-	-	-	-	3.5%	3.7%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	947.0	568.0	538.0	467.0	144.0	132.0	401.0	1,196.0	730.6	754.5	
Debt (L-T)	4,529.0	4,900.0	5,292.0	5,447.0	5,711.0	5,750.0	6,891.0	9,405.0	9,871.0	9,971.0	
Minority Interest	115.0	145.0	123.0	162.0	208.0	310.0	375.0	421.0	421.0	421.0	
Preferred Shares	442.0	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,820.0	1,825.0	1,825.0	
Convertible Debentures	45.0	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>2,600.7</u>	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,871.0</u>	<u>7,169.8</u>	<u>7,474.3</u>	
	8,678.7	9,369.7	9,856.7	10,337.0	10,852.0	11,292.0	13,668.0	19,713.0	20,017.4	20,445.8	
<b>Balance Sheet (%)</b>											
Debt (S-T)	10.9%	6.1%	5.5%	4.5%	1.3%	1.2%	2.9%	6.1%	3.7%	3.7%	
Debt (L-T)	52.2%	52.3%	53.7%	52.7%	52.6%	50.9%	50.4%	47.7%	49.3%	48.8%	
Minority Interest	1.3%	1.5%	1.2%	1.6%	1.9%	2.7%	2.7%	2.1%	2.1%	2.1%	
Preferred Shares	5.1%	7.1%	6.8%	8.8%	8.4%	9.8%	9.0%	9.2%	9.1%	8.9%	
Convertible Debentures	0.5%	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>30.0%</u>	<u>32.5%</u>	<u>32.4%</u>	<u>32.0%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>34.9%</u>	<u>35.8%</u>	<u>36.6%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	2,720.4	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,401.0	6,957.1	7,044.5	20.3%
EBITDA	816.4	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,711.0	2,369.0	2,449.9	20.7%
Net Earnings	187.4	252.5	262.0	281.0	302.5	322.4	338.0	356.0	563.3	588.3	20.3%
Funds from Operations	490.0	622.0	678.0	734.0	806.0	898.0	944.0	1,106.0	1,588.0	1,669.4	20.9%
Capital Expenditures (ex. acquisitions)	(803.0)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,725.0)	(2,125.5)	(1,592.5)	
<b>Financial Leverage</b>											
Net Debt	5,521.0	5,512.0	5,874.0	5,958.0	5,855.0	5,882.0	7,292.0	10,601.0	10,601.6	10,725.5	
Net Debt/EBITDA	6.8x	5.2x	5.5x	5.2x	5.0x	4.7x	5.2x	6.2x	4.5x	4.4x	
Net Debt/Total Book Capitalization	63.6%	58.8%	59.6%	57.6%	54.0%	52.1%	53.4%	53.8%	53.0%	52.5%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	24.9	1.6 1.2	7

Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.55	25.3	1.36	3.5	88	24.9	1.6	6

Growth(%)								
5 Year:	-0.5		4.0			6.0		
10 Year:	3.4		9.1			9.1		
20 Year:	4.9		6.1			7.5		

\* Current EPS is the 4 Quarter Trailing to Q4/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 22-May-12 = OP

Date	Rating Change	Share Price
1 28-Jun-12	R to OP	\$32.09
2 7-Jan-13	OP to Mkt	\$34.52
3 12-Dec-13	Mkt to R	\$30.04
4 24-Jan-14	R to Mkt	\$30.31

Last Price ( May 1, 2015): \$39.07  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exceptions: Alex Arfaei and Brodie Woods). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (March 31, 2015)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.7%	18.6%	58.2%	42.7%	55.5%	54.1%
Hold	Market Perform	51.4%	10.4%	38.5%	52.1%	41.9%	40.5%
Sell	Underperform	4.9%	9.4%	3.3%	5.2%	2.6%	5.5%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates’ ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns® is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Rating:** Market Perform  
**Target Price:** \$40.50 **Total Return:** 16%  
**Price (30-Jul):** \$36.03

July 31, 2015

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

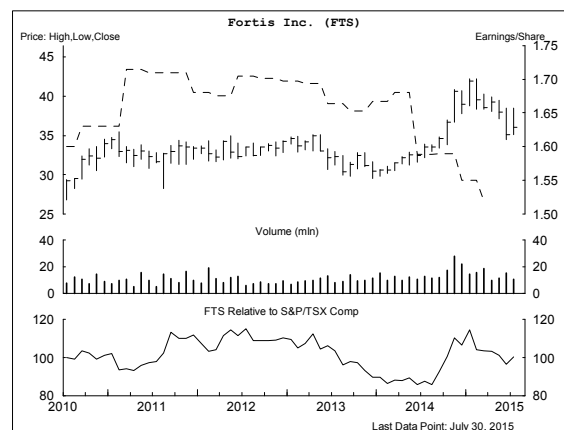
## Q2 – An in-Line Quarter With Strong Earnings and Capital Spending Trends

### Event

Fortis' adj. EPS (basic) were \$0.44 in Q2/15, spot on with our consensus-aligned estimate of \$0.44.

### Impact & Analysis

Key implications: (1) FTS reaffirmed its 2015 capital spending outlook of \$2.2B, after having spent \$1.2B in H1. The company also reiterated its longer-term expectations: rate base growth of 6.5% and \$9B capex through 2019. (2) Following the sale of its commercial real estate portfolio in June for \$430M, FTS sold its non-regulated power plants in New York and Ontario (\$93M). The hotels business was also sold in July for \$365M with closing expected in the fall. The proceeds are expected to be used for debt reduction and equity injections into UNS. (3) Construction continues on the \$440M Tilbury LNG 1A expansion with timing unchanged (in-service end of 2016). On the call, FTS highlighted that a final investment decision from the proponents of the Woodfibre LNG project is expected by year-end, while the long-term contract for further expansion of Tilbury still requires regulatory approval. (4) In April 2015, the Alberta regulator initiated a cost of capital proceeding to determine 2016 and 2017 allowed ROE and capital structure. In B.C., FortisBC Energy is planning to file an application to review the 2016 metrics by year-end. We will be looking for whether allowed ROEs have potential for further downside, especially in the current low bond yield environment in Canada and significant reductions observed globally. (5) Our 2015 EPS estimate (f.d) is now \$1.97 (vs. \$2.01), while our 2016 estimate is unchanged at \$2.07. We introduce our 2017 adj. EPS of \$2.16.



(FY-Dec.)	2014A	2015E	2016E	2017E
EPS	\$1.57	\$1.97↓	\$2.07	\$2.16
P/E		18.3x	17.4x	16.7x
Div.	\$1.28	\$1.36	\$1.44	\$1.52
EV (\$mm)	\$20,390	\$23,250	\$23,524	\$23,669
EBITDA (\$mm)	\$1,711.0	\$2,357.4	\$2,488.0	\$2,571.0
EV/EBITDA	11.9x	9.9x	9.5x	9.2x
Quarterly EPS	Q1	Q2	Q3	Q4
2014A	\$0.67	\$0.22	\$0.23	\$0.43
2015E	\$0.64a	\$0.44a	\$0.40↓	\$0.50
2016E	\$0.67	\$0.46	\$0.42	\$0.52
Dividend	\$1.36			Yield 3.8%
Book Value	\$26.80			Price/Book 1.3x
Shares O/S (mm)	278.6			Mkt. Cap (mm) \$10,038
Float O/S (mm)	278.6			Float Cap (mm) \$10,038
Wkly Vol (000s)	3,613			Wkly \$ Vol (mm) \$135.8
Net Debt (\$mm)	\$10,881			Next Rep. Date Nov (E)

**Notes:** All values in C\$  
**Major Shareholders:** Widely held  
**First Call Mean Estimates:** FORTIS INC (C\$) 2015E: \$2.08; 2016E: \$2.17

### Valuation & Recommendation

FTS remains our favorite stock among the utility complex given strong earnings growth and capital spending trends (even after accounting for beneficial impact of USD), but we see more compelling alternatives in the power subsector. We reiterate our Market Perform rating and \$40.50 target price.

#### Changes

**Annual EPS**  
 2015E \$2.01 to \$1.97

**Quarterly EPS**  
 Q3/15E \$0.44 to \$0.40



## Q2 – In-Line Quarter With Strong Earnings and Capital Spending Trends

- **Second-quarter results in line with expectations.** Fortis' adj. EPS (basic) were \$0.44 in Q2/15 (\$0.24 in Q2/14), largely in line with our consensus-aligned estimate of \$0.44 (range of \$0.41–0.48). Higher-than-expected contribution from the newly commissioned Waneta expansion project more than offset higher corporate costs and softer results in B.C. utility. Please see Exhibit 1 for more details of the variance.

### Exhibit 1: Q2/15 Results vs. BMO Capital Markets Expectations

	Q2/15A	BMOCM Q2/15E	% Variance	Q2/14A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
FortisBC Energy Companies	\$7.0	\$13.0	-46%	\$12.0	-42%	Greater seasonality due to end of rate stabilization mechanism
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy	52.0	50.0	4%	-	n/a	Stronger USD (1.23 vs. 1.09)
Central Hudson	10.0	11.0	-9%	7.0	43%	
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>62.0</b>	<b>61.0</b>	<b>2%</b>	<b>7.0</b>	<b>786%</b>	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta <sup>(1)</sup>	32.0	31.0	3%	26.0	23%	Growth in customer and rate base
FortisBC Electric	11.0	7.6	45%	7.0	57%	Seasonality (deferral mechanisms)
Eastern Canadian	15.0	16.8	-11%	16.0	-6%	\$1M in unexpected business development costs
<b>Total Regulated Electric Utilities - Canadian</b>	<b>58.0</b>	<b>55.4</b>	<b>5%</b>	<b>49.0</b>	<b>18%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	<b>9.0</b>	<b>8.0</b>	<b>13%</b>	<b>8.0</b>	<b>13%</b>	
<b>Non-Regulated - Fortis Generation<sup>(2)</sup></b>	<b>18.0</b>	<b>8.7</b>	<b>107%</b>	<b>6.0</b>	<b>200%</b>	Higher-than-expected contribution from newly commissioned Waneta expansion project (\$12M)
<b>Non-Regulated - Non-Utility<sup>(3)</sup></b>	<b>8.0</b>	<b>5.0</b>	<b>60%</b>	<b>7.0</b>	<b>14%</b>	
<b>Corporate and Other<sup>(4)(5)</sup></b>	<b>(39.0)</b>	<b>(30.0)</b>	<b>30%</b>	<b>(37.0)</b>	<b>5%</b>	Higher finance charges as a result of stronger USD
<b>Net Earnings Applicable to Common Shares</b>	<b>\$123.0</b>	<b>\$121.1</b>	<b>2%</b>	<b>\$52.0</b>	<b>137%</b>	
Average Shares (basic)	277.9	277.8		214.8		
Average Shares (diluted)	284.2	284.2		215.3		
<b>Adjusted EPS (basic)</b>	<b>\$0.44</b>	<b>\$0.44</b>	<b>2%</b>	<b>\$0.24</b>	<b>83%</b>	
Adjusted EPS (diluted)	\$0.44	\$0.43	2%	\$0.24	84%	

Notes:

(1) Includes \$1M positive adjustment in Q2/15 related to capital tracker revenue adjustment for 2013 and 2014

(2) Excludes \$27M after-tax gain on sale of generation assets in Q2/15

(3) Excludes \$109M after-tax gain on sale of commercial real estate assets and \$13M after-tax loss on pending sale of hotel assets in Q2/15

(4) Corporate expenses for Q2/14 exclude approximately \$1M in acquisition costs relating to the UNS acquisitions but includes \$13M in interest expense on related convertible debentures

(5) Excludes foreign exchange after-tax loss of \$1M in Q2/15 and \$4M in Q2/14

Source: BMO Capital Markets, Company Reports

- **Reiterates \$2.2B capital spending in 2015 and \$9B through 2019.** FTS reaffirmed its 2015 capital spending outlook of \$2.2B, after having spent \$1.2B in H1. The company also reiterated its longer-term expectations: rate base growth of 6.5% and \$9B capex through 2019, of which 36% relates to Canadian regulated electric utilities, 19% to Canadian regulated gas utilities, 38% to the U.S., 5% to Caribbean regulated electric utilities, and the remaining 2% to non-regulated operations.
- **Major growth initiatives progressing to plan.** The \$900M 335MW Waneta hydro expansion project (51% FTS) in B.C. achieved first production on April 2 (six weeks earlier than expected) and contributed \$12M to Q2 results. Construction continues on the \$440M Tilbury LNG 1A expansion (\$223M invested to date) with timing unchanged (in-service end of 2016). The company continues to advance a further expansion of Tilbury and the Woodfibre LNG site, where total capital investment could amount to \$1B (not included in

capex guidance). On the call, FTS highlighted that the a final investment decision from the proponents of the Woodfibre LNG project is expected by year-end, while the Tilbury expansion still requires regulatory approval of the conditional long-term contract with Hawaiian Electric Company.

- **Canadian cost of capital proceedings under way.** In April 2015, the Alberta regulator initiated a cost of capital proceeding to determine 2016 and 2017 allowed ROE and capital structure for Alberta-based utilities; a pre-hearing conference is expected in Q3/15 and final decision will likely not be forthcoming until H1/16. This follows the March 2015 decision where the Commission lowered the 2013–2015 ROE to 8.3% from 8.75%. In B.C., FortisBC Energy is planning to file an application to review the 2016 benchmark allowed ROE and common equity ratio by no later than November 30, 2015. We will be looking for whether allowed ROEs have potential for further downside, especially in the current low bond yield environment in Canada and significant reductions observed globally.
- **Non-core asset sales on track.** Following the sale of its commercial real estate portfolio in June 2015 for \$430M, FTS further sold its non-regulated power plants in New York (\$77M) and Ontario (\$16M). The hotels business was also sold in July 2015 for \$365M with closing expected in the fall. Pro forma the sales, almost 100% of the company's assets will consist of regulated utility and long-term contracted energy infrastructure.
- **Revised estimates.** We have updated our estimates to reflect Q2 actuals, revised seasonality for Waneta (strongest in Q2), and slower pace of growth at Central Hudson. Our 2015 EPS estimate (f.d) is now \$1.97 (vs. \$2.01), while our 2016 estimate is unchanged at \$2.07.
- **Introducing 2017 estimates.** Along with our revisions, we are rolling out our FY17 estimates: adj. EPS of \$2.16 (vs. \$2.07 in 2016E or +4.2% y/y). Our FY17E anticipates earnings growth from all of FTS's regulated utilities (with primary drivers being Western Canada and the U.S.), which is further supported by favorable F/X translation.
- **Reiterate \$40.50 target price.** Due to no change in our 2016 estimate, our target price remains at \$40.50 (based on a forward P/E multiple of 19.5x applied to our 2016 estimate). The multiple is above its 10-year historical average of ~18.8x, reflecting higher-than-average rate base growth prospects, increased diversification and optionality, and support from low bond yields.

#### Exhibit 2: Calculation of Our Target Price

FTS Valuation	Multiple	2015E	2016E	2017E
Adj. EPS (f.d)		\$1.97	\$2.07	\$2.16
Equity value/sh	19.5x	\$38.48	\$40.42	\$42.11

2016E \$40.42

#### P/E Sensitivity

18.5x	19.0x	19.5x	20.0x	20.5x
\$38.35	\$39.39	\$40.42	\$41.46	\$42.50

Source: BMO Capital Markets

- **Maintaining Market Perform rating.** FTS remains our favorite stock among the utility complex given strong earnings growth and capital spending trends (even after accounting for beneficial impact of USD), but we see more compelling alternatives in the power subsector. We reiterate our Market Perform rating.

## Exhibit 3: Upcoming Events

2H15	Expected decision on FortisAlberta 2013-2015 Capital Tracker Compliance filing
By Oct 16, 2015	Newfoundland Power to file 2016 general rate application
By Nov. 30, 2015	FEI to file application for 2016 ROE and common equity
End of 2015	Expected commissioning of the Pinal transmission line (UNS Energy)
End of 2015	Expected FID on Woodfibre LNG facility (3rd party)
End of 2015	Tucson Electric Power to file general rate application requesting new rates effective January 1, 2017
Q1/16	Expected decision on FortisAlberta 2016/2017 Capital Tracker Application
Late 2016	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports

## Exhibit 4: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2014	Q1/15	Q2/15	Q3/15E	Q4/15E	2015E	Q1/16E	Q2/16E	Q3/16E	Q4/16E	2016E	2017E	14-17E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$127.0	\$88.0	\$7.0	(\$13.2)	\$59.5	\$141.3	\$89.7	\$7.2	(\$14.0)	\$60.5	\$143.4	\$147.6	5.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	\$60.0	\$20.0	\$52.0	\$73.5	\$27.5	\$173.0	\$20.9	\$53.1	\$75.7	\$28.3	\$177.9	\$185.9	
Central Hudson	37.0	22.0	10.0	16.0	14.0	62.0	25.6	15.0	16.8	15.7	73.0	78.9	
	97.0	42.0	62.0	89.5	41.5	235.0	46.5	68.0	92.4	43.9	250.9	264.8	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$103.0	\$31.0	\$32.0	\$32.3	\$32.7	\$128.0	\$33.5	\$33.8	\$34.2	\$33.6	\$135.1	\$144.4	11.9%
FortisBC Electric	46.0	23.0	11.0	7.9	10.9	52.8	22.1	11.9	8.6	11.3	53.9	54.2	5.6%
Eastern Canadian	60.0	19.0	15.0	14.2	14.3	62.5	20.0	17.0	14.6	14.3	65.9	66.8	3.6%
	209.0	73.0	58.0	54.4	57.9	243.3	75.6	62.6	57.5	59.2	254.9	265.4	8.3%
Regulated Electric Utilities - Caribbean	27.0	5.0	9.0	7.6	6.4	28.0	5.9	8.9	7.9	7.4	30.0	32.4	6.3%
Non-Regulated - Fortis Generation	20.0	3.0	18.0	8.1	6.9	36.0	6.0	17.2	8.9	7.9	40.0	41.0	27.1%
Non-Regulated - Non-Utility	28.0	(2.0)	8.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0%
Corporate and Other	(152.0)	(30.0)	(39.0)	(35.5)	(32.2)	(136.7)	(32.2)	(32.2)	(32.2)	(32.2)	(129.0)	(129.0)	-5.3%
<b>Total Adjusted Earnings</b>	<b>356.0</b>	<b>179.0</b>	<b>123.0</b>	<b>110.9</b>	<b>140.0</b>	<b>552.9</b>	<b>191.4</b>	<b>131.6</b>	<b>120.5</b>	<b>146.6</b>	<b>590.2</b>	<b>622.2</b>	<b>20.5%</b>
Average Shares Outstanding (basic)	225.6	276.7	277.8	277.8	277.8	277.8	281.6	281.6	281.6	281.6	281.6	285.4	
Average Shares Outstanding (diluted)	226.1	283.1	284.2	284.2	284.2	284.2	288.6	288.6	288.6	288.6	288.6	291.8	
<b>Dividends Per Share</b>	<b>\$1.28</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$1.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$1.44</b>	<b>\$1.52</b>	<b>5.9%</b>
EPS - reported (diluted)	\$1.37	\$0.71	\$0.87	\$0.40	\$0.50	\$2.47	\$0.67	\$0.46	\$0.42	\$0.52	\$2.07	\$2.16	
Adjusted EPS - basic	\$1.58	\$0.65	\$0.44	\$0.40	\$0.50	\$1.99	\$0.68	\$0.47	\$0.43	\$0.52	\$2.10	\$2.18	11.4%
<b>Adjusted EPS - diluted</b>	<b>\$1.57</b>	<b>\$0.64</b>	<b>\$0.44</b>	<b>\$0.40</b>	<b>\$0.50</b>	<b>\$1.97</b>	<b>\$0.67</b>	<b>\$0.46</b>	<b>\$0.42</b>	<b>\$0.52</b>	<b>\$2.07</b>	<b>\$2.16</b>	<b>11.1%</b>

Source: BMO Capital Markets

## Exhibit 5: Consolidated Summary Sheet



## Market Perform

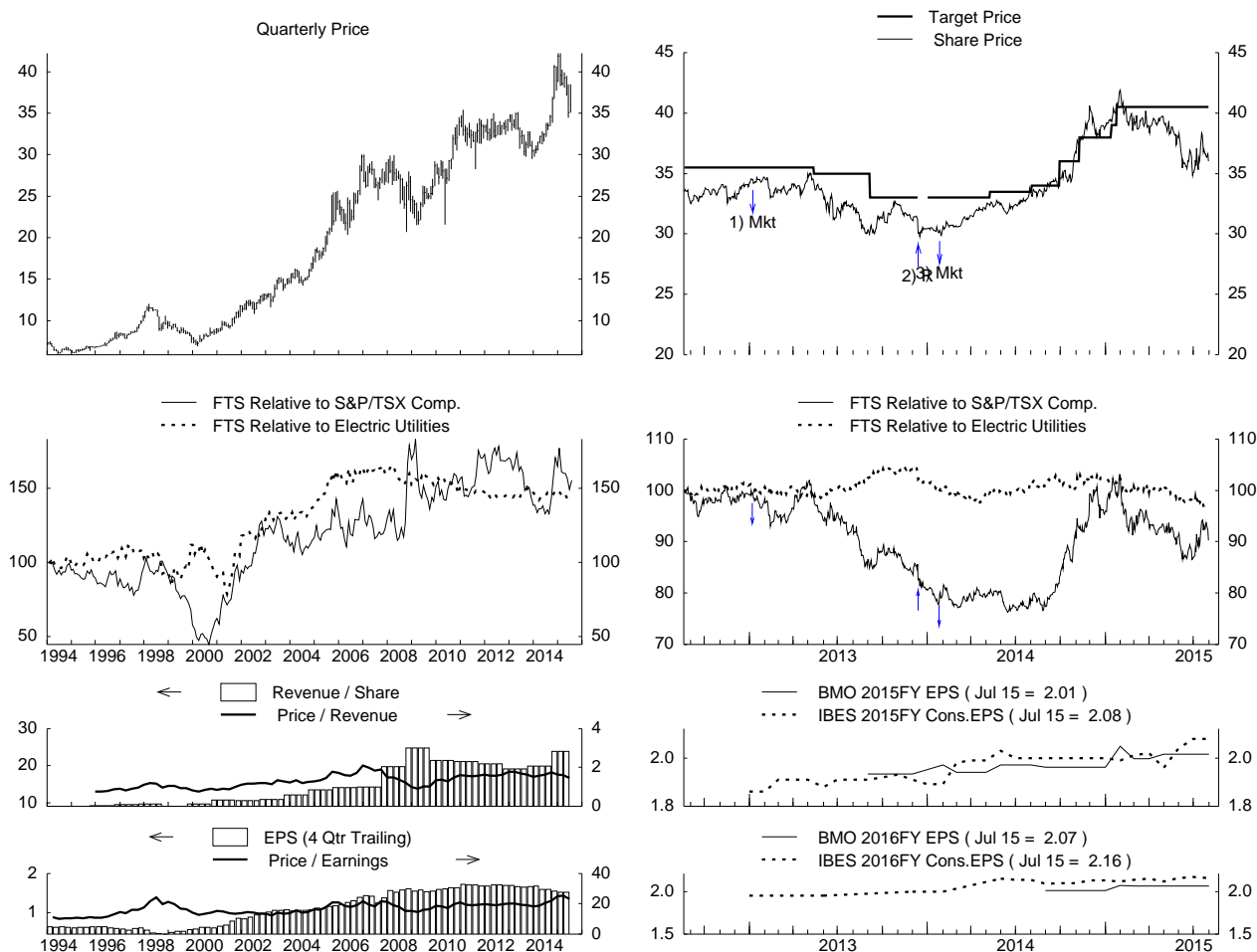
12-Month Target Price: \$40.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$37.45  
 ROR: 11.8%

## Fortis Inc. (FTS)

	Year Ended 31 December										CAGR 2014A- 2017E
	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E	
Earnings Per Share (Basic)	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.58	\$1.99	\$2.10	\$2.18	11.4%
<b>Earnings Per Share (Diluted)</b>	<b>\$1.56</b>	<b>\$1.51</b>	<b>\$1.60</b>	<b>\$1.66</b>	<b>\$1.69</b>	<b>\$1.66</b>	<b>\$1.57</b>	<b>\$1.97</b>	<b>\$2.07</b>	<b>\$2.16</b>	11.1%
<i>First Call Consensus (EPS)</i>								\$2.05	\$2.15	\$2.27	13.0%
Cash Flow Per Share	\$3.95	\$3.98	\$4.25	\$4.44	\$4.73	\$4.66	\$4.90	\$5.72	\$6.03	\$6.17	
Dividends Per Share	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.36	\$1.44	\$1.52	5.9%
Payout Ratio (% of EPS)	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.1%	68.3%	68.7%	69.7%	
Payout Ratio (% of FFO)	25.3%	26.1%	26.4%	26.1%	25.4%	26.6%	26.1%	23.8%	23.9%	24.6%	
Average Shares (basic - mm)	157.4	170.2	172.9	181.6	190.0	202.5	225.6	277.8	281.6	285.4	
Average Shares (diluted - mm)	173.7	186.2	187.1	190.0	197.2	209.3	226.1	284.2	288.6	291.8	
Net Book Value	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.90	\$25.60	\$26.34	\$27.08	
<b>Market Valuation</b>											
Price: High	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	\$40.83	-	-	-	
Price: Low	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	\$29.78	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$37.45	-	-	
P/E Ratio: High	19.2	19.1	21.3	21.2	20.5	21.1	25.9	-	-	-	
P/E Ratio: Low	13.2	14.3	16.0	19.7	19.0	18.0	18.9	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.0	18.1	17.3	
EV/EBITDA: High	10.4	10.9	11.3	11.4	11.0	11.5	12.9	-	-	-	
EV/EBITDA: Low	9.0	9.7	10.0	11.0	10.6	10.7	11.4	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	9.9	9.5	9.2	
Yield: High Price	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	3.1%	-	-	-	
Yield: Low Price	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	4.3%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.8%	4.1%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	568.0	538.0	467.0	144.0	132.0	401.0	1,196.0	728.3	762.2	662.6	
Debt (L-T)	4,900.0	5,292.0	5,447.0	5,711.0	5,750.0	6,891.0	9,405.0	9,871.0	9,971.0	10,071.0	
Minority Interest	145.0	123.0	162.0	208.0	310.0	375.0	421.0	421.0	421.0	421.0	
Preferred Shares	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,820.0	1,825.0	1,825.0	1,825.0	
Convertible Debentures	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,871.0</u>	<u>7,159.4</u>	<u>7,465.8</u>	<u>7,784.3</u>	
	9,369.7	9,856.7	10,337.0	10,852.0	11,292.0	13,668.0	19,713.0	20,004.7	20,445.0	20,763.9	
<b>Balance Sheet (%)</b>											
Debt (S-T)	6.1%	5.5%	4.5%	1.3%	1.2%	2.9%	6.1%	3.6%	3.7%	3.2%	
Debt (L-T)	52.3%	53.7%	52.7%	52.6%	50.9%	50.4%	47.7%	49.3%	48.8%	48.5%	
Minority Interest	1.5%	1.2%	1.6%	1.9%	2.7%	2.7%	2.1%	2.1%	2.1%	2.0%	
Preferred Shares	7.1%	6.8%	8.8%	8.4%	9.8%	9.0%	9.2%	9.1%	8.9%	8.8%	
Convertible Debentures	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>32.5%</u>	<u>32.4%</u>	<u>32.0%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>34.9%</u>	<u>35.8%</u>	<u>36.5%</u>	<u>37.5%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,401.0	6,946.7	7,219.5	7,374.2	10.9%
EBITDA	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,711.0	2,357.4	2,488.0	2,571.0	14.5%
Net Earnings	252.5	262.0	281.0	302.5	322.4	338.0	356.0	552.9	590.2	622.2	20.5%
Funds from Operations	622.0	678.0	734.0	806.0	898.0	944.0	1,106.0	1,588.2	1,697.5	1,761.3	16.8%
Capital Expenditures (ex. acquisitions)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,725.0)	(2,160.7)	(1,635.2)	(1,554.2)	
<b>Financial Leverage</b>											
Net Debt	5,512.0	5,874.0	5,958.0	5,855.0	5,882.0	7,292.0	10,601.0	10,599.3	10,733.2	10,733.6	
Net Debt/EBITDA	5.2x	5.5x	5.2x	5.0x	4.7x	5.2x	6.2x	4.5x	4.3x	4.2x	
Net Debt/Total Book Capitalization	58.8%	59.6%	57.6%	54.0%	52.1%	53.4%	53.8%	53.0%	52.5%	51.7%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	24.9	1.6 1.2	7

Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.52	23.1	1.36	3.9	89	26.4	1.3	6

Growth(%):								
5 Year:	-1.0		4.0			7.2		
10 Year:	3.4		9.1			9.7		
20 Year:	4.6		6.1			7.8		

\* Current EPS is the 4 Quarter Trailing to Q1/2015.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 20-Aug-12 = OP

Date	Rating Change	Share Price
1 7-Jan-13	OP to Mkt	\$34.52
2 12-Dec-13	Mkt to R	\$30.04
3 24-Jan-14	R to Mkt	\$30.31

Last Price ( July 30, 2015): \$36.03  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exceptions: Alex Arfaei and Brodie Woods). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2015)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.9%	53.3%	41.9%	54.3%	54.6%
Hold	Market Perform	53.5%	14.4%	44.8%	53.3%	44.4%	40.0%
Sell	Underperform	4.4%	7.4%	1.9%	4.7%	1.3%	5.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.



BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates’ ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns® is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

**©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP**

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Rating:** Market Perform  
**Target Price:** \$40.50 **Total Return:** 16%  
**Price (30-Jul):** \$36.03

July 31, 2015

**Ben Pham, CFA**  
 BMO Nesbitt Burns Inc.  
 ben.pham@bmo.com

416-359-4061

**Eric Tang**  
 BMO Nesbitt Burns Inc.  
 eric.tang@bmo.com

416-359-8110

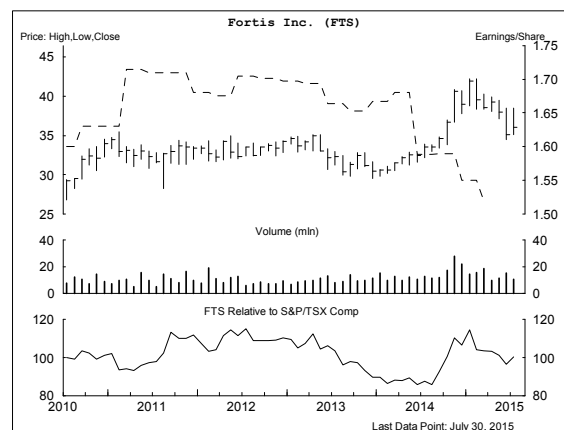
## Q2 – An in-Line Quarter With Strong Earnings and Capital Spending Trends

### Event

Fortis' adj. EPS (basic) were \$0.44 in Q2/15, spot on with our consensus-aligned estimate of \$0.44.

### Impact & Analysis

Key implications: (1) FTS reaffirmed its 2015 capital spending outlook of \$2.2B, after having spent \$1.2B in H1. The company also reiterated its longer-term expectations: rate base growth of 6.5% and \$9B capex through 2019. (2) Following the sale of its commercial real estate portfolio in June for \$430M, FTS sold its non-regulated power plants in New York and Ontario (\$93M). The hotels business was also sold in July for \$365M with closing expected in the fall. The proceeds are expected to be used for debt reduction and equity injections into UNS. (3) Construction continues on the \$440M Tilbury LNG 1A expansion with timing unchanged (in-service end of 2016). On the call, FTS highlighted that a final investment decision from the proponents of the Woodfibre LNG project is expected by year-end, while the long-term contract for further expansion of Tilbury still requires regulatory approval. (4) In April 2015, the Alberta regulator initiated a cost of capital proceeding to determine 2016 and 2017 allowed ROE and capital structure. In B.C., FortisBC Energy is planning to file an application to review the 2016 metrics by year-end. We will be looking for whether allowed ROEs have potential for further downside, especially in the current low bond yield environment in Canada and significant reductions observed globally. (5) Our 2015 EPS estimate (f.d) is now \$1.97 (vs. \$2.01), while our 2016 estimate is unchanged at \$2.07. We introduce our 2017 adj. EPS of \$2.16.



(FY-Dec.)	2014A	2015E	2016E	2017E
EPS	\$1.57	\$1.97↓	\$2.07	\$2.16
P/E		18.3x	17.4x	16.7x
Div.	\$1.28	\$1.36	\$1.44	\$1.52
EV (\$mm)	\$20,390	\$23,250	\$23,524	\$23,669
EBITDA (\$mm)	\$1,711.0	\$2,357.4	\$2,488.0	\$2,571.0
EV/EBITDA	11.9x	9.9x	9.5x	9.2x
Quarterly EPS	Q1	Q2	Q3	Q4
2014A	\$0.67	\$0.22	\$0.23	\$0.43
2015E	\$0.64a	\$0.44a	\$0.40↓	\$0.50
2016E	\$0.67	\$0.46	\$0.42	\$0.52
Dividend	\$1.36			Yield 3.8%
Book Value	\$26.80			Price/Book 1.3x
Shares O/S (mm)	278.6			Mkt. Cap (mm) \$10,038
Float O/S (mm)	278.6			Float Cap (mm) \$10,038
Wkly Vol (000s)	3,613			Wkly \$ Vol (mm) \$135.8
Net Debt (\$mm)	\$10,881			Next Rep. Date Nov (E)

**Notes:** All values in C\$  
**Major Shareholders:** Widely held  
**First Call Mean Estimates:** FORTIS INC (C\$) 2015E: \$2.08; 2016E: \$2.17

### Valuation & Recommendation

FTS remains our favorite stock among the utility complex given strong earnings growth and capital spending trends (even after accounting for beneficial impact of USD), but we see more compelling alternatives in the power subsector. We reiterate our Market Perform rating and \$40.50 target price.

#### Changes

**Annual EPS**  
 2015E \$2.01 to \$1.97

**Quarterly EPS**  
 Q3/15E \$0.44 to \$0.40

## Q2 – In-Line Quarter With Strong Earnings and Capital Spending Trends

- **Second-quarter results in line with expectations.** Fortis' adj. EPS (basic) were \$0.44 in Q2/15 (\$0.24 in Q2/14), largely in line with our consensus-aligned estimate of \$0.44 (range of \$0.41–0.48). Higher-than-expected contribution from the newly commissioned Waneta expansion project more than offset higher corporate costs and softer results in B.C. utility. Please see Exhibit 1 for more details of the variance.

### Exhibit 1: Q2/15 Results vs. BMO Capital Markets Expectations

	Q2/15A	BMOCM Q2/15E	% Variance	Q2/14A	Y/Y Chg. %	BMOCM Notes
<b>Regulated Gas Utilities - Canadian</b>						
FortisBC Energy Companies	\$7.0	\$13.0	-46%	\$12.0	-42%	Greater seasonality due to end of rate stabilization mechanism
<b>Regulated Gas &amp; Electric Utility - United States</b>						
UNS Energy	52.0	50.0	4%	-	n/a	Stronger USD (1.23 vs. 1.09)
Central Hudson	10.0	11.0	-9%	7.0	43%	
<b>Total Regulated Gas &amp; Electric Utility - United States</b>	<b>62.0</b>	<b>61.0</b>	<b>2%</b>	<b>7.0</b>	<b>786%</b>	
<b>Regulated Electric Utilities - Canadian</b>						
FortisAlberta <sup>(1)</sup>	32.0	31.0	3%	26.0	23%	Growth in customer and rate base
FortisBC Electric	11.0	7.6	45%	7.0	57%	Seasonality (deferral mechanisms)
Eastern Canadian	15.0	16.8	-11%	16.0	-6%	\$1M in unexpected business development costs
<b>Total Regulated Electric Utilities - Canadian</b>	<b>58.0</b>	<b>55.4</b>	<b>5%</b>	<b>49.0</b>	<b>18%</b>	
<b>Regulated Electric Utilities - Caribbean</b>	<b>9.0</b>	<b>8.0</b>	<b>13%</b>	<b>8.0</b>	<b>13%</b>	
<b>Non-Regulated - Fortis Generation<sup>(2)</sup></b>	<b>18.0</b>	<b>8.7</b>	<b>107%</b>	<b>6.0</b>	<b>200%</b>	Higher-than-expected contribution from newly commissioned Waneta expansion project (\$12M)
<b>Non-Regulated - Non-Utility<sup>(3)</sup></b>	<b>8.0</b>	<b>5.0</b>	<b>60%</b>	<b>7.0</b>	<b>14%</b>	
<b>Corporate and Other<sup>(4)(5)</sup></b>	<b>(39.0)</b>	<b>(30.0)</b>	<b>30%</b>	<b>(37.0)</b>	<b>5%</b>	Higher finance charges as a result of stronger USD
<b>Net Earnings Applicable to Common Shares</b>	<b>\$123.0</b>	<b>\$121.1</b>	<b>2%</b>	<b>\$52.0</b>	<b>137%</b>	
Average Shares (basic)	277.9	277.8		214.8		
Average Shares (diluted)	284.2	284.2		215.3		
<b>Adjusted EPS (basic)</b>	<b>\$0.44</b>	<b>\$0.44</b>	<b>2%</b>	<b>\$0.24</b>	<b>83%</b>	
Adjusted EPS (diluted)	\$0.44	\$0.43	2%	\$0.24	84%	

Notes:

(1) Includes \$1M positive adjustment in Q2/15 related to capital tracker revenue adjustment for 2013 and 2014

(2) Excludes \$27M after-tax gain on sale of generation assets in Q2/15

(3) Excludes \$109M after-tax gain on sale of commercial real estate assets and \$13M after-tax loss on pending sale of hotel assets in Q2/15

(4) Corporate expenses for Q2/14 exclude approximately \$1M in acquisition costs relating to the UNS acquisitions but includes \$13M in interest expense on related convertible debentures

(5) Excludes foreign exchange after-tax loss of \$1M in Q2/15 and \$4M in Q2/14

Source: BMO Capital Markets, Company Reports

- **Reiterates \$2.2B capital spending in 2015 and \$9B through 2019.** FTS reaffirmed its 2015 capital spending outlook of \$2.2B, after having spent \$1.2B in H1. The company also reiterated its longer-term expectations: rate base growth of 6.5% and \$9B capex through 2019, of which 36% relates to Canadian regulated electric utilities, 19% to Canadian regulated gas utilities, 38% to the U.S., 5% to Caribbean regulated electric utilities, and the remaining 2% to non-regulated operations.
- **Major growth initiatives progressing to plan.** The \$900M 335MW Waneta hydro expansion project (51% FTS) in B.C. achieved first production on April 2 (six weeks earlier than expected) and contributed \$12M to Q2 results. Construction continues on the \$440M Tilbury LNG 1A expansion (\$223M invested to date) with timing unchanged (in-service end of 2016). The company continues to advance a further expansion of Tilbury and the Woodfibre LNG site, where total capital investment could amount to \$1B (not included in

capex guidance). On the call, FTS highlighted that the a final investment decision from the proponents of the Woodfibre LNG project is expected by year-end, while the Tilbury expansion still requires regulatory approval of the conditional long-term contract with Hawaiian Electric Company.

- **Canadian cost of capital proceedings under way.** In April 2015, the Alberta regulator initiated a cost of capital proceeding to determine 2016 and 2017 allowed ROE and capital structure for Alberta-based utilities; a pre-hearing conference is expected in Q3/15 and final decision will likely not be forthcoming until H1/16. This follows the March 2015 decision where the Commission lowered the 2013–2015 ROE to 8.3% from 8.75%. In B.C., FortisBC Energy is planning to file an application to review the 2016 benchmark allowed ROE and common equity ratio by no later than November 30, 2015. We will be looking for whether allowed ROEs have potential for further downside, especially in the current low bond yield environment in Canada and significant reductions observed globally.
- **Non-core asset sales on track.** Following the sale of its commercial real estate portfolio in June 2015 for \$430M, FTS further sold its non-regulated power plants in New York (\$77M) and Ontario (\$16M). The hotels business was also sold in July 2015 for \$365M with closing expected in the fall. Pro forma the sales, almost 100% of the company's assets will consist of regulated utility and long-term contracted energy infrastructure.
- **Revised estimates.** We have updated our estimates to reflect Q2 actuals, revised seasonality for Waneta (strongest in Q2), and slower pace of growth at Central Hudson. Our 2015 EPS estimate (f.d) is now \$1.97 (vs. \$2.01), while our 2016 estimate is unchanged at \$2.07.
- **Introducing 2017 estimates.** Along with our revisions, we are rolling out our FY17 estimates: adj. EPS of \$2.16 (vs. \$2.07 in 2016E or +4.2% y/y). Our FY17E anticipates earnings growth from all of FTS's regulated utilities (with primary drivers being Western Canada and the U.S.), which is further supported by favorable F/X translation.
- **Reiterate \$40.50 target price.** Due to no change in our 2016 estimate, our target price remains at \$40.50 (based on a forward P/E multiple of 19.5x applied to our 2016 estimate). The multiple is above its 10-year historical average of ~18.8x, reflecting higher-than-average rate base growth prospects, increased diversification and optionality, and support from low bond yields.

#### Exhibit 2: Calculation of Our Target Price

FTS Valuation	Multiple	2015E	2016E	2017E
Adj. EPS (f.d)		\$1.97	\$2.07	\$2.16
Equity value/sh	19.5x	\$38.48	\$40.42	\$42.11

2016E \$40.42

#### P/E Sensitivity

18.5x	19.0x	19.5x	20.0x	20.5x
\$38.35	\$39.39	\$40.42	\$41.46	\$42.50

Source: BMO Capital Markets

- **Maintaining Market Perform rating.** FTS remains our favorite stock among the utility complex given strong earnings growth and capital spending trends (even after accounting for beneficial impact of USD), but we see more compelling alternatives in the power subsector. We reiterate our Market Perform rating.

## Exhibit 3: Upcoming Events

2H15	Expected decision on FortisAlberta 2013-2015 Capital Tracker Compliance filing
By Oct 16, 2015	Newfoundland Power to file 2016 general rate application
By Nov. 30, 2015	FEI to file application for 2016 ROE and common equity
End of 2015	Expected commissioning of the Pinal transmission line (UNS Energy)
End of 2015	Expected FID on Woodfibre LNG facility (3rd party)
End of 2015	Tucson Electric Power to file general rate application requesting new rates effective January 1, 2017
Q1/16	Expected decision on FortisAlberta 2016/2017 Capital Tracker Application
Late 2016	In-service of Tilbury LNG facility expansion

Source: BMO Capital Markets; Company Reports

## Exhibit 4: Summary of Financial Forecasts

Fortis Inc. Financial Estimates (in \$mm)	2014	Q1/15	Q2/15	Q3/15E	Q4/15E	2015E	Q1/16E	Q2/16E	Q3/16E	Q4/16E	2016E	2017E	14-17E CAGR
<b>Regulated Gas Utilities - Canadian</b>													
FortisBC Energy Companies	\$127.0	\$88.0	\$7.0	(\$13.2)	\$59.5	\$141.3	\$89.7	\$7.2	(\$14.0)	\$60.5	\$143.4	\$147.6	5.1%
<b>Regulated Gas &amp; Electric Utility - United States</b>													
UNS Energy	\$60.0	\$20.0	\$52.0	\$73.5	\$27.5	\$173.0	\$20.9	\$53.1	\$75.7	\$28.3	\$177.9	\$185.9	
Central Hudson	37.0	22.0	10.0	16.0	14.0	62.0	25.6	15.0	16.8	15.7	73.0	78.9	
	97.0	42.0	62.0	89.5	41.5	235.0	46.5	68.0	92.4	43.9	250.9	264.8	
<b>Regulated Electric Utilities - Canadian</b>													
FortisAlberta	\$103.0	\$31.0	\$32.0	\$32.3	\$32.7	\$128.0	\$33.5	\$33.8	\$34.2	\$33.6	\$135.1	\$144.4	11.9%
FortisBC Electric	46.0	23.0	11.0	7.9	10.9	52.8	22.1	11.9	8.6	11.3	53.9	54.2	5.6%
Eastern Canadian	60.0	19.0	15.0	14.2	14.3	62.5	20.0	17.0	14.6	14.3	65.9	66.8	3.6%
	209.0	73.0	58.0	54.4	57.9	243.3	75.6	62.6	57.5	59.2	254.9	265.4	8.3%
Regulated Electric Utilities - Caribbean	27.0	5.0	9.0	7.6	6.4	28.0	5.9	8.9	7.9	7.4	30.0	32.4	6.3%
Non-Regulated - Fortis Generation	20.0	3.0	18.0	8.1	6.9	36.0	6.0	17.2	8.9	7.9	40.0	41.0	27.1%
Non-Regulated - Non-Utility	28.0	(2.0)	8.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0%
Corporate and Other	(152.0)	(30.0)	(39.0)	(35.5)	(32.2)	(136.7)	(32.2)	(32.2)	(32.2)	(32.2)	(129.0)	(129.0)	-5.3%
<b>Total Adjusted Earnings</b>	<b>356.0</b>	<b>179.0</b>	<b>123.0</b>	<b>110.9</b>	<b>140.0</b>	<b>552.9</b>	<b>191.4</b>	<b>131.6</b>	<b>120.5</b>	<b>146.6</b>	<b>590.2</b>	<b>622.2</b>	<b>20.5%</b>
Average Shares Outstanding (basic)	225.6	276.7	277.8	277.8	277.8	277.8	281.6	281.6	281.6	281.6	281.6	285.4	
Average Shares Outstanding (diluted)	226.1	283.1	284.2	284.2	284.2	284.2	288.6	288.6	288.6	288.6	288.6	291.8	
<b>Dividends Per Share</b>	<b>\$1.28</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$0.34</b>	<b>\$1.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$0.36</b>	<b>\$1.44</b>	<b>\$1.52</b>	<b>5.9%</b>
EPS - reported (diluted)	\$1.37	\$0.71	\$0.87	\$0.40	\$0.50	\$2.47	\$0.67	\$0.46	\$0.42	\$0.52	\$2.07	\$2.16	
Adjusted EPS - basic	\$1.58	\$0.65	\$0.44	\$0.40	\$0.50	\$1.99	\$0.68	\$0.47	\$0.43	\$0.52	\$2.10	\$2.18	11.4%
<b>Adjusted EPS - diluted</b>	<b>\$1.57</b>	<b>\$0.64</b>	<b>\$0.44</b>	<b>\$0.40</b>	<b>\$0.50</b>	<b>\$1.97</b>	<b>\$0.67</b>	<b>\$0.46</b>	<b>\$0.42</b>	<b>\$0.52</b>	<b>\$2.07</b>	<b>\$2.16</b>	<b>11.1%</b>

Source: BMO Capital Markets



## Exhibit 5: Consolidated Summary Sheet



## Market Perform

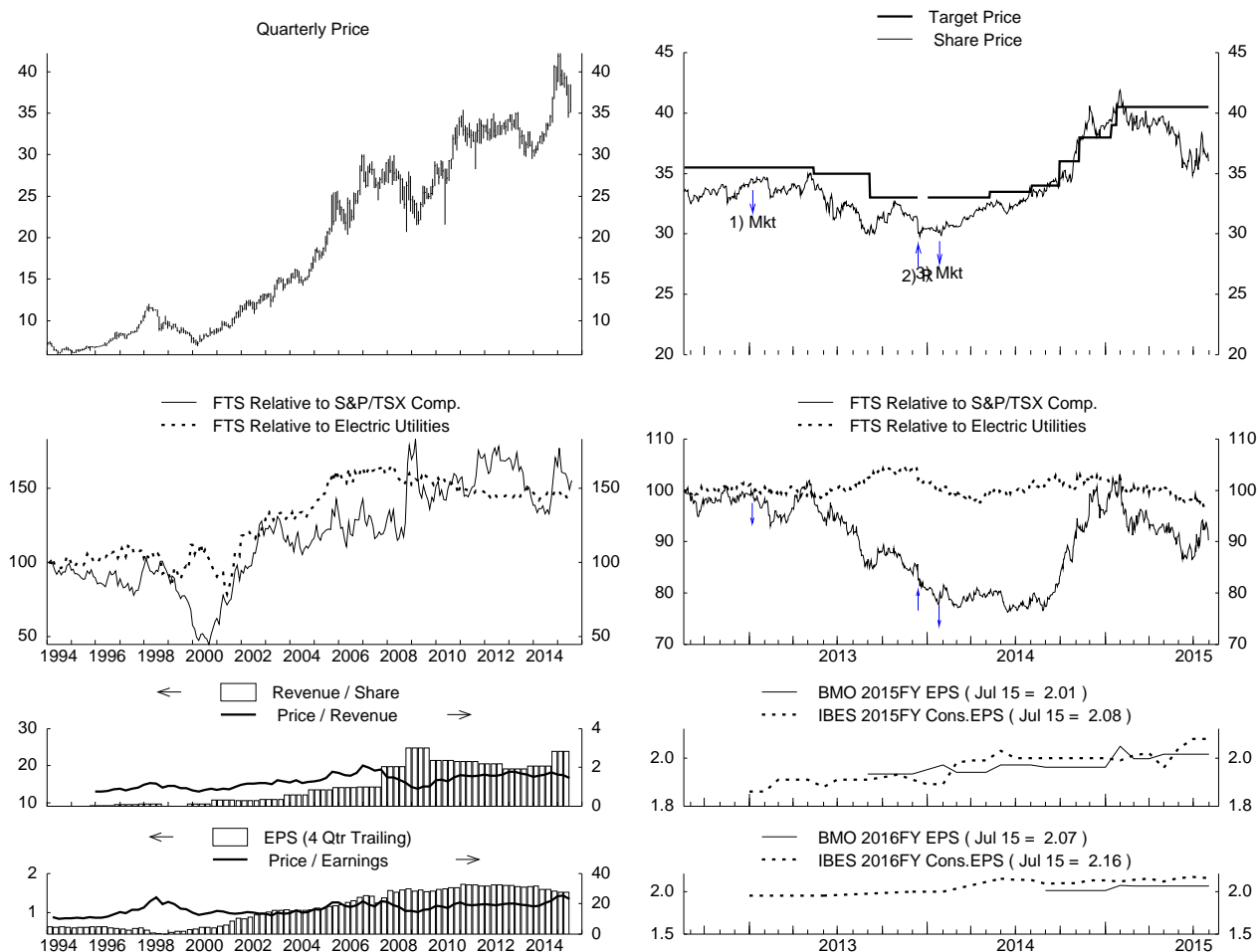
12-Month Target Price: \$40.50  
 Analyst: Ben Pham, CFA  
 (416) 359-4061  
 Current Price: \$37.45  
 ROR: 11.8%

## Fortis Inc. (FTS)

	Year Ended 31 December										CAGR 2014A- 2017E
	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E	
Earnings Per Share (Basic)	\$1.60	\$1.54	\$1.63	\$1.67	\$1.70	\$1.67	\$1.58	\$1.99	\$2.10	\$2.18	11.4%
Earnings Per Share (Diluted)	\$1.56	\$1.51	\$1.60	\$1.66	\$1.69	\$1.66	\$1.57	\$1.97	\$2.07	\$2.16	11.1%
First Call Consensus (EPS)								\$2.05	\$2.15	\$2.27	13.0%
Cash Flow Per Share	\$3.95	\$3.98	\$4.25	\$4.44	\$4.73	\$4.66	\$4.90	\$5.72	\$6.03	\$6.17	
Dividends Per Share	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.36	\$1.44	\$1.52	5.9%
Payout Ratio (% of EPS)	62.3%	67.6%	68.9%	69.6%	70.7%	74.3%	81.1%	68.3%	68.7%	69.7%	
Payout Ratio (% of FFO)	25.3%	26.1%	26.4%	26.1%	25.4%	26.6%	26.1%	23.8%	23.9%	24.6%	
Average Shares (basic - mm)	157.4	170.2	172.9	181.6	190.0	202.5	225.6	277.8	281.6	285.4	
Average Shares (diluted - mm)	173.7	186.2	187.1	190.0	197.2	209.3	226.1	284.2	288.6	291.8	
Net Book Value	\$18.00	\$18.64	\$18.95	\$20.53	\$20.84	\$22.39	\$24.90	\$25.60	\$26.34	\$27.08	
<b>Market Valuation</b>											
Price: High	\$29.94	\$28.86	\$34.20	\$35.15	\$34.55	\$35.01	\$40.83	-	-	-	
Price: Low	\$20.70	\$21.62	\$25.67	\$32.67	\$32.00	\$29.76	\$29.78	-	-	-	
Price: Current	-	-	-	-	-	-	-	\$37.45	-	-	
P/E Ratio: High	19.2	19.1	21.3	21.2	20.5	21.1	25.9	-	-	-	
P/E Ratio: Low	13.2	14.3	16.0	19.7	19.0	18.0	18.9	-	-	-	
P/E Ratio: Current	-	-	-	-	-	-	-	19.0	18.1	17.3	
EV/EBITDA: High	10.4	10.9	11.3	11.4	11.0	11.5	12.9	-	-	-	
EV/EBITDA: Low	9.0	9.7	10.0	11.0	10.6	10.7	11.4	-	-	-	
EV/EBITDA: Current	-	-	-	-	-	-	-	9.9	9.5	9.2	
Yield: High Price	3.3%	3.6%	3.3%	3.3%	3.5%	3.5%	3.1%	-	-	-	
Yield: Low Price	4.8%	4.8%	4.4%	3.6%	3.8%	4.2%	4.3%	-	-	-	
Yield: Current	-	-	-	-	-	-	-	3.6%	3.8%	4.1%	
<b>Balance Sheet (\$mm)</b>											
Debt (S-T)	568.0	538.0	467.0	144.0	132.0	401.0	1,196.0	728.3	762.2	662.6	
Debt (L-T)	4,900.0	5,292.0	5,447.0	5,711.0	5,750.0	6,891.0	9,405.0	9,871.0	9,971.0	10,071.0	
Minority Interest	145.0	123.0	162.0	208.0	310.0	375.0	421.0	421.0	421.0	421.0	
Preferred Shares	667.0	667.0	912.0	912.0	1,108.0	1,229.0	1,820.0	1,825.0	1,825.0	1,825.0	
Convertible Debentures	44.0	44.0	44.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' Equity	<u>3,045.7</u>	<u>3,192.7</u>	<u>3,305.0</u>	<u>3,877.0</u>	<u>3,992.0</u>	<u>4,772.0</u>	<u>6,871.0</u>	<u>7,159.4</u>	<u>7,465.8</u>	<u>7,784.3</u>	
	9,369.7	9,856.7	10,337.0	10,852.0	11,292.0	13,668.0	19,713.0	20,004.7	20,445.0	20,763.9	
<b>Balance Sheet (%)</b>											
Debt (S-T)	6.1%	5.5%	4.5%	1.3%	1.2%	2.9%	6.1%	3.6%	3.7%	3.2%	
Debt (L-T)	52.3%	53.7%	52.7%	52.6%	50.9%	50.4%	47.7%	49.3%	48.8%	48.5%	
Minority Interest	1.5%	1.2%	1.6%	1.9%	2.7%	2.7%	2.1%	2.1%	2.1%	2.0%	
Preferred Shares	7.1%	6.8%	8.8%	8.4%	9.8%	9.0%	9.2%	9.1%	8.9%	8.8%	
Convertible Debentures	0.5%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity	<u>32.5%</u>	<u>32.4%</u>	<u>32.0%</u>	<u>35.7%</u>	<u>35.4%</u>	<u>34.9%</u>	<u>34.9%</u>	<u>35.8%</u>	<u>36.5%</u>	<u>37.5%</u>	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>Income &amp; Cash Flow Metrics (\$mm)</b>											
Total Revenue	3,903.0	3,636.0	3,664.0	3,731.5	3,654.0	4,047.0	5,401.0	6,946.7	7,219.5	7,374.2	10.9%
EBITDA	1,061.0	1,063.0	1,150.0	1,169.5	1,264.0	1,393.0	1,711.0	2,357.4	2,488.0	2,571.0	14.5%
Net Earnings	252.5	262.0	281.0	302.5	322.4	338.0	356.0	552.9	590.2	622.2	20.5%
Funds from Operations	622.0	678.0	734.0	806.0	898.0	944.0	1,106.0	1,588.2	1,697.5	1,761.3	16.8%
Capital Expenditures (ex. acquisitions)	(935.0)	(1,024.0)	(1,073.0)	(1,174.0)	(1,130.0)	(1,175.0)	(1,725.0)	(2,160.7)	(1,635.2)	(1,554.2)	
<b>Financial Leverage</b>											
Net Debt	5,512.0	5,874.0	5,958.0	5,855.0	5,882.0	7,292.0	10,601.0	10,599.3	10,733.2	10,733.6	
Net Debt/EBITDA	5.2x	5.5x	5.2x	5.0x	4.7x	5.2x	6.2x	4.5x	4.3x	4.2x	
Net Debt/Total Book Capitalization	58.8%	59.6%	57.6%	54.0%	52.1%	53.4%	53.8%	53.0%	52.5%	51.7%	

Source: BMO Capital Markets, Company Reports

## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	8
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	24.9	1.6 1.2	7

Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.52	23.1	1.36	3.9	89	26.4	1.3	6

## Growth(%):

5 Year:	-1.0	4.0	7.2
10 Year:	3.4	9.1	9.7
20 Year:	4.6	6.1	7.8

\* Current EPS is the 4 Quarter Trailing to Q1/2015.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

## FTS - Rating as of 20-Aug-12 = OP

Date	Rating Change	Share Price
1 7-Jan-13	OP to Mkt	\$34.52
2 12-Dec-13	Mkt to R	\$30.04
3 24-Jan-14	R to Mkt	\$30.31

Last Price ( July 30, 2015): \$36.03  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exceptions: Alex Arfaei and Brodie Woods). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2015)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.9%	53.3%	41.9%	54.3%	54.6%
Hold	Market Perform	53.5%	14.4%	44.8%	53.3%	44.4%	40.0%
Sell	Underperform	4.4%	7.4%	1.9%	4.7%	1.3%	5.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 4, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>. Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ. Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**General Disclaimer**

BMO Capital Markets” is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates’ ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as “relevant persons”). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A. (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia, and BMO Advisors Private Limited in India.

Nesbitt Burns® is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP

A member of BMO  Financial Group

---

# Fortis

(FTS-TSX)

**Rating:**                      **Market Perform**

Target Price:    \$40.50              Total Return: 15%

Price (29-Sep): \$36.30

September 29, 2015

**Ben Pham, CFA**  
BMO Nesbitt Burns Inc.  
ben.pham@bmo.com

**416-359-4061**

Eric Tang  
BMO Nesbitt Burns Inc.  
eric.tang@bmo.com

416-359-8110

## Initiates 6% Dividend Growth Guidance Through 2020 Following 10% Increase

Fortis' Board of Directors has approved a 10.3% increase in the company's quarterly common share dividend to \$0.375/sh from the current quarterly rate of \$0.34/sh, one quarter sooner than expected and higher than consensus (\$0.36). As a result of this announcement, the new annualized common share dividend will be \$1.50/sh (vs. \$1.36/sh previously), implying a 4.1% yield at current prices. The first quarterly payment of \$0.375 per common share is payable on December 1, 2015 to common shareholders of record at the close of business on November 18, 2015. The company also initiated a dividend growth target of ~6% through 2020, off of the new higher base of \$1.50.

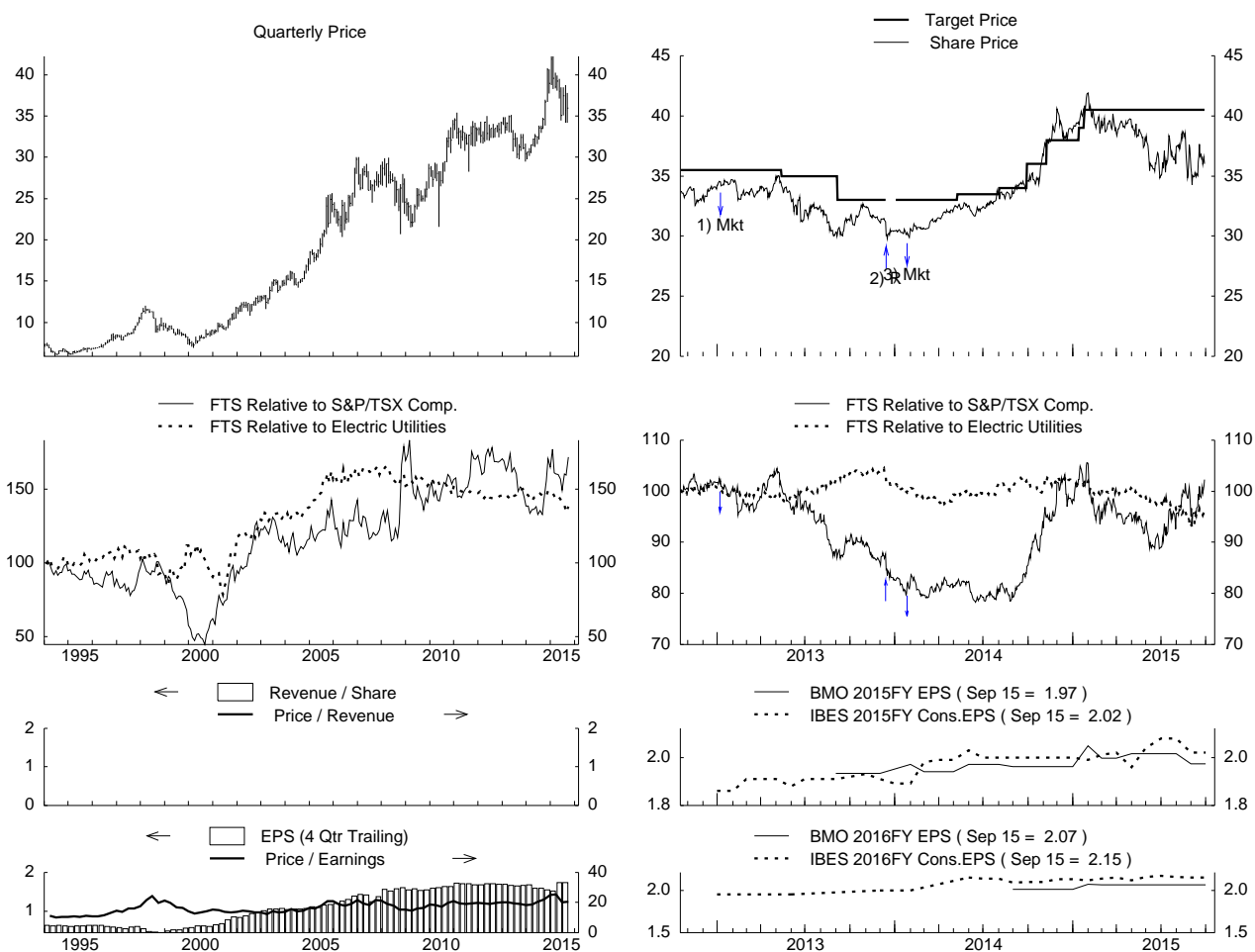
### Our View:

- **We see the dividend increase and the new guidance as a positive development for the FTS shares.** In a market where investors continue to chase yield, companies that can deliver attractive visible dividend growth should garner premium sector valuations in our opinion. We note that FTS's payout ratio for 2016 is still expected to remain under 72%, in line with the 2011–2015E average of ~72.8%. Should the company deliver to this new five-year guidance, the FTS dividend could reach ~\$1.90 by the end of the decade.
- **We see the guidance as achievable.** The dividend guidance is underpinned by the recent successful commissioning of the 335MW Waneta hydroelectric dam expansion in B.C. and a five-year organic growth program of \$9B through 2018 (6.5% growth CAGR). Given that largely dialled-in growth backlog combined with a strong USD tailwind, we see the FTS guidance as realistic and achievable and see rising dividends and cash flows leading to higher share price appreciation over time. Reiterate Market Perform rating.

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 5.



## Fortis Inc. (FTS)



FYE (Dec.)	EPS \$	P/E Hi - Lo	DPS \$	Yield% Hi - Lo	Payout %	BV \$	P/B Hi - Lo	ROE %
1994	0.62	12.2 9.6	0.42	7.1 5.6	68	5.8	1.3 1.0	
1995	0.63	11.0 9.6	0.43	7.1 6.2	68	6.0	1.1 1.0	11
1996	0.59	14.7 11.2	0.43	6.5 5.0	73	6.2	1.4 1.1	10
1997	0.60	17.8 13.1	0.44	5.6 4.1	74	6.4	1.7 1.2	9
1998	0.45	26.9 19.6	0.45	5.1 3.7	>100	6.6	1.8 1.3	7
1999	0.56	17.8 13.0	0.45	6.2 4.5	80	6.6	1.5 1.1	9
2000	0.60	15.4 11.5	0.46	6.7 5.0	77	7.0	1.3 1.0	9
2001	0.84	14.2 10.0	0.47	5.6 4.0	56	7.5	1.6 1.1	12
2002	0.96	13.8 10.8	0.49	4.7 3.7	51	8.5	1.6 1.2	12
2003	1.03	14.9 11.3	0.52	4.5 3.4	51	8.8	1.7 1.3	12
2004	0.99	17.9 14.3	0.54	3.8 3.0	54	10.5	1.7 1.4	10
2005	1.10	23.3 14.8	0.64	3.9 2.5	58	11.7	2.2 1.4	10
2006	1.33	22.6 15.3	0.76	3.7 2.5	57	12.2	2.5 1.7	11
2007	1.29	23.3 19.0	0.84	3.4 2.8	65	16.7	1.8 1.5	9
2008	1.56	19.2 13.3	1.00	4.8 3.3	64	20.1	1.5 1.0	8
2009	1.51	19.4 14.3	1.04	4.8 3.6	69	18.6	1.6 1.2	9
2010	1.60	21.5 13.5	1.12	5.2 3.2	70	19.0	1.8 1.1	9
2011	1.66	21.4 17.0	1.16	4.1 3.3	70	20.7	1.7 1.4	8
2012	1.69	20.7 18.8	1.20	3.8 3.4	71	20.8	1.7 1.5	8
2013	1.66	21.1 17.7	1.24	4.2 3.5	75	22.4	1.6 1.3	8
2014	1.57	25.9 18.7	1.28	4.3 3.1	81	24.9	1.6 1.2	7
Range*		26.9 9.6		7.1 2.5			2.5 1.0	
Current*	1.74	20.5	1.36	3.8	78	26.8	1.3	6
Growth(%):								
5 Year:	1.7		4.0			7.5		
10 Year:	4.8		9.1			9.9		
20 Year:	5.3		6.1			7.9		

\* Current EPS is the 4 Quarter Trailing to Q2/2015.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

FTS - Rating as of 17-Oct-12 = OP

Date	Rating Change	Share Price
1 7-Jan-13	OP to Mkt	\$34.52
2 12-Dec-13	Mkt to R	\$30.04
3 24-Jan-14	R to Mkt	\$30.31

Last Price ( September 28, 2015): \$36.00  
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

**IMPORTANT DISCLOSURES****Analyst's Certification**

I, Ben Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of BMO Capital Markets and their affiliates, which includes the overall profitability of investment banking services. Compensation for research is based on effectiveness in generating new ideas and in communication of ideas to clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

Analysts employed by BMO Nesbitt Burns Inc. and/or BMO Capital Markets Limited are not registered as research analysts with FINRA (exceptions: Alex Arfaei and Brodie Woods). These analysts may not be associated persons of BMO Capital Markets Corp. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Company Specific Disclosure**

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

Disclosure 5: BMO Capital Markets or an affiliate received compensation for products or services other than investment banking services within the past 12 months.

Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services & Non-Securities Related Services.

Disclosure 8: BMO Capital Markets or an affiliate has a financial interest in 1% or more of any class of the equity securities of this issuer.

**Methodology and Risks to Price Target/Valuation**

**Methodology:** Our target price is based on a P/E multiple of 19.5x our FY16E estimates.

**Risks:** Key risks include interest rates, management execution, construction, capital markets, and regulatory risk.

**Distribution of Ratings (June 30, 2015)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.9%	53.3%	41.9%	54.3%	54.6%
Hold	Market Perform	53.5%	14.4%	44.8%	53.3%	44.4%	40.0%
Sell	Underperform	4.4%	7.4%	1.9%	4.7%	1.3%	5.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

\*\*\*\* Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

\*\*\*\*\* Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

**Rating and Sector Key (as of April 5, 2013):**

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

**Prior BMO Capital Markets Ratings System (January 4, 2010–April 5, 2013):**

[http://researchglobal.bmocapitalmarkets.com/documents/2013/prior\\_rating\\_system.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf)

**Other Important Disclosures**

For Other Important Disclosures on the stocks discussed in this report, please go to [http://researchglobal.bmocapitalmarkets.com/Public/Company\\_Disclosure\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Company_Disclosure_Public.aspx) or write to Editorial Department, BMO Capital Markets, 3 Times Square, New York, NY 10036 or Editorial Department, BMO Capital Markets, 1 First Canadian Place, Toronto, Ontario, M5X 1H3.

**Dissemination of Research**

BMO Capital Markets Equity Research is available via our website <https://research-ca.bmocapitalmarkets.com/Public/Secure/Login.aspx?ReturnUrl=/Member/Home/ResearchHome.aspx>

Institutional clients may also receive our research via Thomson Reuters, Bloomberg, FactSet, and Capital IQ.

Research reports and other commentary are required to be simultaneously disseminated internally and externally to our clients.

**Conflict Statement**

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at [http://researchglobal.bmocapitalmarkets.com/Public/Conflict\\_Statement\\_Public.aspx](http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx)

**General Disclaimer**

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

**Additional Matters**

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

The following applies if this research was prepared in whole or in part by David Round, Edward Sterck or Brendan Warn: This research is not prepared subject to Canadian disclosure requirements. This research is prepared by BMO Capital Markets Limited and subject to the regulations of the Financial Conduct Authority (FCA) in the United Kingdom. FCA regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 5% or more of the equity of the issuer. Canadian regulations require that a firm providing research disclose its ownership interest in the issuer that is the subject of the research if it and its affiliates own 1% or more of the equity of the issuer that is the subject of the research. Therefore BMO Capital Markets Limited will disclose its and its affiliates' ownership interest in the subject issuer only if such ownership exceeds 5% of the equity of the issuer.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp.

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

Unauthorized reproduction, distribution, transmission or publication without the prior written consent of BMO Capital Markets is strictly prohibited.

[Click here](#) for data vendor disclosures when referenced within a BMO Capital Markets research document.

---

#### **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (Member FDIC), BMO Ireland Plc, and Bank of Montreal (China) Co. Limited and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.  
TM Trademark Bank of Montreal

**©COPYRIGHT 2015 BMO CAPITAL MARKETS CORP**

A member of **BMO**  **Financial Group**

---



## Fortis Inc.

(FTS-T C\$33.51)

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew\\_akman@scotiacapital.com](mailto:matthew_akman@scotiacapital.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

**Rating:** 2-Sector Perform

**Risk Ranking:** Low

**Valuation:** 7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Target** 1-Yr: C\$34.00 **ROR** 1-Yr: 5.0%  
2-Yr: C\$35.00 2-Yr: 11.5%

**Est. NTM Div.** C\$1.18

**Div. (Current)** C\$1.16

**Yield** 3.5%

## BC to Review Regulated Returns

### Event

- The B.C. Utilities Commission (BCUC) announced it will initiate a generic cost of capital proceeding in early 2012.

### Implications

- The BCUC last reviewed cost of capital in early 2009. Given that government bond yields and credit spreads have come in significantly since that time, and given that the BCUC unilaterally initiated the proceeding, we have to assume allowed returns are going lower.
- Fortis is the only utility we cover with material exposure to allowed returns on equity in B.C. Allowed ROEs are 9.5%-10%. With about \$1.9B of 2013E regulated equity in the province, every 100 basis point reduction in allowed ROE decreases 2013E EPS by about \$0.10.
- We are therefore reducing our 2013E EPS estimate by \$0.10 and our one-year target price by \$1 to \$34. In a separate regulatory proceeding, the Alberta Utilities Commission is due to decide soon on a new generic ROE. Our estimates assume it is reduced to 8.5% from 9%.

### Recommendation

- It will be hard for FTS shares to move up given new uncertainty around allowed returns in a core jurisdiction. We maintain our 2-SP rating and would only accumulate aggressively closer to \$30.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.67 A	\$0.33 A	\$0.25 A	\$0.45	\$1.70	19.71
2012E	\$0.71	\$0.32	\$0.26	\$0.46	\$1.75	19.15
2013E	\$0.69	\$0.31	\$0.25	\$0.44	\$1.70	19.71
(FY-Dec.)	2009A	2010A	2011E	2012E	2013E	
Free Cash Flow/Share	\$1.86	\$2.00	\$2.36	\$2.46	\$2.48	
Price/Earnings	18.8	20.6	19.8	19.2	19.8	
EV/EBITDA	10.8	11.2	10.9	11.1	11.1	
Payout Ratio	56%	56%	49%	49%	51%	
EBITDA	\$1,067	\$1,150	\$1,220	\$1,258	\$1,265	
Debt/EBITDA	5.5	5.2	5.1	5.3	5.3	
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57	
Enterprise Value	\$11,503	\$12,859	\$13,292	\$13,935	\$14,044	

### IBES Estimates

EPS 2011E: \$1.71

EPS 2012E: \$1.77



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	186.9
Total Value (\$M)	6,264
Float O/S (M)	185.5
Float Value (\$M)	6,216
TSX Weight	0.45%
Next Reporting Date	Feb-12

### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$34.00	\$35.00
2-Yr	\$35.00	\$36.00
EPS13E	\$1.70	\$1.80

### New Valuation:

7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

### Old Valuation:

7.0% 2012E Free Cash Yield and 11.3x 2012E EV/EBITDA

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	1-Dec-08	\$27.28	* 2-Sector Perform	*\$30.00
	3-Dec-08	\$25.48	Restricted	Restricted
2	8-Jan-09	\$24.49	* 2-Sector Perform	*\$28.50
3	6-Feb-09	\$23.86	2-Sector Perform	*\$28.00
4	1-May-09	\$22.36	2-Sector Perform	*\$27.00
5	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
6	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
7	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
8	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
9	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
10	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
11	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
12	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
13	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
14	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
15	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
16	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
17	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
* represents the value(s) that has changed.				

## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

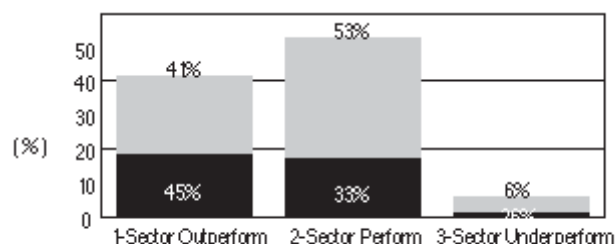
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



■ Percentage of companies covered by Scotia Capital Equity Research within each rating category.

■ Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

\* As at October 31, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

## Additional Disclosures

**Canada:** This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. is not in the business of providing investment banking services.

**Hong Kong:** This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

**Mexico:** This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

**Singapore:** This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

**United States:** This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.

**Fortis Inc.**

FTS : TSX : C\$33.75

**HOLD****Target: C\$32.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$21.60 - 35.45
Avg. Daily Vol. (000s):	481.8
Market Cap (M):	C\$6,101
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010E	2011E	2012E
EPS:	C\$1.50	C\$1.60	C\$1.75	C\$1.80
P/E (x):	22.5	21.1	19.3	18.8
CFPS:	C\$3.98	C\$4.08	C\$4.38	C\$4.48
P/CF (x):	8.5	8.3	7.7	7.5

**SHARE PRICE PERFORMANCE:****COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****NO SURPRISES IN Q4; STEADY GROWTH AHEAD****Investment recommendation**

Fortis reported fourth-quarter recurring earnings generally in line with expectations. The company continues to deliver stable earnings growth stemming mainly from its regulated utility operations in Canada. With \$5.5 billion of planned capital expenditures over the next five years (83% in regulated operations) we expect the company to deliver measured earnings growth. We maintain our HOLD rating and C\$32.00 target price.

**Investment highlights**

- Maintain HOLD rating and C\$32.00 target
- Q4 recurring earnings \$0.49, below \$0.51 consensus
- 2010 recurring earnings \$1.61, in line with our \$1.60 estimate
- Steady growth - \$5.5 billion capex program over next five years
- Continues to actively seek utility acquisitions

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Outlook**

We are maintaining our 2011 and 2012 EPS estimates of \$1.75 and \$1.80, respectively. The company is well positioned to achieve stable earnings growth through its planned \$5.5 billion capital expenditure program. Approximately ~\$4.6 billion of spending is targeted within Fortis' regulated operations, driven mainly by investments in FortisAlberta and FortisBC and about \$1.1 billion at Terasen Gas.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

In addition, the company has begun construction on the 335 MW Waneta Expansion hydro project where it holds a 51% interest (~\$460 million Fortis portion of the estimated capital cost). The company continues to seek acquisitions and is focused primarily on electric and gas utilities in the United States or Canada. We believe the company has the financial capability to integrate an acquisition of up to \$4 billion in enterprise value but would consider larger acquisitions with the assistance of a financial partner. However, we expect management will remain prudent and wait for the right opportunity.

Fortis' Caribbean operations have been earning a lower-than-expected return on its investments and we expect earnings to gradually improve. A decision on its regulated return in Belize is expected in the first quarter this year and the electricity rate review filing at Fortis Turks and Caicos is advancing.

### **Earnings summary**

Fortis reported fourth-quarter and full-year earnings that were essentially in line with our expectations but slightly below the consensus. Recurring earnings for the company's fourth quarter was \$0.49 per share versus \$0.46 last year. The increase was due mainly to higher earnings from regulated operations in Canada due to the company's significant capital expenditure program coupled with higher allowed ROE. In addition, higher non-regulated electric generation (mainly in Belize from above average hydrology) and lower effective corporate taxes also helped add incremental earnings. This was partly offset by higher operating expenses at Terasen Gas related to quarterly timing issues.

For the full year, Fortis reported recurring earnings per share of \$1.61 versus \$1.53 last year, below the \$1.66 consensus estimate. Higher allowed ROEs and increased rate bases within the Canadian regulated business in addition to above average hydrology in Belize more than offset reduced earnings at the regulated Caribbean operations and the expiration of the Rankine water rights in Ontario.

### **Noteworthy**

- Construction on \$900 M, 335 MW, Waneta Expansion project began Fall/10
    - Fortis owns 51%
      - 40-year PPA with BC Hydro and FortisBC
      - Commissioning targeted for Spring 2015
  - 2011 ROE (vs. 2010):
    - Terasen Gas – 9.5% (unchanged)
    - FortisBC – 9.9% (unchanged)
    - FortisAlberta – 9.0% (interim rate; unchanged)
    - Newfoundland Power 8.38% (down from 9.0%)
  - Credit ratings
    - S&P A-
    - DBRS raised rating to A(low) from BBB(high)
  - Raised \$525 M in long-term debt in 2010 at lower rates
  - Capital program
    - Spent \$1.1 B in 2010, \$25 M lower than forecast in 2009 MD&A
    - \$5.5 B budgeted over next five years
      - 2011: \$1.2 B
      - 2012: \$1.1 B
      - 2013: \$1.2 B
      - 2014: \$1.0 B
      - 2015: \$1.0 B
  - Expects decision on Belize Electricity appeal in Q1/11
-

Figure 1: Fortis Inc. fourth-quarter earnings summary

Millions of dollars (except per share data)	Fourth Quarter Earnings			
	2009	2010	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
Terasen Gas	\$53	\$45	(15.1%)	2009 excludes \$5 M after tax non-recurring expense related to Whistler customer appliance conversions from propane to gas. Q4/10 includes higher opex related to quarterly timing issues.
Newfoundland Power	\$8	\$9	12.5%	
FortisAlberta	\$12	\$17	41.7%	2009 excludes \$3 M retroactive adjustment for higher allowed ROE relating to first three quarters of 2009.
FortisBC	\$8	\$10	25.0%	
Other Canadian Regulated Utilities	\$3	\$5	66.7%	
<b>Total Canadian Earnings</b>	<b>\$84</b>	<b>\$86</b>	2.4%	
<b>Regulated Utilities - Caribbean</b>	<b>\$6</b>	<b>\$5</b>	(16.7%)	
<b>Non-Regulated</b>				
Fortis Generation	\$3	\$5	66.7%	Higher generation and sales.
Fortis Properties	\$5	\$7	40.0%	
<b>Total Non-Regulated Earnings</b>	<b>\$8</b>	<b>\$12</b>	50.0%	
Corporate and Consolidated Adjustments	(\$19)	(\$18)	(5.3%)	
<b>Recurring Earnings</b>	<b>\$79</b>	<b>\$85</b>	7.6%	
Non-recurring items	\$2			
<b>Reported Net Earnings</b>	<b>\$81</b>	<b>\$85</b>	4.9%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$0.46</b>	<b>\$0.49</b>	5.7%	Slightly ahead of our 47¢ estimate and below the 51¢ consensus.
Non-recurring items	\$0.01	\$0.00		
Reported	\$0.47	\$0.49		
Cash Flow Per Share	\$0.99	\$1.20	20.8%	Higher amortization costs collected from customers.
Average Shares Outstanding (mln)	170.9	173.9	1.8%	
<b>Regulated</b>				
Earnings	\$90	\$91	1.1%	
% of total	114%	107%		
<b>Non-Regulated</b>				
Earnings	\$8	\$12	50.0%	Higher generation from all facilities in Fortis Generation and higher rents at Fortis Properties.
% of total	10%	14%		
<b>Corporate</b>				
Earnings	(\$19)	(\$18)	5.3%	
% of total	(24.1%)	(21.2%)		

Source: Fortis Inc., Canaccord Genuity



10 February 2011

Figure 2: Fortis Inc. 2010 earnings summary

Millions of dollars (except per share data)	Full Year Earnings			
	2009	2010	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
Terasen Gas	\$122	\$126	3.3%	Increased ROE for 2010 compared to 2009.
Newfoundland Power	\$32	\$35	9.4%	Growth in rate base.
FortisAlberta	\$60	\$66	10.0%	
FortisBC	\$37	\$43	16.2%	
Other Canadian Regulated Utilities	\$17	\$19	11.8%	Higher allowed ROE and investments in rate base.
<b>Total Canadian Earnings</b>	<b>\$268</b>	<b>\$289</b>	7.8%	
<b>Regulated Utilities - Caribbean</b>	<b>\$24</b>	<b>\$23</b>	(4.2%)	Lower due to unfavourable FX translation, increased legal fees associated with regulatory dispute; partly offset by reduced maintenance costs at Turks and Caicos.
<b>Non-Regulated</b>				
Fortis Generation	\$16	\$19	18.8%	
Fortis Properties	\$24	\$26	7.5%	
<b>Total Non-Regulated Earnings</b>	<b>\$40</b>	<b>\$45</b>	12.0%	
Corporate and Consolidated Adjustments	(\$72)	(\$78)	8.3%	
<b>Recurring Earnings</b>	<b>\$260</b>	<b>\$279</b>	7.2%	
Non-recurring items	\$2	\$6		\$4 M non-recurring reversal in 2010 of previously expensed costs in 2009 at Terasen; retro active adjustment of \$1.5 M added back relating to Turks and Caicos rate classification judgment.
<b>Reported Net Earnings</b>	<b>\$262</b>	<b>\$285</b>	8.8%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$1.53</b>	<b>\$1.61</b>	5.6%	
Non-recurring items	\$0.01	\$0.04		In line with our \$1.60 estimate but below the \$1.66 consensus estimate.
Reported	\$1.54	\$1.65		
Cash Flow Per Share	\$3.98	\$4.25	6.6%	
Average Shares Outstanding (mln)	170.2	172.9	1.6%	Dividend reinvestment and share purchase plans.
<b>Regulated</b>				
Earnings	\$292	\$312	6.8%	Higher ROEs and increased rate bases for regulated operations, slightly offset by reduced Caribbean earnings.
% of total	112%	112%		
<b>Non-Regulated</b>				
Earnings	\$40	\$45	12.0%	Good hydrology in Belize, lower financing charges and improved operations from Properties division.
% of total	15%	16%		
<b>Corporate</b>				
Earnings	(\$72)	(\$78)	(8.3%)	Reflects dividends for \$250 M preferred share issue Jan/2010.
% of total	(27.7%)	(28.0%)		

Source: Fortis Inc., Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

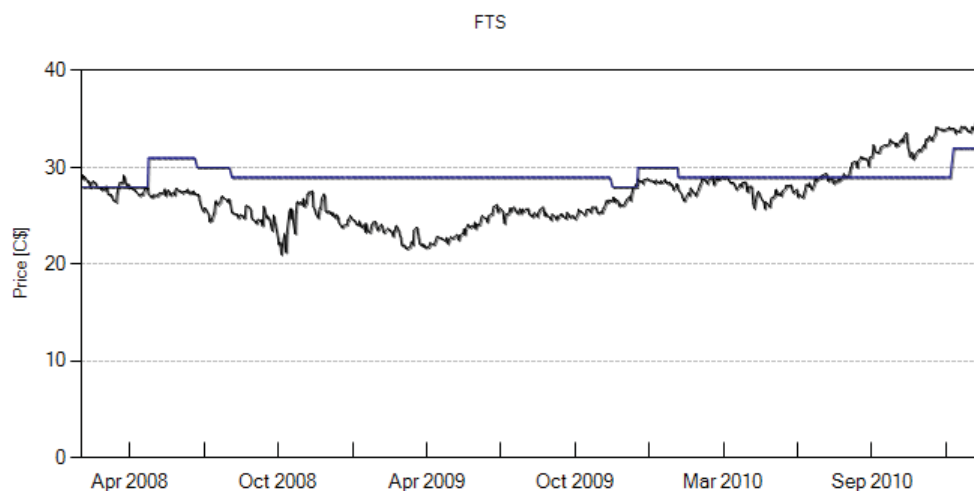
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

— Market Price  
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
2) 06/30/2008	Hastings	Buy	30.00	6) 12/17/2009	Hastings	Hold	30.00
3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00	8) 01/04/2011	Plessis	Hold	32.00

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 2 February 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	437	57.7%	36	36.6%
Speculative Buy	65	8.6%	52	52.3%
Hold	236	31.1%	18	17.8%
Sell	20	2.6%	2	5.0%
	758	100.0%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 10 February 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---



**Fortis Inc.**

FTS : TSX : C\$32.03

**HOLD****Target: C\$32.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$21.60-35.45
Avg. Daily Vol. (000s):	489.6
Market Cap (M):	C\$5,560
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.75	C\$1.80
P/E (x):	21.4	19.9	18.3	17.8
CFPS:	C\$3.98	C\$4.23	C\$4.52	C\$4.62
P/CF (x):	8.0	7.6	7.1	6.9

**SHARE PRICE PERFORMANCE:****COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****NEGATIVE BELIZE DECISION NOT MATERIAL****Investment recommendation**

Fortis received unfavourable determinations from the Belize Supreme Court regarding its 70%-owned Belize Electricity Limited for appeals made against certain regulatory decisions related to a 2008 rate case with the Belize regulator. The regulatory decisions in dispute have resulted in the company not earning a sufficient return on the assets since 2008 and, while they are disappointing, we do not expect the recent findings to have a material impact on future earnings. However, the company may be required to incur a writedown on the assets at some point in the future. The Belize regulatory assets represent only around \$100-125 million (~\$0.57-0.72 per share) and we believe that if a writedown is incurred, it would be for a portion of these assets and would not be material to the stock. Fortis is the epitome of a utility, achieving stable earnings growth stemming mainly from its regulated operations in Canada. The company has \$5.5 billion of planned capital expenditures over the next five years and we continue to expect delivery of measured earnings growth.

**Investment highlights**

- No changes to 2011 and 2012 earnings estimates
  - Belize assets under-earning for past two and a half years
  - No assumptions for positive decision going forward
- Maintain HOLD rating and \$32 target price
- Supreme Court determination immaterial to company
  - Total Belize assets represent \$0.57-0.72 in value per share

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Summary**

In 2008, the Public Utilities Commission (PUC) in Belize issued a Final Decision on Belize Electric Limited's (70 % Fortis-owned) Annual Review Proceedings that resulted in a reduced rate of return by way of disallowing previously approved expenses and lowering the value of the rate base. Belize Electric then appealed the decisions to the Belize Supreme Court on the basis that the PUC decisions were unlawful and did not follow Good Utility Practice. In its determination, the Supreme Court sided with the PUC on all regulatory decisions in dispute and found the PUC to have acted in the interest of consumers and the utility.

Fortis has not been earning a positive return on its Belize operations since 2008. Although it is disappointing, we believe the outcome is not significantly meaningful to Fortis's earnings going forward. In total, the Belize regulatory assets are estimated at \$100-125 million (\$0.57-0.72 per share), and are not substantial relative to the total value of the company. We suspect the company may have to write down the assets at some point in the future if it is not able to derive additional value from the assets but believe any potential writedown would be a portion of the total value of the assets and would not be a significant to the stock.

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

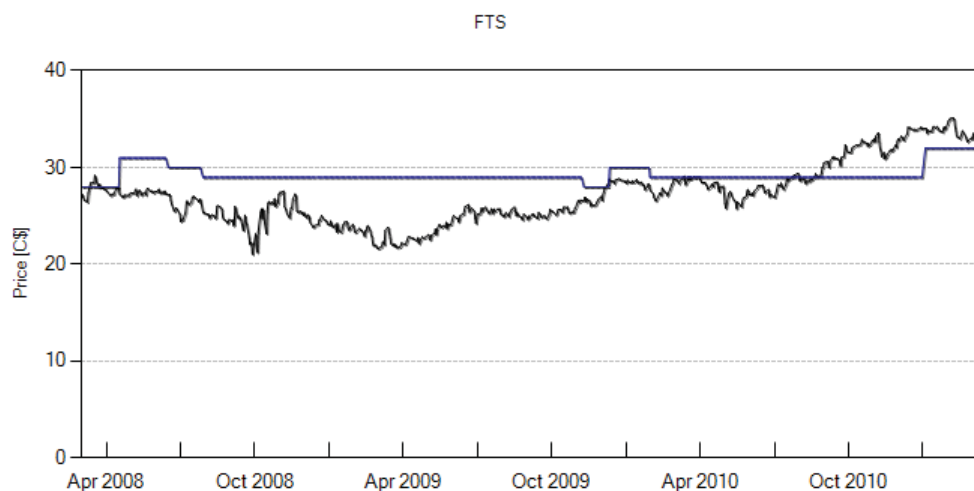
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/02/2008	Hastings	Buy	31.00	5) 11/16/2009	Hastings	Hold	28.00
2) 06/30/2008	Hastings	Buy	30.00	6) 12/17/2009	Hastings	Hold	30.00
3) 08/11/2008	Hastings	Hold	29.00	7) 02/04/2010	Hastings	Hold	29.00
4) 06/23/2009	Hastings	Buy	29.00	8) 01/04/2011	Plessis	Hold	32.00

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 3 March 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	447	58.7%	36.9%	
Speculative Buy	62	8.1%	66.1%	
Hold	237	31.1%	17.3%	
Sell	15	2.0%	6.7%	
	761	100.0%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 16 March 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or disclosures@canaccordgenuity.com.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---



## Fortis Inc.

FTS : TSX : C\$32.12

**HOLD****Target: C\$32.00**

Juan Plessis, MBA, CFA

1.604.643.0181

jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$21.60 - 35.45
Avg. Daily Vol. (000s):	466.7
Market Cap (M):	C\$5,575
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.75	C\$1.80
P/E (x):	21.4	20.0	18.4	17.8
CFPS:	C\$3.98	C\$4.23	C\$4.50	C\$4.60
P/CF (x):	8.1	7.6	7.1	7.0

**SHARE PRICE PERFORMANCE:****COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****RATE BASE GROWTH FUELS STRONG Q1****Investment recommendation**

Fortis reported first quarter recurring earnings of \$0.66 per share, above the consensus estimate. The company consistently delivers stable results, as earnings are almost entirely generated from rate regulated utility operations. Over the next five years, earnings are set for stable and consistent growth. The company plans to spend approximately \$5.5 billion in capital expenditures, 83% of which will be applied to its utility operations in western Canada. We continue to rate the stock a HOLD and maintain our C\$32.00 target price.

**Investment highlights**

- Q1 recurring EPS of \$0.66, above consensus
  - Growth from capital additions in western Canadian utility operations
- \$5.5 billion capital program to fuel future growth
- Maintain HOLD rating and C\$32.00 target price
  - 2011 and 2012 EPS estimates unchanged

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Outlook**

We are making no changes to our 2011 and 2012 earnings estimates of \$1.75 and \$1.80, respectively. The nature of Fortis' business, energy delivery, usually leads to strong results in the first and fourth quarters when energy demand is at its peak and temperatures are the coldest. We expect to see a strong start to the year offset by comparatively weaker second and third quarters. Earnings, however, continue to grow year-over-year, mainly due to capital additions in the company's regulated operations in western Canada. Fortis is seeking to spend an additional \$5.5 billion of growth capex from 2011 through 2015. Approximately \$4.6 billion of that will be towards regulated operations, mainly FortisBC and FortisAlberta.

Growth can be further enhanced if Fortis were to acquire additional utility assets. The company has a successful track record of acquisitions in the past and is always on the lookout for assets that fit its strategy and meet its investment criteria. Management has indicated that it will consider acquiring assets with up to \$4 billion in enterprise value, and will consider partnering with another investor for larger purchases.

The company is still facing headwinds at its Caribbean operations with an unfavourable decision at Belize Electricity and a rate application that was not accepted by the Governor of Turks and Caicos. The company is working hard to resolve these issues, which could result in improved earnings in the future. However, we remain conservative on our expectations for earnings from this business division.

**First quarter earnings summary**

Fortis reported first quarter recurring earnings of \$0.66 per share, above the \$0.62 consensus estimate and \$0.59 in the first quarter last year. Strong rate base growth at the company's regulated utilities in western Canada contributed to the bulk of the increased earnings in the quarter. Earnings improved in its non-regulated generation segment as a result of increased power generation in Belize and higher average power prices in Ontario. Fortis Properties' earnings decreased modestly year-over-year due to higher amortization costs and lower performance as a result of continued effects of the economic downturn. However, the first quarter is typically the seasonally low quarter of the year, and we expect the Properties division to deliver a contribution in 2011 similar to last year. For additional details on the first quarter results, please see Figure 1.

**Noteworthy items**

- Rate applications
    - FortisAlberta 2012-2013 rate application filed in March 2011
      - Effective rate increases of 8.2% in 2012 and 6.9% in 2013
      - Hearing expected late October 2011 and final decision in Q1/12
-

- FortisBC Energy (formerly known as Terasen) expects to file 2012-2013 rate application in May 2011
    - FortisBC Electric expects to file 2012-2013 rate application in summer 2011
    - Newfoundland Power expects to file rate application in May 2011
      - 8% rate increase effective July 1, 2011
  - Considering amalgamation of three FortisBC Energy companies (formerly Terasen Gas companies)
    - FortisBC Inc., FortisBC Vancouver Island, and FortisBC Whistler
    - Application expected sometime in 2011
  - FortisBC natural gas storage facility expected to be complete in next several weeks
    - Estimated cost of \$214 million; \$80 million equity portion
    - Facility to be filled in Q2/11
  - Fortis Properties' application to construct 12-storey office building in St. John's, Newfoundland
    - Subject to municipal government approval
    - Estimated cost of \$50 million and expected completion in 2013
-

**Figure 1: Fortis' first quarter earnings summary**

Millions of dollars (except per share data)	First Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
FortisBC Energy Companies	\$73	\$76	4.1%	
Newfoundland Power	\$7	\$7	0.0%	Impact of capital additions; added \$3 M recurring earnings for Q1/2010 received in Q3/2010.
FortisAlberta	\$17	\$20	17.6%	
FortisBC Electric	\$13	\$19	46.2%	Higher rate base from significant capital additions.
Other Canadian Regulated Utilities	\$5	\$6	20.0%	
<b>Total Canadian Earnings</b>	<b>\$115</b>	<b>\$128</b>	11.3%	Higher allowed return at Algoma Power - 2011 ROE 9.85% vs 8.57% in 2010.
<b>Regulated Utilities - Caribbean</b>	<b>\$4</b>	<b>\$4</b>	0.0%	
<b>Non-Regulated</b>				
Fortis Generation	\$2	\$3	50.0%	Higher production in Belize and higher realized power prices in Ontario.
Fortis Properties	\$2	\$1	(72.2%)	
<b>Total Non-Regulated Earnings</b>	<b>\$4</b>	<b>\$4</b>	(7.9%)	Lower occupancies at hotels and higher amortization costs from capital investments.
Corporate and Consolidated Adjustments	(\$21)	(\$20)	(4.8%)	
<b>Recurring Earnings</b>	<b>\$102</b>	<b>\$116</b>	13.5%	\$1 M gain on sale of FortisAlberta asset and \$0.5 M gain on Fortis Properties asset sale.
Non-recurring items	\$1.2	\$1.5	n.m.	
<b>Reported Net Earnings</b>	<b>\$103</b>	<b>\$117</b>	13.6%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$0.59</b>	<b>\$0.66</b>	11.3%	
Non-recurring items	\$0.01	\$0.01	n.m.	
<b>Reported</b>	<b>\$0.60</b>	<b>\$0.67</b>	11.4%	Higher earnings and increased amortization costs collected from ratepayers.
Cash Flow Per Share	\$1.17	\$1.38	n.m.	
Average Shares Outstanding (mIn)	171.6	175.0	2.0%	
<b>Regulated</b>				
Earnings	\$119	\$132	10.9%	
% of total	117%	114%		
<b>Non-Regulated</b>				
Earnings	\$4	\$4	(7.9%)	
% of total	4%	3%		
<b>Corporate</b>				
Earnings	(\$21.0)	(\$20.0)	4.8%	
% of total	(20.6%)	(17.3%)		

Source: Fortis Inc., Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks

associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties, which are subject to operating risks associated with the industry.

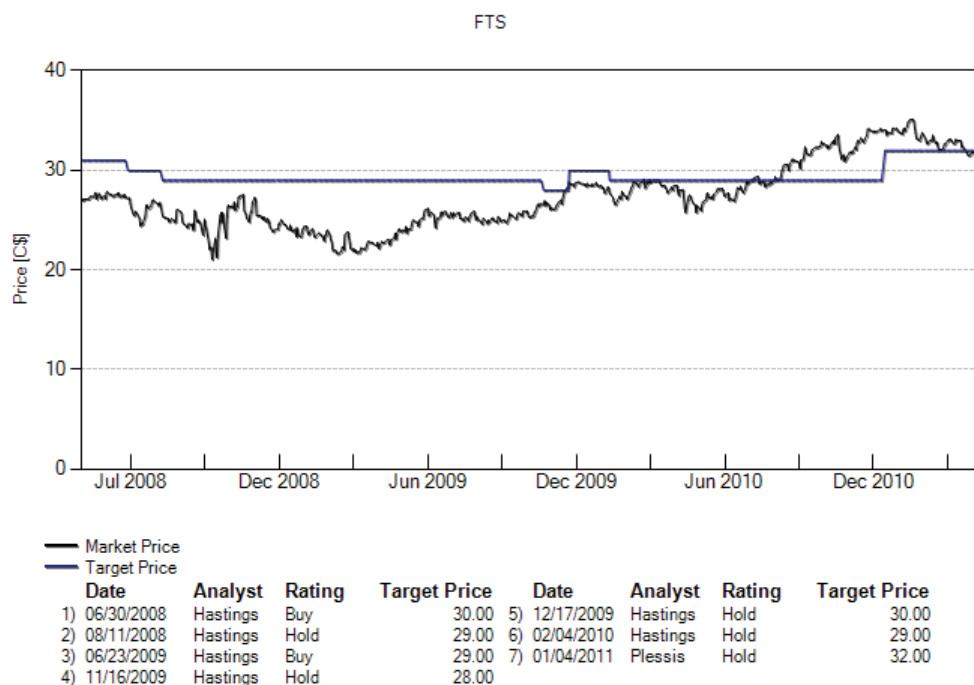
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\*****Distribution of Ratings:**

Global Stock Ratings  
(as of 3 May 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	466	59.4%	36.7%	
Speculative Buy	67	8.5%	62.7%	
Hold	234	29.8%	17.5%	
Sell	18	2.3%	11.1%	
	785	100.0%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.



## Canaccord Research Disclosures as of 4 May 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or disclosures@canaccordgenuity.com.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

Changes	Annual EPS	Target
	2011E \$1.70 from \$1.75	C\$33.00 from C\$32.00

## Fortis Inc.

FTS : TSX : C\$32.97

**HOLD**

**Target: C\$33.00 ↑**

Juan Plessis, MBA, CFA

1.604.643.0181

jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

### COMPANY STATISTICS:

52-week Range:	C\$26.51 - 35.45
Avg. Daily Vol. (000s):	470.9
Market Cap (M):	C\$5,723
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.5

### EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	22.0	20.5	19.4	18.3
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	8.3	7.8	7.4	7.2

### SHARE PRICE PERFORMANCE:



### COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

### Infrastructure -- Utilities

## ACQUIRES U.S. UTILITY AND ISSUES COMMON EQUITY

### Investment recommendation

Fortis announced the acquisition of Central Vermont Public Service (CV : NYSE : US\$24.32 | Not rated) for US\$35.10/share or US\$700 million including the assumption of US\$230 million of associated debt. We believe the acquisition will contribute up to \$0.05 to full-year EPS once it closes and we are raising our target price modestly to C\$33.00 from C\$32.00 to reflect the positive impact of the purchase. The company also announced an equity financing of up to \$345 million to finance the equity portion of rate base growth in its western Canadian utility operations and for its share in the development of the Waneta Dam. While we had modelled an equity financing into our 2011 earnings estimate, we had assumed a smaller financing. As a result, the larger equity issue dilutes our 2011 EPS by a few cents per share and we are lowering our 2011 EPS estimate to \$1.70 from \$1.75.

### Investment highlights

- Acquiring Central Vermont Public Service for US\$700 million
  - 1.41x rate base (including interest in VELCO debt)
  - Expected to close in 6-12 months
  - Accretive to EPS by as much as \$0.05 per share after close
- Raising target price by C\$1.00 to C\$33.00
  - Maintain HOLD rating

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

- Announced \$300 - \$345 million common equity issue (larger than anticipated)
  - 9.1 – 10.465 million shares @ \$33/share
- Lowering 2011 EPS estimate to \$1.70 from \$1.75; 2012 EPS estimate unchanged at \$1.80

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Summary**

Fortis announced the US\$700 million acquisition of Central Vermont Public Service (CVPS). The regulatory assets of CVPS were US\$426 million in 2010 which represents a 64% premium to regulatory assets. On the surface, the price appears rich; however, we note several factors. First, the rate base on the balance sheet does not take into consideration an additional US\$155 million of debt from a minority holding of Vermont Electric Power Company (VELCO). Considering this proportional interest in the debt of VELCO, the acquisition cost including assumed debt is about US\$855 million, representing a 40% premium to rate base. Second, while still somewhat higher than recent transactions (Algonquin Power & Utilities paid a 15%, 13% and 11% premium, respectively for its recent Granite State, Energy North and Midwest utilities acquisitions) we point out that CVPS generates a 9.45% return on an attractive 57% equity component on a rate base of US\$426 million (around ~43% equity component inclusive of VELCO debt). Third, CVPS is a growing utility with rate base expected to reach over US\$800 million by 2015 (including debt of VELCO), representing around ~8.5% average annual growth rate from 2010. We expect the acquisition to contribute up to ~\$0.05 per share to full year earnings per share depending on financing terms. The acquisition is expected to close within the next 6-12 months, subject to approval by CVPS shareholders, FERC and the Vermont Public Service Board.

While Fortis is very familiar with regulated assets, with almost 90% of its earnings generated from regulated operations in Canada and the Caribbean, the acquisition of CVPS is Fortis' first foray into the U.S. utility arena. Fortis' management has long indicated that it was seeking to expand into the United States and we suspect that the purchase of CVPS establishes a beachhead for additional U.S. utility purchases in the future.

The company also announced that it will issue 9.1 million common shares at \$33 per share for gross proceeds of \$300 million. If the overallotment of 1.365 million shares is exercised, total proceeds will rise to \$345 million. We had expected the company to issue equity in 2011 and in 2012 to fund the growth of its western Canadian utility operations and the development of its interest in the non-

---

regulated Waneta Dam; however, the announced equity issue is larger than we had anticipated. Consequently, the larger-than-expected common share issue will dilute our anticipated earnings and we are lowering our 2011 EPS estimate by \$0.05 to \$1.70. Our 2012 EPS estimate remains unchanged at \$1.80.

**Acquisition details**

- Purchasing CVPS for US\$700 million; US\$855 million including US\$155 million of VELCO debt
  - Purchasing CV:NYSE shares for US\$35.10/share
    - Represents 44% premium to last closing price
  - Assuming US\$385 million debt
- Rate base of ~US\$600 million
  - Includes debt attributed to VELCO investment
  - 57% equity component on rate base of US\$426 million
    - ~43% inclusive of VELCO debt
  - 9.45% ROE
    - Based on automatic adjustment formula approach using 10-year treasury yield
- CVPS purchases, produces, distributes, transmits and sells power
  - Serves 160,000 customers
  - Owns 9,000 miles of distribution lines
  - Owns 600 miles of transmission lines
  - Holds a 41% interest in Vermont Transco LLC, an electric transmission business
  - Holds a 47% interest in Vermont Electric Power Company (VELCO), an electric transmission business
  - Holds a 59% interest in Vermont Yankee Nuclear Power Corp, which holds a PPA for nuclear power from the Vermont Yankee Nuclear Power Plant
- Closing of the acquisition to occur within the next 6-12 months, subject to approval of:
  - CVPS shareholders
  - U.S. Federal Energy Regulatory Commission (FERC)
  - Vermont Public Service Board
  - Other customary closing conditions

**Financing details**

- Issuing 9.1 million shares at \$33/share for gross proceeds of \$300 million
    - 1.365 million share overallotment for \$45 million
  - To fund:
    - Growing rate base in western Canadian utility operations
    - Development of Waneta Dam
    - Outstanding debt on credit facilities
    - General corporate purposes
-



- Expected to close on or about June 15, 2011

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

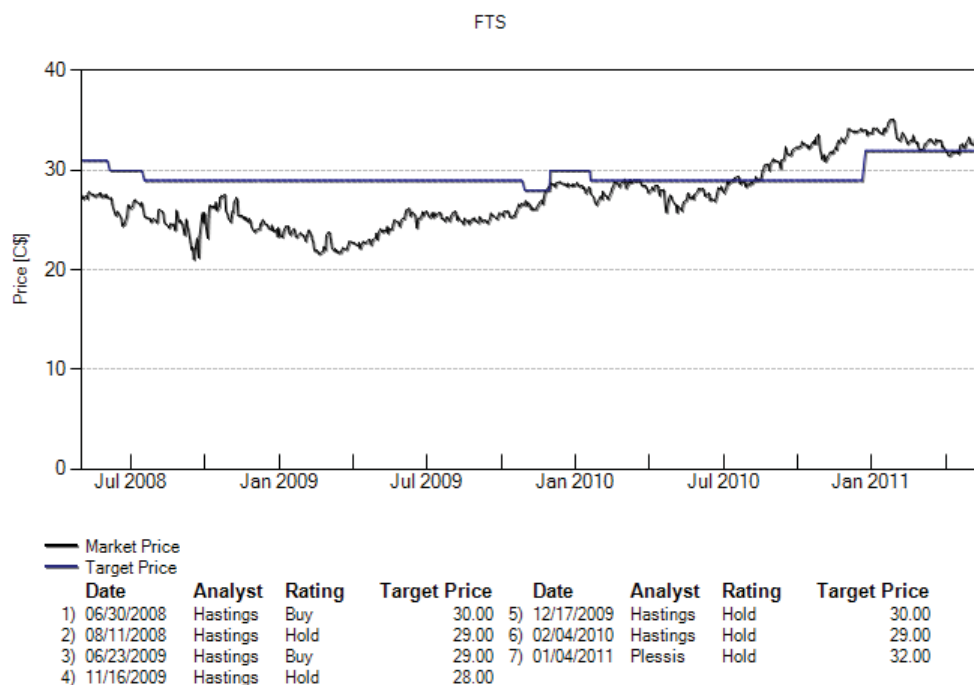
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\*****Distribution of Ratings:**

Global Stock Ratings  
(as of 3 May 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	466	59.4%	36.7%	
Speculative Buy	67	8.5%	62.7%	
Hold	234	29.8%	17.5%	
Sell	18	2.3%	11.1%	
	785	100.0%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 31 May 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

---

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

**Fortis Inc.**

FTS : TSX : C\$31.91

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$26.80 - 35.45
Avg. Daily Vol. (000s):	479.0
Market Cap (M):	C\$5,539
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	21.3	19.8	18.8	17.7
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	8.0	7.5	7.2	6.9

**SHARE PRICE PERFORMANCE:****COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****BELIZE GOVERNMENT EXPRESSES INTEREST TO CONTROL BEL; NOT MATERIAL TO VALUE****Investment recommendation**

The Government of Belize publicly expressed its interest in purchasing majority shares in Belize Electricity Company (BEL) to assume control of the company. BEL is 70%-owned by Fortis and 25%-owned by the Government of Belize. As at this time, no purchase offer has been made to Fortis for shares of BEL. Fortis has stated in the past that it is not interested in holding a minority position in assets controlled by any government entity; this would also apply in this case. While we remain concerned that the Government may not offer a fair price for the assets, or may not purchase the entirety of Fortis' shares in BEL, we note that the Belize regulatory assets represent only around \$100-125 million or \$0.54-0.67 per share. Given the uncertainties stemming from a negative 2008 regulatory decision, we believe the market has already placed a significant discount on the BEL assets, which has been reflected in the stock. Consequently, we do not expect this issue to have a material impact on Fortis' stock price.

**Investment highlights**

- Maintain HOLD rating and C\$33.00 target price
- Total Belize Electricity Limited assets represent ~\$0.60 in value per share
  - Belize assets under-earning for past three years
  - No assumptions for positive decision going forward
  - Much of BEL value likely already discounted in current share price
- Potential Government control of BEL not very significant to value

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).



**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Summary**

The Government of Belize has stated its desire to own a controlling interest in BEL, a regulated utility 70%-owned by Fortis. As yet, Fortis has not received a proposal by the Government. While the Government has publicly announced its intention to 'purchase' majority shares in BEL, we remain concerned that Fortis may not receive a fair price. On previous occasions, Fortis has stated that it does not participate in minority holding of government-controlled assets, which further complicates the issue. We understand that the Belizean Government has already taken ownership of the telecommunications and water utility operations within the country, and has now set its sights on BEL. That said, we point out that Fortis' investment in BEL is ~\$100-125 million (\$0.54-0.67 per share). We also believe the market has placed a significant discount on the value of Fortis' investment in BEL. In 2008, the Belize Public Utilities Commission (PUC) issued a regulatory decision that resulted in a reduced rate of return by disallowing previously approved expenses and lowering the value of the rate base. BEL filed appeals, but the Belize Supreme Court has sided with the PUC. Since 2008, BEL has not been earning an appropriate return on its regulated Belizean assets.

We expect that the issues surrounding BEL will not be resolved in the near term, and an ultimate resolution may still be years away. The impact on the change in ownership at BEL should not be material to Fortis' stock. We note that Fortis has an additional ~\$160 million investment in non-regulated power assets in Belize. These assets are not in question, and to our knowledge the Government has been satisfied with Fortis' ownership and has never made an expression of interest regarding these assets. However, should these assets become a target of Government interest, it could potentially have a modestly negative impact on the value of the stock.

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on

---

environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties that are subject to operating risks associated with the industry.

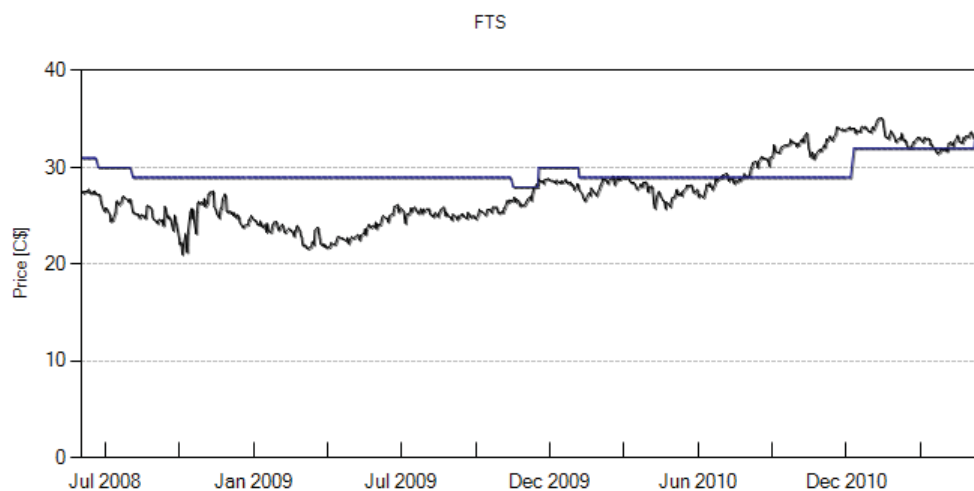
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/30/2008	Hastings	Buy	30.00	5) 12/17/2009	Hastings	Hold	30.00
2) 08/11/2008	Hastings	Hold	29.00	6) 02/04/2010	Hastings	Hold	29.00
3) 06/23/2009	Hastings	Buy	29.00	7) 01/04/2011	Plessis	Hold	32.00
4) 11/16/2009	Hastings	Hold	28.00	8) 05/31/2011	Plessis	Hold	33.00

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 6 June 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	478	60.0%	37	37.4%
Speculative Buy	74	9.3%	66	66.2%
Hold	232	29.1%	17	17.7%
Sell	13	1.6%	0	0.0%
	797	100.0%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 13 June 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---



## Changes

## Rating/Target

HOLD rating unchanged  
C\$32.00 from C\$33.00

## Fortis Inc.

FTS : TSX : C\$31.37

**HOLD****Target: C\$32.00 ↓**

Juan Plessis, MBA, CFA

1.604.643.0181

jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

## COMPANY STATISTICS:

52-week Range: C\$26.80 - 35.45  
Avg. Daily Vol. (000s): 475.4  
Market Cap (M): C\$5,445  
Shares Out (M): 173.6  
Current Dividend: C\$1.16  
Current Dividend Yield %: 3.7

## EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	20.9	19.5	18.5	17.4
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	7.9	7.4	7.1	6.8

## SHARE PRICE PERFORMANCE:



## COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

## Infrastructure -- Utilities

## GAZ METRO OFFER FOR CVPS PUTS KINK IN FORTIS' ACQUISITION PLANS

## Investment recommendation

Gaz Métro LP made an unsolicited bid of US\$35.25 per share for Central Vermont Public Service Corporation (CV : NYSE : US\$35.62 | Not rated), just above Fortis' recent offer of US\$35.10 per share. Despite Fortis' offer being more attractive for shareholders after accounting for the \$17.5-19.5 million break fee (~\$1.30-1.45 per CVPS share), stakeholders including the Vermont regulator may view the Gaz Métro bid more favourably as the company has existing operations in Vermont and has stated it can realize \$144 million in savings for ratepayers through the transaction. Fortis will await a decision from CVPS before indicating any further actions.

Separately, Fortis has received an order of expropriation from the Government of Belize for its 70% ownership in Belize Electric Ltd (BEL). The government has not yet presented Fortis with a price. Fortis' investment in BEL is ~\$125 million or \$0.67 per share. We note there is a possibility the company incurs a loss by not receiving full value for its investment. Given the uncertainty surrounding the outcomes of the BEL expropriation and the proposed acquisition of CVPS, we are taking a more conservative view. Consequently, we are lowering our target price modestly to \$32.00 from \$33.00 until we see more clarity on the current issues. We are maintaining our HOLD rating.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

**Investment highlights**

- Gaz Métro made unsolicited bid for CVPS
  - Less attractive to CVPS shareholders
    - After accounting for \$1.30-1.45/share break fee and dividend considerations
  - But more attractive to ratepayers and regulators
    - Gaz Métro providing \$144 million of benefits over ten years to ratepayers vs. Fortis' US\$21 million
- Fortis awaiting decision from CVPS before any further action
- Government of Belize to expropriate BEL
  - Uncertainty over compensation to be received
  - Fortis' investment in BEL represents ~\$0.67 per share value
- Lowering target price \$1 to \$32 due to uncertainty revolving issues

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**A tale of two offers and a lot of uncertainty**

Gaz Métro's hostile bid (the unsolicited offer) of \$35.25 per CVPS share is a slight increase to Fortis' original \$35.10 offer price on May 30, 2011 of which the CVPS Board supported. We note the \$0.15 premium is less than a 0.5% increase to Fortis' per share offer and does not compensate for the \$17.5 - \$19.5 million break fee CVPS shareholders would be required to pay (~\$1.30-1.45 per share). In its conference call, Gaz Métro's management stated that the company would not pay the break fee as part of their offer. Gaz Métro's bid includes the payment of the \$0.23 CVPS quarterly dividend through the close of the offer compared to the Fortis bid which would include dividend payments for two quarters plus an additional \$0.01 per share for each subsequent quarter until close. Both companies have indicated they expect the transaction to close within 6-12 months. In order for the higher dividends proposed by Gaz Métro to offset the break fee, the approval process would have to take approximately 21 months or more. We believe this is unlikely. Consequently, we believe the Fortis bid to be a better option for the CVPS shareholders.

That being said, Gaz Métro's unsolicited offer includes some sweeteners which may be attractive to other stakeholders. Gaz Métro is already invested in Vermont through its wholly-owned Green Mountain Power (Vermont's second largest utility). It intends to provide savings for rate payers through investment and synergies of US\$144 million over a ten year period after the acquisition. A majority of those savings will likely be passed on to ratepayers, although a

---

sharing mechanism may be negotiated through the regulator. Fortis has not provided matching concessions. Even if the Fortis offer is accepted by shareholders, there exists a risk that the regulator could deny the approval of the transaction, or may limit the recovery of some costs to mimic the synergies the Gaz Métro accomplishes and could potentially cause CVPS to generate a lower return for Fortis.

What the final outcome will be is uncertain. The Board of CVPS is now reviewing the Gaz Métro offer and Fortis has indicated it will monitor the situation and respond in due course to decisions made after the CVPS review.

#### **The Belize Electric expropriation**

Not surprisingly, on June 20, 2011 the Government of Belize issued an order to expropriate Fortis' 70% interest in BEL. Note, that a week earlier the government had expressed interest in acquiring control of the assets (see *Daily Letter*, June 13, 2011). As of yet, compensation for the assets remain in question as no offer or agreement has been announced. We remain concerned that Fortis may not receive a fair price on the assets. We highlight however, the company's total equity investment in BEL is approximately \$100-125 million and that BEL's debt is non-recourse to Fortis. This represents a small portion of the enterprise and at worst case the company stands to lose ~\$0.67 per share.

In addition, Fortis owns the non-regulated Belize Electric Company which consists of three hydroelectric generating facilities. The company's total investment in these assets is approximately ~\$160 million. There has been no indication from the government on the expropriation of these assets. However, we note there may be an additional overhang on the stock due to the uncertainty regarding the situation.

#### **Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and

---

services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

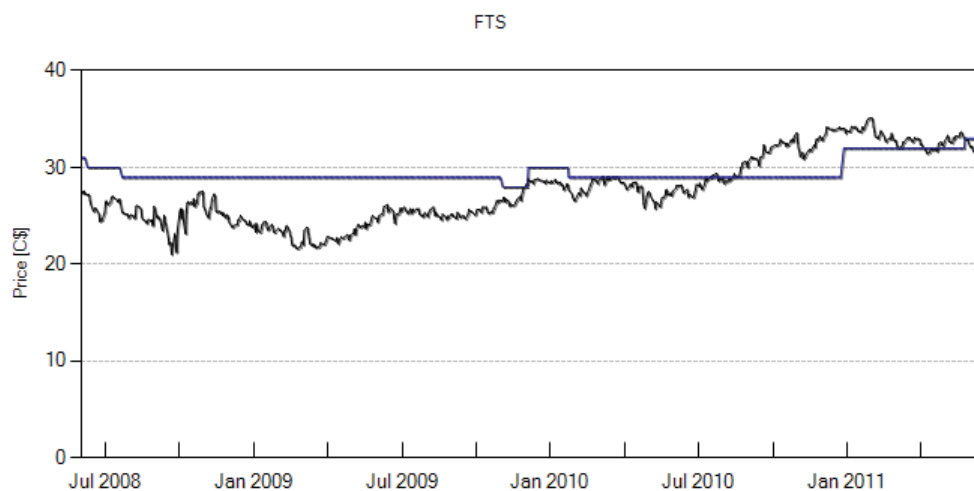
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/30/2008	Hastings	Buy	30.00	5) 12/17/2009	Hastings	Hold	30.00
2) 08/11/2008	Hastings	Hold	29.00	6) 02/04/2010	Hastings	Hold	29.00
3) 06/23/2009	Hastings	Buy	29.00	7) 01/04/2011	Plessis	Hold	32.00
4) 11/16/2009	Hastings	Hold	28.00	8) 05/31/2011	Plessis	Hold	33.00

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 6 June 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	478	60.0%	37	37.4%
Speculative Buy	74	9.3%	66	66.2%
Hold	232	29.1%	17	17.7%
Sell	13	1.6%	0	0.0%
	797	100.0%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 23 June 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:



Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

## Fortis Inc.

FTS : TSX : C\$32.38

HOLD

Target: C\$32.00

Juan Plessis, MBA, CFA

1.604.643.0181

jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

z lakhani@canaccordgenuity.com

## COMPANY STATISTICS:

52-week Range:	C\$27.65 - 35.45
Avg. Daily Vol. (000s):	479.1
Market Cap (M):	C\$5,620
Shares Out (M):	173.6
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.6

## EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.80
P/E (x):	21.6	20.1	19.0	18.0
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.60
P/CF (x):	8.1	7.7	7.3	7.0

## SHARE PRICE PERFORMANCE:



## COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

## Infrastructure -- Utilities

## CVPS ACQUISITION TERMINATED

## Investment recommendation

Fortis announced that its merger agreement with Central Vermont Public Service (CVPS) has been terminated. The Board of CVPS has deemed that the unsolicited bid by Gaz Métro LP is a superior proposal and has terminated the merger agreement between Fortis and CVPS. Fortis has opted not to increase its offer and has instead elected to receive the \$17.5 million termination fee and \$2 million of associated expenses.

## Investment highlights

- Merger agreement between Fortis and CVPS has been terminated
  - Fortis will not improve its offer for CVPS
  - Fortis will receive \$19.5 million in fees and expenses (\$0.11 per share)
- No change to C\$32.00 target or HOLD rating

## Valuation

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

## Summary

Fortis announced that it will not sweeten its bid for Central Vermont Public Service (CVPS) following the Gaz Métro LP offer, and the merger agreement between Fortis and CVPS will be terminated. The Board of CVPS has determined that the proposal from Gaz Metro was a superior proposal. Originally, Fortis had five business days to change its offer before the

agreement was terminated under the terms of the merger agreement, but instead, decided to waive the five-day period and to immediately receive its \$17.5 million termination fee and \$2 million of associated expenses.

We commend the management of Fortis for its disciplined acquisition approach. The initial bid of \$700 million represented about a 40% premium to rate base, which we viewed as a significant premium. However, this was partly offset by the high rate base growth profile of CVPS for the next several years, which could shrink the premium over time. We did not believe a sweetened bid would make sense for Fortis. While we did not believe Gaz Métro's offer was superior from a shareholder perspective, it provides savings for rate payers through investment and synergies of US\$144 million over a 10- year period following the acquisition. A majority of those savings will likely be passed on to ratepayers, although a sharing mechanism may be negotiated through the regulator. We suspect that the Gaz Métro bid would have been favoured by the regulator, which raised the regulatory risk had Fortis won. Consequently, we believe Fortis's decision to withdraw from the process was the right thing to do. We previously reduced our target by \$1.00 to \$32.00, in part due to the uncertainty surrounding the acquisition, and at this point are making no further change to our target price.

#### **Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties, which are subject to operating risks associated with the industry.

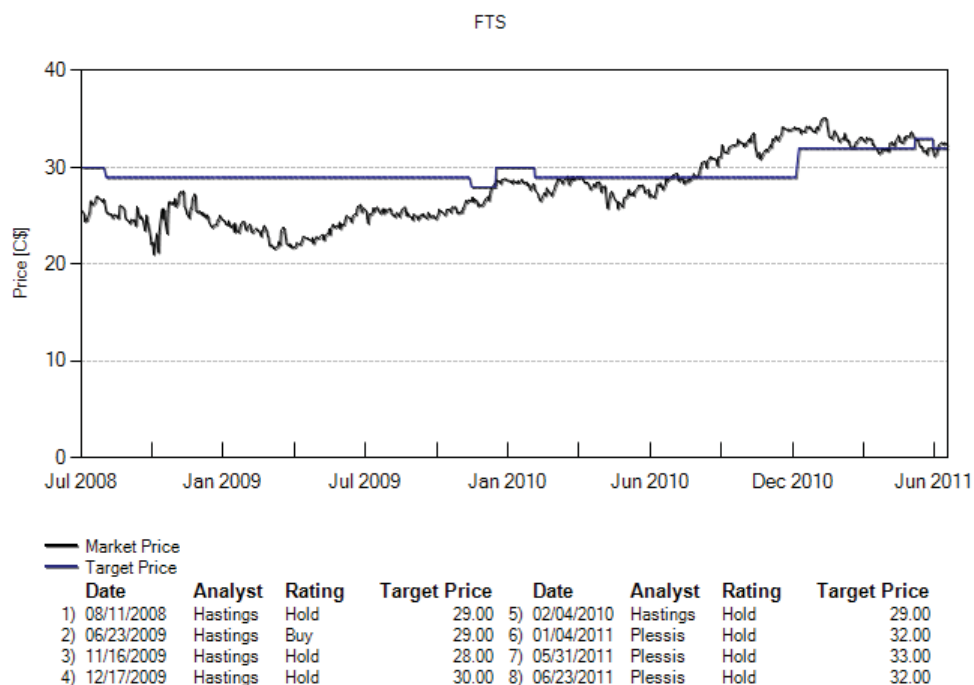
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 7 July 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	61%	37	37.6%
Speculative Buy	75	10%	65	65.3%
Hold	216	27%	19	19.0%
Sell	14	2%	21	21.4%
	786	100%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 12 July 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:



Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

Changes	Annual EPS	Target
	2012E \$1.75 from \$1.80	C\$31.00 from C\$32.00

## Fortis Inc.

FTS : TSX : C\$30.59

**HOLD**

**Target: C\$31.00 ↓**

Juan Plessis, MBA, CFA 1.604.643.0181  
jplessis@canaccordgenuity.com  
Zayem Lakhani 1.604.643.7506  
zlakhani@canaccordgenuity.com

### COMPANY STATISTICS:

52-week Range: C\$28.25 - 35.45  
Avg. Daily Vol. (000s): 470.7  
Market Cap (M): C\$5,588  
Shares Out (M): 182.7  
Current Dividend: C\$1.16  
Current Dividend Yield %: 3.8

### EARNINGS SUMMARY:

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	20.4	19.0	18.0	17.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	7.7	7.2	6.9	6.7

### SHARE PRICE PERFORMANCE:



### COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

### Infrastructure -- Utilities

## Q2 A BIT LIGHT; CARIBBEAN OPERATIONS REMAIN AN OVERHANG

### Investment recommendation

Fortis reported second-quarter recurring earnings of \$0.32 per share, a few cents below the consensus estimate. For the first half of the year, recurring earnings per share were \$0.98 and are on track to meet our \$1.70 EPS estimate. The company has a \$5.7 billion capital spending program for the 2011-2015 timeframe, which should provide earnings growth in its Canadian regulated utility operations. However, due to anticipated lower Caribbean earnings contributions and issues surrounding the company's Belizean assets, we are lowering our target price by \$1 to C\$31.00. We continue to rate the stock a HOLD.

### Investment highlights

- Lowering target to C\$31.00 from C\$32.00, but maintain HOLD rating
- 2012 EPS estimate lowered by \$0.05 to \$1.75
- Q2 recurring EPS of \$0.32, modestly below expectations
  - Lower contribution from Caribbean regulated and Properties divisions; low hydrology at Belize non-regulated, offset by growth from capital additions in western Canadian utility operations
- Five year capital program up \$200 million to \$5.7 billion

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

**Valuation**

We are lowering our target price on the shares of Fortis to C\$31.00 from C\$32.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Outlook**

We are maintaining our 2011 EPS estimate of \$1.70 but are lowering our 2012 EPS estimate modestly to \$1.75 from \$1.80. While earnings in the second quarter were slightly lower than our expectations, earnings in the first half of the year are on track to meet our \$1.70 per share estimate. However, the company continues to face some pushback at its Caribbean operations. The Government of Belize recently expropriated the company's investment in Belize Electricity (net assets of \$112 million, or \$0.60 per share) Fortis has initiated proceedings to receive compensation from the Government of Belize for its investment and the associated loss is likely well less than its \$0.60 investment. The recent move by the Government of Belize raises the possibility of further expropriation of the company's Belize Electric Company Limited (BECOL). However, we note that the Government of Belize has publicly indicated that it does not intend to expropriate BECOL and that Fortis is limited to its \$150 million (or \$0.80 per share) investment in BECOL. Also in the Caribbean, the Government of the Turks & Caicos plans to implement a carbon tax which is not recoverable in rates. The impact on Fortis's earnings is estimated at \$1 million in 2011 and \$2-3 million in 2012 if the carbon tax is implemented.

While we expect the company's earnings to benefit from the \$1.2 billion of capital expenditures in 2011 (mostly spent on western Canada regulated operations) and \$4.5 billion expected to be spent in the 2012-2015 period, 2012 earnings may experience a slightly lower contribution from regulated Caribbean operations (due to no earnings in 2012 from Belize Electricity versus a half year in 2011) and the dilutive impact of the 10.3 million common share issuance that closed in June.

We believe earnings growth could be further enhanced if Fortis were to acquire additional utility assets. The company continues to look for electric and gas utility acquisitions in Canada and the United States, and as evidenced by its refusal to increase its offer for Central Vermont Public Services last month, has a track record of remaining disciplined in achieving its required investment criteria.

**Second-quarter earnings summary**

Fortis reported second-quarter recurring earnings per share of \$0.32 compared to \$0.32 the year before, a couple of cents shy of our \$0.34 estimate and the \$0.35 consensus estimate. The slight miss was mainly attributed to lower contributions from the company's non-regulated operations. Non-regulated power generation provided lower earnings as a result of decreased production in Belize owing to less rainfall compared to the previous year. In addition, Fortis Properties experienced lower occupancy rates at its hotels combined with higher operating expenses. On the regulated side, earnings from the company's gas operations in BC declined year over year due to the timing of expenses, likely to be recovered in the second half of the year. This was offset by additional earnings at FortisAlberta driven by a growing rate base and a higher allowable return at Algoma Power in the 'Other Canadian Regulated Utilities' segment. Year-to-date recurring earnings

---

per share is \$0.98, above the \$0.91 reported in the first half of 2010. For additional details on the second quarter results please refer to Figure 1.

**Noteworthy items**

- BEL expropriation
    - Assets represent \$112 million (\$0.60 per share)
    - No indication from Government of Belize to expropriate non-regulated BECOL
      - Wholly owned by Fortis
      - \$150 million of assets (\$0.80 per share)
  - Turks and Caicos government plans to implement carbon tax in Sept 2011
    - Not a flow through cost to rate payers
    - ~\$1 M unfavourable earnings impact for 2011; ~\$2-3 M annually
  - Received US\$19.5 M (\$18.8 M) for termination of Merger Agreement between Central Vermont Public Service.
    - \$17.5 M break fee - to be recognized in Q3
    - \$2 M recovery of associated expenses
  - Expected capex of \$5.7 B over five-year period (2011-2015)
    - Previously \$5.5 B
      - Change reflects increase at Fortis BC Energy companies and exclusion of previously planned BEL capex
    - \$3.5 B (61%) for regulated electric utilities
    - \$1.3 B (23%) for regulated gas utilities
    - \$0.9 B (16%) for non-regulated operations
  - Will report according to US GAAP beginning January 2012
-

Figure 1: Fortis second quarter earnings details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
FortisBC Energy Companies	\$17	\$15	(11.8%)	Additional operating expenses to be recovered from rates in future period offset by growth in rate base.
Newfoundland Power	\$11	\$11	0.0%	
FortisAlberta	\$17	\$17	0.0%	Increased earnings due to a larger capital base. Excludes \$2 M of recognized revenues accrued from in prior periods.
FortisBC Electric	\$8	\$9	12.5%	
Other Canadian Regulated Utilities	\$4	\$6	50.0%	Higher allowed return at Algoma Power - 2011 ROE 9.85% vs 8.57% in 2010.
<b>Total Canadian Earnings</b>	<b>\$57</b>	<b>\$58</b>	1.8%	
<b>Regulated Utilities - Caribbean</b>	<b>\$7</b>	<b>\$7</b>	0.0%	
<b>Non-Regulated</b>				
Fortis Generation	\$3	\$2	(33.3%)	Lower production in Belize due to lower rainfall.
Fortis Properties	\$8	\$7	(12.5%)	Lower occupancies at hotels and higher operating expenses.
<b>Total Non-Regulated Earnings</b>	<b>\$11</b>	<b>\$9</b>	(18.2%)	
Corporate and Consolidated Adjustments	(\$20)	(\$18)	(10.0%)	
<b>Recurring Earnings</b>	<b>\$55</b>	<b>\$56</b>	1.8%	Accrued revenue from prior periods recognized in Q2 2011 after favourable regulatory decision in Alberta.
Non-recurring items		\$2	n.m.	
<b>Reported Net Earnings</b>	<b>\$55</b>	<b>\$58</b>	4.5%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$0.32</b>	<b>\$0.32</b>	(0.9%)	Shy of the 35¢ consensus estimate and our 34¢ estimate.
Non-recurring items	\$0.00	\$0.01	n.m.	
<b>Reported</b>	<b>\$0.32</b>	<b>\$0.33</b>	3.4%	
Cash Flow Per Share	\$0.93	\$1.37	n.m.	
Average Shares Outstanding (mln)	172.4	177.1	2.7%	
<b>Regulated</b>				
Earnings	\$64	\$65	1.6%	
% of total	116%	116%		
<b>Non-Regulated</b>				
Earnings	\$11	\$9	(18.2%)	
% of total	20%	16%		Lower operating expenses and lower interest expense offset partially by higher income tax expense and preferred share dividends.
<b>Corporate</b>				
Earnings	(\$20.0)	(\$18.0)	10.0%	
% of total	(36%)	(32%)		

Source: Fortis Inc.; Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk



of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

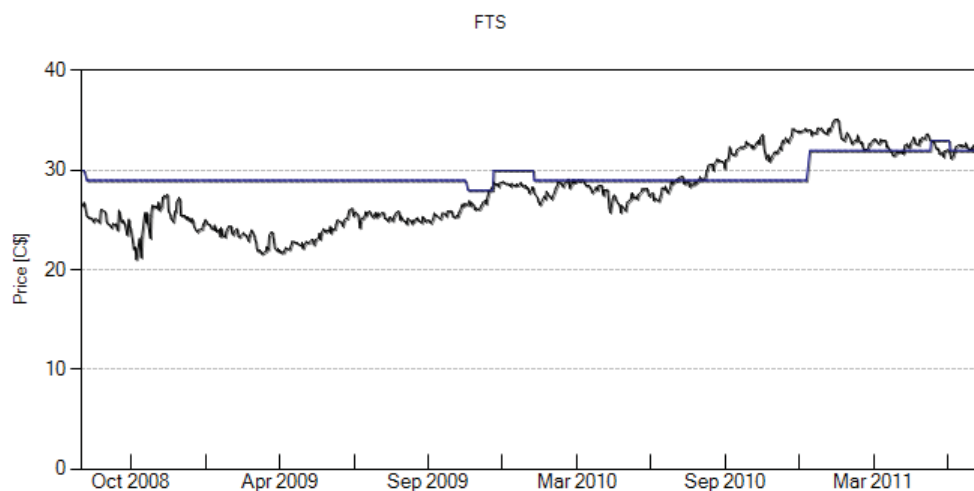
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 08/11/2008	Hastings	Hold	29.00	5) 02/04/2010	Hastings	Hold	29.00
2) 06/23/2009	Hastings	Buy	29.00	6) 01/04/2011	Plessis	Hold	32.00
3) 11/16/2009	Hastings	Hold	28.00	7) 05/31/2011	Plessis	Hold	33.00
4) 12/17/2009	Hastings	Hold	30.00	8) 06/23/2011	Plessis	Hold	32.00

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 7 July 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	61%	37	37.6%
Speculative Buy	75	10%	6	65.3%
Hold	216	27%	17	19.0%
Sell	14	2%	2	21.4%
	786	100%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 3 August 2011

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

**Fortis Inc.**

FTS : TSX : C\$34.06

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA** 1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani** 1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 35.45
Avg. Daily Vol. (000s):	484.2
Market Cap (M):	C\$6,369
Shares Out (M):	187.0
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	22.7	21.2	20.0	19.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	8.6	8.1	7.7	7.5

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Our C\$33.00 target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Infrastructure -- Utilities****STEADY AND STABLE -- Q3 RESULTS IN-LINE****Investment recommendation**

Fortis Inc. reported third quarter earnings of \$0.24 per share versus \$0.23 reported in Q3/10, in line with expectations. The company's earnings have benefited from ~\$600 million of capital expenditures in the utility businesses this year, which has mainly been invested in western Canadian utility operations. In total, capex is forecast to reach \$1.2 billion for 2011 across all segments (\$806 million spent to date), and \$5.7 billion budgeted for the five-year period, 2011 through 2015. With approximately 90% of the company's earnings generated from utility operations, rate base additions within the utility segments are expected to be the primary drivers of earnings growth. As a result, we expect to see consistent and stable growth in earnings and dividends going forward. However, we note that the company continues to pursue acquisitions of U.S.-based utility assets which could potentially have an impact on future earnings growth. We are maintaining our HOLD rating and 12-month C\$33.00 target price.

**Investment highlights**

- Reported Q3 recurring EPS of \$0.24, in line with consensus
- Maintaining HOLD rating and C\$33.00 target price
- No changes to 2011 and 2012 EPS estimates
  - 2011 EPS estimate: \$1.70
  - 2012 EPS estimate: \$1.75
- Received a C\$18.8 million (\$11 million after-tax) termination fee for the unsuccessful Central Vermont Public Service (CVPS) acquisition bid
- Belize Electricity expropriation compensation proceedings are ongoing with the Belize government
  - \$112 million book value
  - No earnings recorded this quarter; \$2 million contribution in Q3 last year

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).



**Fortis Inc.**

FTS : TSX : C\$34.06

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA** 1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani** 1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 35.45
Avg. Daily Vol. (000s):	484.2
Market Cap (M):	C\$6,369
Shares Out (M):	187.0
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	22.7	21.2	20.0	19.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	8.6	8.1	7.7	7.5

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Our C\$33.00 target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Infrastructure -- Utilities****STEADY AND STABLE -- Q3 RESULTS IN-LINE****Investment recommendation**

Fortis Inc. reported third quarter earnings of \$0.24 per share versus \$0.23 reported in Q3/10, in line with expectations. The company's earnings have benefited from ~\$600 million of capital expenditures in the utility businesses this year, which has mainly been invested in western Canadian utility operations. In total, capex is forecast to reach \$1.2 billion for 2011 across all segments (\$806 million spent to date), and \$5.7 billion budgeted for the five-year period, 2011 through 2015. With approximately 90% of the company's earnings generated from utility operations, rate base additions within the utility segments are expected to be the primary drivers of earnings growth. As a result, we expect to see consistent and stable growth in earnings and dividends going forward. However, we note that the company continues to pursue acquisitions of U.S.-based utility assets which could potentially have an impact on future earnings growth. We are maintaining our HOLD rating and 12-month C\$33.00 target price.

**Investment highlights**

- Reported Q3 recurring EPS of \$0.24, in line with consensus
- Maintaining HOLD rating and C\$33.00 target price
- No changes to 2011 and 2012 EPS estimates
  - 2011 EPS estimate: \$1.70
  - 2012 EPS estimate: \$1.75
- Received a C\$18.8 million (\$11 million after-tax) termination fee for the unsuccessful Central Vermont Public Service (CVPS) acquisition bid
- Belize Electricity expropriation compensation proceedings are ongoing with the Belize government
  - \$112 million book value
  - No earnings recorded this quarter; \$2 million contribution in Q3 last year

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

**Valuation**

We are maintaining our 12-month target price for Fortis at C\$33.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Outlook**

We are making no changes to our 2011 and 2012 earnings per share estimates of \$1.70 and \$1.75, respectively. The company's capex program in the utilities segment, primarily in western Canada, has been the driving force of earnings growth this year, and should continue to do so through 2015. Fortis' capital expenditure budget remains unchanged with the company planning to spend \$5.7 billion from 2011 through 2015, of which \$4.8 billion is toward its electric and gas utilities (mainly in BC and Alberta). This should help provide relatively steady growth in earnings throughout the period. The company's Caribbean operations continue to face challenges which have limited the segment's contribution in recent years. Fortis has not received compensation for the Belize Electric assets expropriated in June this year. Proceedings to determine a value are ongoing and we note that the potential loss is limited to its book value (\$112 million net asset value or \$0.60 per share). While we believe the company will receive some compensation for Belize Electric, we do not expect a resolution in the near-term.

In addition to organic growth projects, the company continues to seek potential acquisitions. Although the company's recent offer for Central Vermont Public Service was not consummated, earnings and cash flow benefited from the \$18.8 million (US\$17.5 million) termination fee. More important, we were pleased to see management remain focused and disciplined and withdraw from the process when the transaction price was bid higher. Management continues to look for regulated natural gas and electric operations in the United States and believes it has the capability to finance up to a \$5 billion acquisition (enterprise value) on its balance sheet, but would consider a financial partner for larger acquisitions.

**Third quarter earnings summary**

Fortis reported third quarter recurring earnings per share of \$0.24, in line with both our and the consensus estimate of \$0.23. Regulated earnings were \$5 million (\$0.03 per share) higher compared to the same period last year. A bulk of the improvement was driven by rate base capital expenditures at FortisBC Energy (formerly Terasen) and Fortis Alberta. The increases were partially offset by the loss of ~\$2 million (\$0.01 per share) of earnings from the expropriation of Belize Electric. The company's non-regulated operations performed in line with last year during the same period. Note that we removed the one-time \$18.8 million (\$11 million after-tax) payment received from the termination of the CVPS Merger Agreement and \$2.5 million on unrealized non-cash foreign exchange gains. For the third quarter, the company reported net earnings per share of \$0.31 versus \$0.26 last year. For the first nine months of the year, the recurring earnings per share was \$1.30, ahead of the \$1.16 recorded last year. For additional details on third quarter results, please refer to Figure 1.

---

**Noteworthy items**

- CVPS termination fee CAD\$18.8 million
    - US\$17.5 million
    - Also received US\$2 million for transaction expenses
  - Acquired 160-room full-service Hilton Suites Winnipeg Airport hotel for \$25 million
  - Received municipal approval to construct \$50 million office building
    - 12-storeys in downtown St. John
    - Construction expected to be complete in 2H/13
  - Regulatory
    - Fortis BC Energy gas companies
      - Filed updated 2012-2013 rate applications in September 2011
        - Decision expected in late Q1/12
      - Filed application to amalgamate the three FortisBC Energy gas companies
    - Newfoundland Power completed the sale of joint-use poles back to Bell Aliant (BA : TSX | HOLD)
      - Will use funds to pay down debt
    - Caribbean Utilities
      - Expects to file 2012-2016 capital investment plan in Q4/11
      - Will sign PPAs to accept up to 13 MW of renewable power from IPPs
    - Fortis Turks and Caicos
      - Filed a request for a change in the rate structure and a 6% increase in base rates
      - Carbon tax expected to be implemented September 2011
        - Has not yet been implemented
-

Figure 1: Fortis' third quarter earnings details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
FortisBC Energy Companies	(\$9)	(\$3)	66.7%	Rate base growth and lower-than-expected operating expenses. Mostly quarterly timing issues.
Newfoundland Power	\$8	\$8	0.0%	
FortisAlberta	\$19	\$19	0.0%	Higher effective tax rate due to lower income tax deductions.
FortisBC Electric	\$11	\$10	(9.1%)	
Other Canadian Regulated Utilities	\$5	\$6	20.0%	
<b>Total Canadian Earnings</b>	<b>\$34</b>	<b>\$40</b>	17.6%	Higher ROE allowed at Algoma Power and strong electricity sales growth.
<b>Regulated Utilities - Caribbean</b>	<b>\$7</b>	<b>\$6</b>	(14.3%)	No earnings from Belize Electricity due to government expropriation in June.
<b>Non-Regulated</b>				
Fortis Generation	\$9	\$8	(11.1%)	
Fortis Properties	\$9	\$9	0.0%	
<b>Total Non-Regulated Earnings</b>	<b>\$18</b>	<b>\$17</b>	(5.6%)	
Corporate and Consolidated Adjustments	(\$19)	(\$19)	(2.6%)	
<b>Recurring Earnings</b>	<b>\$40</b>	<b>\$45</b>	11.3%	\$11 M due to CVPS break-up fee and \$2.5 M non-cash FX hedging gain.
Non-recurring items	\$5	\$14		
<b>Reported Net Earnings</b>	<b>\$45.0</b>	<b>\$58.0</b>	28.9%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$0.23</b>	<b>\$0.24</b>	3.3%	
Non-recurring items	\$0.03	\$0.07	n.m.	
Reported	\$0.26	\$0.31	19.7%	
Cash Flow Per Share	\$0.94	\$0.75	(19.5%)	
Average Shares Outstanding (mln)	173.2	186.5	7.7%	
<b>Regulated</b>				
Earnings	\$41	\$46	12.2%	
% of total	103%	103%		
<b>Non-Regulated</b>				
Earnings	\$18	\$17	(5.6%)	
% of total	45%	38%		
<b>Corporate</b>				
Earnings	(\$19)	(\$19)	2.6%	
% of total	(47.5%)	(41.6%)		

Source: Fortis Inc., Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to our projected 12-month stock price target for Fortis include, but are not limited to: (1) price movement in electricity rates and commodities used for electricity generation could potentially impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could potentially impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in the regulatory or political climate could potentially impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

---

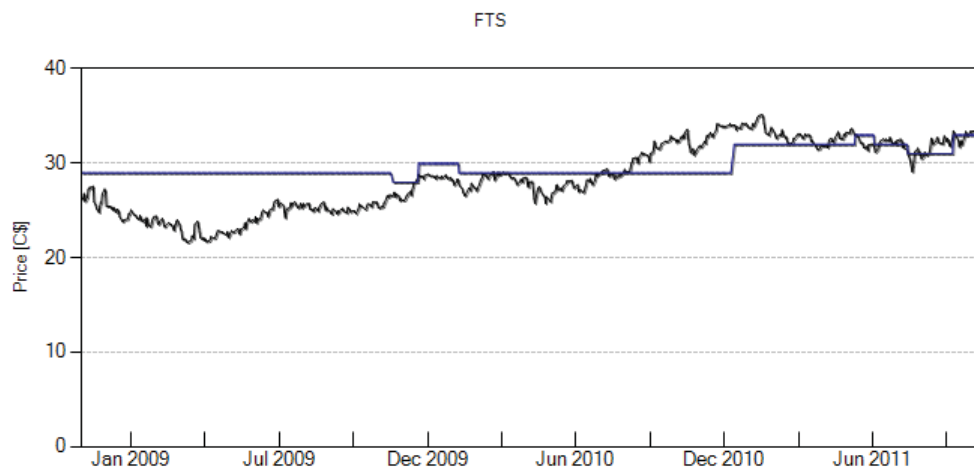
**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

An analyst has not visited Bell Aliant's material operations.

**Price Chart:\***

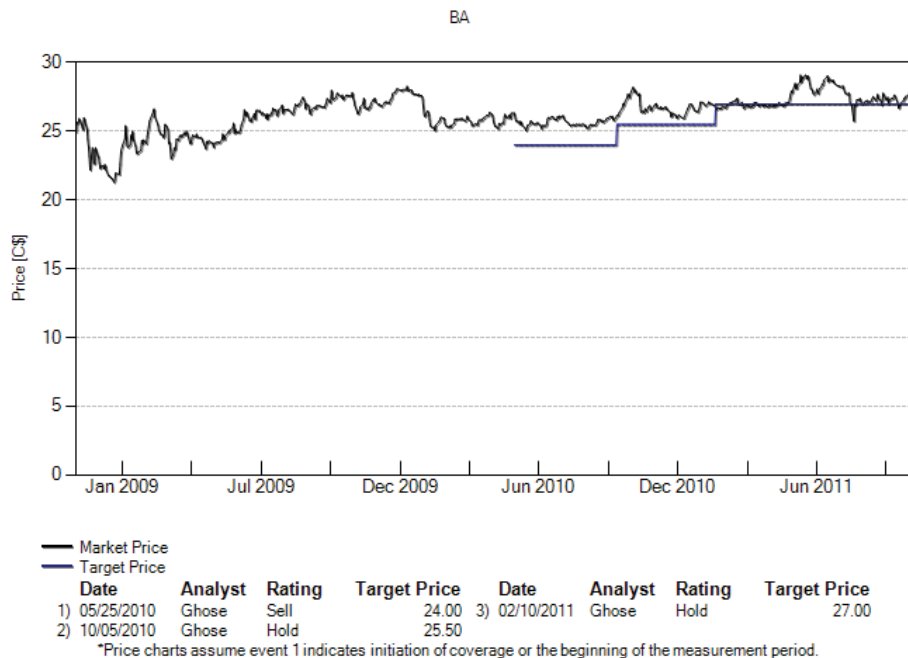
— Market Price  
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/23/2009	Hastings	Buy	29.00	6) 05/31/2011	Plessis	Hold	33.00
2) 11/16/2009	Hastings	Hold	28.00	7) 06/23/2011	Plessis	Hold	32.00
3) 12/17/2009	Hastings	Hold	30.00	8) 08/03/2011	Plessis	Hold	31.00
4) 02/04/2010	Hastings	Hold	29.00	9) 09/27/2011	Plessis	Hold	33.00
5) 01/04/2011	Plessis	Hold	32.00				

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.



3 November 2011

**Distribution of Ratings:**Global Stock Ratings  
(as of 3 October 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	509	63.5%	35.6%	
Speculative Buy	86	10.7%	64.0%	
Hold	194	24.2%	17.0%	
Sell	12	1.5%	25.0%	
	801	100%		

**Canaccord Ratings System:****BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**Canaccord Research Disclosures as of 3 November 2011**

Company	Disclosure
Fortis Inc.	7
Bell Aliant Inc.	1A, 2, 7

- 1 The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer:
  - A. investment banking services.
  - B. non-investment banking securities-related services.
  - C. non-securities related services.
- 2 In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
- 3 In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
- 4 Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
- 5 Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
- 6 In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
- 7 Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
- 8 The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
- 9 The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
- 10 Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
- 11 A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
- 12 As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
- 13 As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
- 14 Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking

revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research. Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading

securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

**Fortis Inc.**

FTS : TSX : C\$34.06

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA** 1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani** 1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 35.45
Avg. Daily Vol. (000s):	484.2
Market Cap (M):	C\$6,369
Shares Out (M):	187.0
Current Dividend:	C\$1.16
Current Dividend Yield %:	3.4

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
EPS:	C\$1.50	C\$1.61	C\$1.70	C\$1.75
P/E (x):	22.7	21.2	20.0	19.5
CFPS:	C\$3.98	C\$4.23	C\$4.45	C\$4.55
P/CF (x):	8.6	8.1	7.7	7.5

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international electric utility holding company with assets over \$12.5 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and three Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

Our C\$33.00 target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Infrastructure -- Utilities****STEADY AND STABLE -- Q3 RESULTS IN-LINE****Investment recommendation**

Fortis Inc. reported third quarter earnings of \$0.24 per share versus \$0.23 reported in Q3/10, in line with expectations. The company's earnings have benefited from ~\$600 million of capital expenditures in the utility businesses this year, which has mainly been invested in western Canadian utility operations. In total, capex is forecast to reach \$1.2 billion for 2011 across all segments (\$806 million spent to date), and \$5.7 billion budgeted for the five-year period, 2011 through 2015. With approximately 90% of the company's earnings generated from utility operations, rate base additions within the utility segments are expected to be the primary drivers of earnings growth. As a result, we expect to see consistent and stable growth in earnings and dividends going forward. However, we note that the company continues to pursue acquisitions of U.S.-based utility assets which could potentially have an impact on future earnings growth. We are maintaining our HOLD rating and 12-month C\$33.00 target price.

**Investment highlights**

- Reported Q3 recurring EPS of \$0.24, in line with consensus
- Maintaining HOLD rating and C\$33.00 target price
- No changes to 2011 and 2012 EPS estimates
  - 2011 EPS estimate: \$1.70
  - 2012 EPS estimate: \$1.75
- Received a C\$18.8 million (\$11 million after-tax) termination fee for the unsuccessful Central Vermont Public Service (CVPS) acquisition bid
- Belize Electricity expropriation compensation proceedings are ongoing with the Belize government
  - \$112 million book value
  - No earnings recorded this quarter; \$2 million contribution in Q3 last year

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

**Valuation**

We are maintaining our 12-month target price for Fortis at C\$33.00. Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Outlook**

We are making no changes to our 2011 and 2012 earnings per share estimates of \$1.70 and \$1.75, respectively. The company's capex program in the utilities segment, primarily in western Canada, has been the driving force of earnings growth this year, and should continue to do so through 2015. Fortis' capital expenditure budget remains unchanged with the company planning to spend \$5.7 billion from 2011 through 2015, of which \$4.8 billion is toward its electric and gas utilities (mainly in BC and Alberta). This should help provide relatively steady growth in earnings throughout the period. The company's Caribbean operations continue to face challenges which have limited the segment's contribution in recent years. Fortis has not received compensation for the Belize Electric assets expropriated in June this year. Proceedings to determine a value are ongoing and we note that the potential loss is limited to its book value (\$112 million net asset value or \$0.60 per share). While we believe the company will receive some compensation for Belize Electric, we do not expect a resolution in the near-term.

In addition to organic growth projects, the company continues to seek potential acquisitions. Although the company's recent offer for Central Vermont Public Service was not consummated, earnings and cash flow benefited from the \$18.8 million (US\$17.5 million) termination fee. More important, we were pleased to see management remain focused and disciplined and withdraw from the process when the transaction price was bid higher. Management continues to look for regulated natural gas and electric operations in the United States and believes it has the capability to finance up to a \$5 billion acquisition (enterprise value) on its balance sheet, but would consider a financial partner for larger acquisitions.

**Third quarter earnings summary**

Fortis reported third quarter recurring earnings per share of \$0.24, in line with both our and the consensus estimate of \$0.23. Regulated earnings were \$5 million (\$0.03 per share) higher compared to the same period last year. A bulk of the improvement was driven by rate base capital expenditures at FortisBC Energy (formerly Terasen) and Fortis Alberta. The increases were partially offset by the loss of ~\$2 million (\$0.01 per share) of earnings from the expropriation of Belize Electric. The company's non-regulated operations performed in line with last year during the same period. Note that we removed the one-time \$18.8 million (\$11 million after-tax) payment received from the termination of the CVPS Merger Agreement and \$2.5 million on unrealized non-cash foreign exchange gains. For the third quarter, the company reported net earnings per share of \$0.31 versus \$0.26 last year. For the first nine months of the year, the recurring earnings per share was \$1.30, ahead of the \$1.16 recorded last year. For additional details on third quarter results, please refer to Figure 1.

---



**Noteworthy items**

- CVPS termination fee CAD\$18.8 million
    - US\$17.5 million
    - Also received US\$2 million for transaction expenses
  - Acquired 160-room full-service Hilton Suites Winnipeg Airport hotel for \$25 million
  - Received municipal approval to construct \$50 million office building
    - 12-storeys in downtown St. John
    - Construction expected to be complete in 2H/13
  - Regulatory
    - Fortis BC Energy gas companies
      - Filed updated 2012-2013 rate applications in September 2011
        - Decision expected in late Q1/12
      - Filed application to amalgamate the three FortisBC Energy gas companies
    - Newfoundland Power completed the sale of joint-use poles back to Bell Aliant (BA : TSX | HOLD)
      - Will use funds to pay down debt
    - Caribbean Utilities
      - Expects to file 2012-2016 capital investment plan in Q4/11
      - Will sign PPAs to accept up to 13 MW of renewable power from IPPs
    - Fortis Turks and Caicos
      - Filed a request for a change in the rate structure and a 6% increase in base rates
      - Carbon tax expected to be implemented September 2011
        - Has not yet been implemented
-

Figure 1: Fortis' third quarter earnings details

Millions of dollars (except per share data)	Third Quarter Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
FortisBC Energy Companies	(\$9)	(\$3)	66.7%	Rate base growth and lower-than-expected operating expenses. Mostly quarterly timing issues.
Newfoundland Power	\$8	\$8	0.0%	
FortisAlberta	\$19	\$19	0.0%	Higher effective tax rate due to lower income tax deductions.
FortisBC Electric	\$11	\$10	(9.1%)	
Other Canadian Regulated Utilities	\$5	\$6	20.0%	
<b>Total Canadian Earnings</b>	<b>\$34</b>	<b>\$40</b>	17.6%	Higher ROE allowed at Algoma Power and strong electricity sales growth.
<b>Regulated Utilities - Caribbean</b>	<b>\$7</b>	<b>\$6</b>	(14.3%)	No earnings from Belize Electricity due to government expropriation in June.
<b>Non-Regulated</b>				
Fortis Generation	\$9	\$8	(11.1%)	
Fortis Properties	\$9	\$9	0.0%	
<b>Total Non-Regulated Earnings</b>	<b>\$18</b>	<b>\$17</b>	(5.6%)	
Corporate and Consolidated Adjustments	(\$19)	(\$19)	(2.6%)	
<b>Recurring Earnings</b>	<b>\$40</b>	<b>\$45</b>	11.3%	\$11 M due to CVPS break-up fee and \$2.5 M non-cash FX hedging gain.
Non-recurring items	\$5	\$14		
<b>Reported Net Earnings</b>	<b>\$45.0</b>	<b>\$58.0</b>	28.9%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$0.23</b>	<b>\$0.24</b>	3.3%	
Non-recurring items	\$0.03	\$0.07	n.m.	
Reported	\$0.26	\$0.31	19.7%	
Cash Flow Per Share	\$0.94	\$0.75	(19.5%)	
Average Shares Outstanding (mln)	173.2	186.5	7.7%	
<b>Regulated</b>				
Earnings	\$41	\$46	12.2%	
% of total	103%	103%		
<b>Non-Regulated</b>				
Earnings	\$18	\$17	(5.6%)	
% of total	45%	38%		
<b>Corporate</b>				
Earnings	(\$19)	(\$19)	2.6%	
% of total	(47.5%)	(41.6%)		

Source: Fortis Inc., Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to our projected 12-month stock price target for Fortis include, but are not limited to: (1) price movement in electricity rates and commodities used for electricity generation could potentially impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could potentially impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in the regulatory or political climate could potentially impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

---

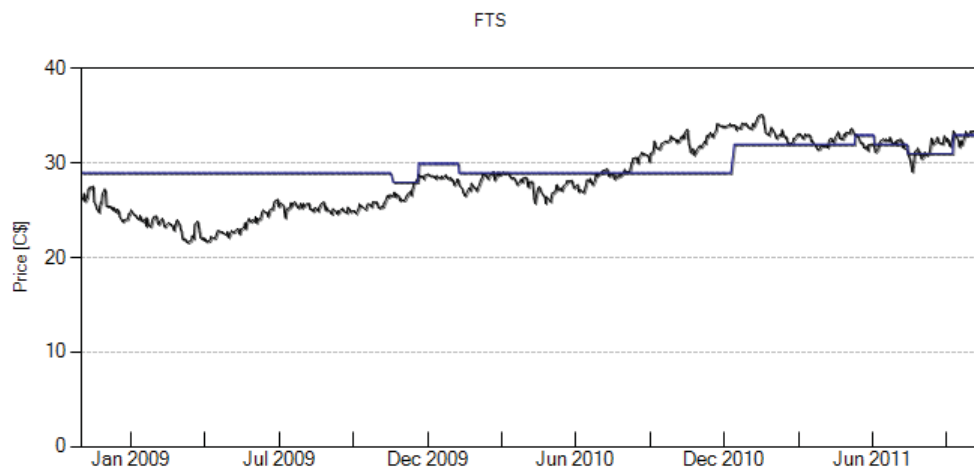
**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

An analyst has not visited Bell Aliant's material operations.

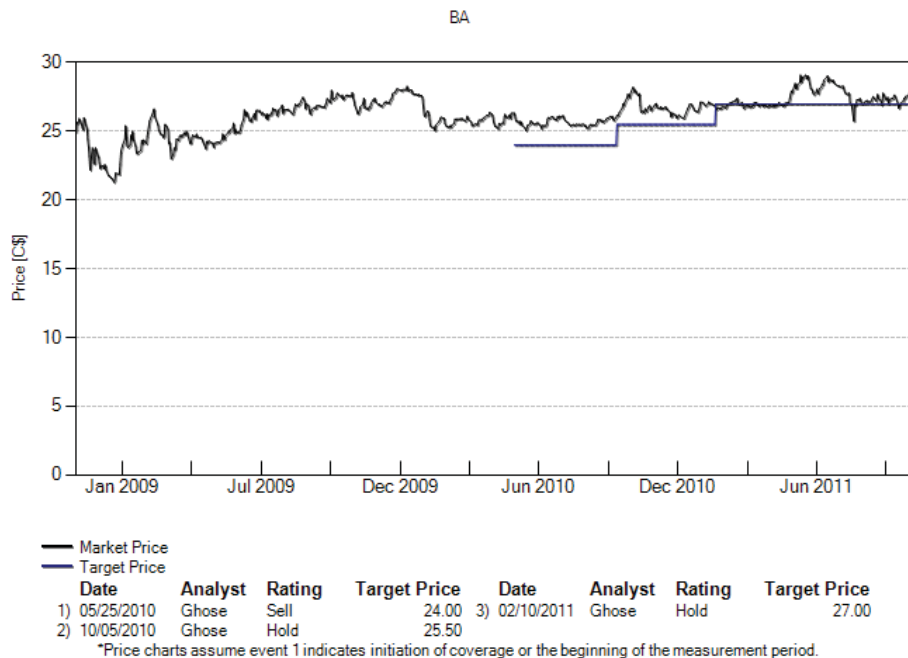
**Price Chart:\***

— Market Price  
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/23/2009	Hastings	Buy	29.00	6) 05/31/2011	Plessis	Hold	33.00
2) 11/16/2009	Hastings	Hold	28.00	7) 06/23/2011	Plessis	Hold	32.00
3) 12/17/2009	Hastings	Hold	30.00	8) 08/03/2011	Plessis	Hold	31.00
4) 02/04/2010	Hastings	Hold	29.00	9) 09/27/2011	Plessis	Hold	33.00
5) 01/04/2011	Plessis	Hold	32.00				

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

3 November 2011

**Distribution of Ratings:**Global Stock Ratings  
(as of 3 October 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	509	63.5%	35.6%	
Speculative Buy	86	10.7%	64.0%	
Hold	194	24.2%	17.0%	
Sell	12	1.5%	25.0%	
	801	100%		

**Canaccord Ratings System:****BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**Canaccord Research Disclosures as of 3 November 2011**

Company	Disclosure
Fortis Inc.	7
Bell Aliant Inc.	1A, 2, 7

- 1 The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer:
  - A. investment banking services.
  - B. non-investment banking securities-related services.
  - C. non-securities related services.
- 2 In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
- 3 In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
- 4 Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
- 5 Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
- 6 In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
- 7 Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
- 8 The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
- 9 The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
- 10 Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
- 11 A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
- 12 As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
- 13 As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
- 14 Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking



revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research. Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading

securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2011. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2011. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2011. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

**Fortis Inc.**

FTS : TSX : C\$33.90

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 34.82
Avg. Daily Vol. (000s):	502.5
Market Cap (M):	C\$6,407
Shares Out (M):	189.0
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.5

**EARNINGS SUMMARY:**

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.75	C\$1.80
P/E (x):	21.1	20.3	19.4	18.8
CFPS:	C\$4.23	C\$4.44	C\$4.57	C\$4.67
P/CF (x):	8.0	7.6	7.4	7.3

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****Q4 RESULTS IN LINE; 2012 GROWTH POTENTIALLY HAMPERED BY COST OF CAPITAL REVIEW IN BC****Investment recommendation**

Fortis Inc. reported fourth quarter earnings per share of \$0.46, in line with the consensus estimate. The company's earnings continue to benefit from a high level of capital spending (about \$1 billion) at its utility operations in 2011, particularly at its Western Canadian utilities. While continued capital spending in 2012 should help improve earnings, the growth profile may be muted in the near term by the dilutive impact of its June 2011 10.3-million-share issuance and the November 2011 debenture conversion for 1.3 million shares. In addition, the British Columbia Utilities Commission (BCUC) is initiating a Generic Cost of Capital review that could potentially negatively impact the allowed return at its natural gas utility. Our \$1.75 EPS estimate for 2012 does not reflect a lower return that could arise from the BCUC's review. With its five-year capital budget of \$5.5 billion (most of which is anticipated to be spent at the company's electric utility operations), we expect to see consistent and stable growth in earnings and dividends over the medium term. The company continues to seek out acquisitions of US-based electric utility assets which could have an impact on future earnings growth. We are maintaining our HOLD rating and C\$33.00 target price.

**Investment highlights**

- HOLD rating and C\$33.00 target price maintained
- No change to 2012 and 2013 earnings estimates of \$1.75 and \$1.80, respectively
  - But possibility of lower returns on BC utilities could reduce 2012 EPS expectation
- Reported Q4/11 EPS of \$0.46 and full-year 2011 of \$1.67

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and Fortis' utility and pipeline peers.

**Outlook**

We are maintaining our 2012 and 2013 earnings estimates of \$1.75 and \$1.80 per share, respectively. A majority of the company's growth over the next few years will likely come from its regulated utility businesses, where the company plans to spend \$3.5 billion towards its electric utilities and \$1.3 billion towards its gas utilities through 2016. The remaining \$0.7 billion of its \$5.5 billion capital program is scheduled to be invested in non-regulated businesses (including the 335 MW, \$900 million Waneta Expansion Project – 51%-owned by Fortis). In addition, the company continues to look for US-based regulated electric acquisition opportunities. Fortis believes that it could manage an acquisition with an enterprise value up to \$5 billion, and would consider financial partners for larger acquisitions. While more recent transactions have occurred at higher valuations, we note that management maintains a disciplined approach, as evidenced by its refusal to enter a bidding war to acquire Central Vermont Public Service. With approximately 90% of its earnings generated from utility operations, Fortis holds a stable asset portfolio with modest earnings and dividend growth.

**Earnings summary**

Fortis reported fourth quarter earnings of \$0.46 per share, versus \$0.49 last year and in line with the consensus estimate. Regulated earnings were \$5 million (\$0.03 per share) higher compared to the same period last year. Most of the regulated earnings improvement was due to rate base additions at FortisBC Energy and Fortis Alberta. The increases were partially offset by unfavourable foreign exchange movements, as well as higher amortization expense at the company's Caribbean operations, which reduced earnings by \$2 million in the quarter. The company's non-regulated operations were lower due to higher taxes in the Properties division. While recurring earnings were slightly better than last year, the impact of a share issue in the second quarter of 2011 had a dilutive impact on the per-share results. For the full year, recurring earnings per share was \$1.67, ahead of \$1.61 recorded for the previous year. For additional details on the fourth quarter and full-year results, please refer to Figures 1 and 2.

**Noteworthy items**

- Capital expenditures
    - \$1.2 billion capex in 2011
    - \$1.3 billion to be spent in 2012
      - ~\$1 billion in regulated operations
    - \$5.5 billion expected from 2012 through 2016
  - Regulatory
    - Fortis Alberta
      - Lower allowed ROE for 2011 – 8.75%, down from 9% in 2010
        - Retroactive adjustment made in Q4/11 for \$2 million
-

- 2012 rate decision expected in first half of 2012
    - “Performance-base regulation” decision expected in 2012
  - Newfoundland Power
    - Suspended use of formula approach to calculate ROE
      - 2012 interim rate of 8.38%; pending review of actual cost of capital and risk profile
      - Could provide modest improvement in returns
  - FortisBC
    - Regulator announced a Generic Cost of Capital proceeding in November 2011
      - Gas and electric utility ROEs maintained pending outcome of the proceeding
      - Process expected to be outlined in the coming months
      - Potential for lower returns
  - Converted US\$40 million of convertible debentures into 1.4 million shares
  - Submitted compensation claim to Belize Government for expropriated Belize Electricity assets.
    - Received appraisal from government that was materially lower than Fortis’ independent valuation
    - No current plans to expropriate BECOL
      - Book value of \$154 million (\$0.82 per share)
-

Figure 1: Fortis' fourth quarter earnings details

Millions of dollars (except per share data)	Fourth Quarter Earnings		
	2010	2011	Change Favourable (Unfavourable)
<b>Regulated Utilities - Canadian</b>			
FortisBC Energy Companies	\$45	\$51	13.3%
Newfoundland Power	\$9	\$9	0.0%
FortisAlberta	\$17	\$18	4.6%
FortisBC Electric	\$10	\$11	10.0%
Other Canadian Regulated Utilities	\$5	\$4	(20.0%)
<b>Total Canadian Earnings</b>	<b>\$86</b>	<b>\$93</b>	7.9%
<b>Regulated Utilities - Caribbean</b>	<b>\$5</b>	<b>\$3</b>	(33.3%)
<b>Non-Regulated</b>			
Fortis Generation	\$5	\$5	0.0%
Fortis Properties	\$7	\$5	(28.6%)
<b>Total Non-Regulated Earnings</b>	<b>\$12</b>	<b>\$10</b>	(16.7%)
Corporate and Consolidated Adjustments	(\$18)	(\$19)	5.6%
<b>Recurring Earnings</b>	<b>\$85</b>	<b>\$87</b>	2.7%
Non-recurring items	\$0	(\$1)	
<b>Reported Net Earnings</b>	<b>\$85</b>	<b>\$86</b>	1.4%
<b>EPS:</b>			
<b>Recurring</b>	<b>\$0.49</b>	<b>\$0.46</b>	(5.0%)
Non-recurring items	\$0.00	(\$0.01)	n.m.
Reported	\$0.49	\$0.46	(6.2%)
Cash Flow Per Share	\$1.20	\$1.23	2.3%
Average Shares Outstanding (mln)	173.9	188.1	8.2%
<b>Regulated</b>			
Earnings	\$91	\$96	5.8%
% of total	107%	110%	
<b>Non-Regulated</b>			
Earnings	\$12	\$10	(16.7%)
% of total	14%	11%	
<b>Corporate</b>			
Earnings	(\$18)	(\$19)	(5.6%)
% of total	(21.2%)	(21.8%)	

Result of continued rate base growth and lower than expected tax, financing and amortization expenses.

Unfavourable FX impact and higher amortization expense. No contribution from Belize Electricity - (its contribution in Q4/10 was a loss of \$0.5 M).

Higher corporate income tax partly offset by incremental earnings contribution from Winnipeg hotel acquisition in October 2011.

\$2 M accrual recognized in Q4 related to lower allowed return for 2011 at FortisAlbertra.

In line with 46¢ consensus estimate and slightly below our 49¢ estimate.

Source: Fortis Inc., Canaccord Genuity



Figure 2: Fortis' 2011 earnings details

Millions of dollars (except per share data)	Full Year Earnings			
	2010	2011	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
FortisBC Energy Companies	\$126	\$139	10.3%	Increased earnings from rate base growth including assets under construction; offset slightly from lower allowed ROE retroactively enacted for the full year in Q4 2011.
Newfoundland Power	\$35	\$35	0.0%	
FortisAlberta	\$67	\$74	9.9%	
FortisBC Electric	\$42	\$49	16.7%	Increased rate base and increased contribution from non-regulated operations. Also includes favourable quarterly timing issues.
Other Canadian Regulated Utilities	\$19	\$22	15.8%	
<b>Total Canadian Earnings</b>	<b>\$289</b>	<b>\$319</b>	10.3%	
<b>Regulated Utilities - Caribbean</b>	\$23	\$20	(11.1%)	Does not include contribution from Belize Electricity which was expropriated in Q2 2011.
<b>Non-Regulated</b>				
Fortis Generation	\$19	\$18	(5.3%)	
Fortis Properties	\$26	\$22	(16.7%)	
<b>Total Non-Regulated Earnings</b>	<b>\$45</b>	<b>\$40</b>	(11.8%)	
Corporate and Consolidated Adjustments	(\$78)	(\$76)	(3.2%)	Includes, \$11 M after tax break-up fee for CVPS acquisition attempt; \$1.5 M earnings recognized in 2011 related to 2010 period; \$1.5 M of gain on sales.
<b>Recurring Earnings</b>	<b>\$278</b>	<b>\$303</b>	8.7%	
Non-recurring items	\$6	\$15		
<b>Reported Net Earnings</b>	<b>\$285</b>	<b>\$318</b>	11.8%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$1.61</b>	<b>\$1.67</b>	3.5%	Slightly below the consensus estimate and our estimate of \$1.70 per share.
Non-recurring items	\$0.04	\$0.08	n.m.	
Reported	\$1.65	\$1.75	6.4%	
Cash Flow Per Share	\$4.23	\$4.44	5.1%	
Average Shares Outstanding (mln)	172.9	181.6	5.0%	
<b>Regulated</b>				
Earnings	\$312	\$339	8.7%	
% of total	112%	112%		
<b>Non-Regulated</b>				
Earnings	\$45	\$40	(11.8%)	
% of total	16%	13%		
<b>Corporate</b>				
Earnings	(\$78)	(\$76)	3.2%	
% of total	(28.0%)	(24.9%)		

Source: Fortis Inc, Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have

currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

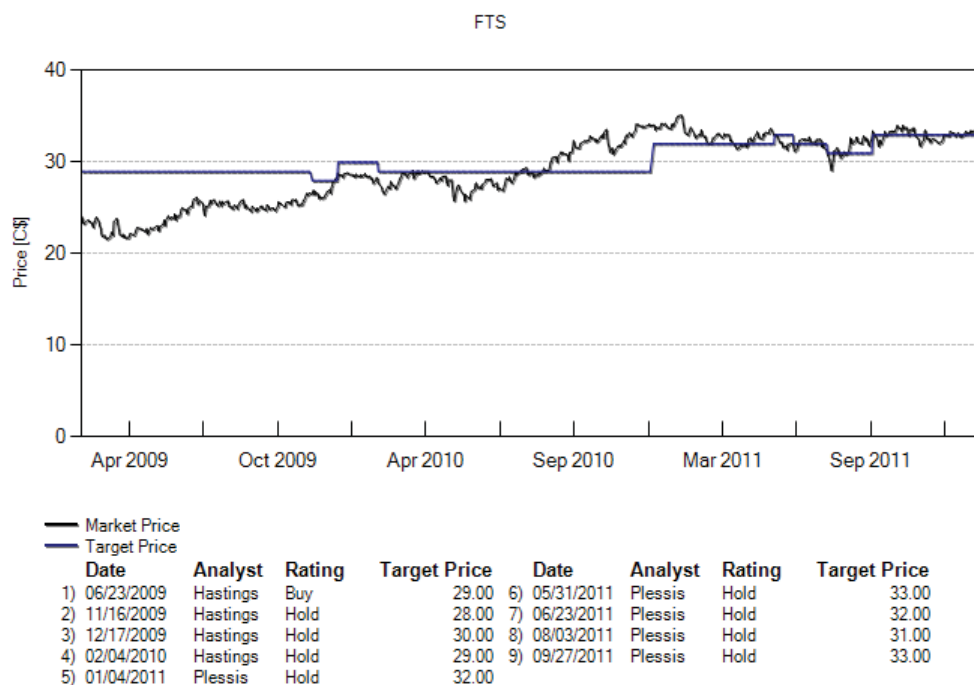
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis' material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\*****Distribution of Ratings:**

Global Stock Ratings  
(as of 2 February 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	60.2%	34	34.9%
Speculative Buy	87	10.9%	56	73.6%
Hold	215	26.9%	29	20.9%
Sell	16	2.0%	6	25.0%
	799	100%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.  
**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.  
**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.  
**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 9 February 2012

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2012. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2012. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2012. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---



**Fortis Inc.**

FTS : TSX : C\$32.67

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 34.39
Avg. Daily Vol. (000s):	519.2
Market Cap (M):	C\$6,151
Shares Out (M):	188.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.7

**EARNINGS SUMMARY:**

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.75	C\$1.80
P/E (x):	20.3	19.6	18.7	18.1
CFPS:	C\$4.23	C\$4.42	C\$4.55	C\$4.65
P/CF (x):	7.7	7.4	7.2	7.0

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****SECOND TIME'S A CHARM? TO ACQUIRE NEW YORK-BASED UTILITY****Investment recommendation**

Fortis announced the acquisition of CH Energy Group (CHG : NYSE | Not Rated) for US\$1.5 billion, including the assumption of about US\$500 million of debt. The purchase price of US\$65/share in cash represents a 10.5% premium to the closing price of CH Energy's common shares on Friday, February 17, 2012. We believe that the acquisition could contribute \$0.02 or more per share to full-year earnings, depending on the final financing structure. The acquisition does not come as a major surprise since management has long indicated that it is seeking to expand into the US, where regulatory returns have generally been more attractive. We are maintaining our C\$33.00 target price and EPS estimates of \$1.75 and \$1.80 per share for 2012 and 2013, respectively, until further details are provided on permanent financing. Our HOLD rating is maintained.

**Investment highlights**

- Maintaining HOLD rating and C\$33.00 target price
- Acquiring CH Energy Group for US\$ 1.5 billion
  - Includes US\$500 million of debt
  - Represents ~1.45x regulated rate base; ~2x deemed equity
  - Expected to close in Q1/13
- 2012 and 2013 estimates unchanged
  - Depending on permanent financing, expected to be accretive by \$0.02 or more to annual EPS.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Summary**

CH Energy Group is an electric and gas utility based in New York State with a regulated rate base of approximately \$1 billion, as well as non-regulated assets of approximately \$90 million. The \$1.5 billion consideration paid by Fortis represents a ~45% premium to the 2013 regulated rate base. We note that the premium to rate base, although rich, is in line with recent utility transactions in the United States. In addition, equity returns afforded in the US are relatively higher than those in Canada. CH Energy's current three-year rate plan ending 2013 provides for a 10% return on a 48% equity base. Depending on the permanent financing structure, we believe that the acquisition will be modestly accretive by \$0.02 or more to annual EPS. We note that, with the \$340 million common equity issue in 2011 (which was partly to be used to finance the failed Central Vermont Public Service acquisition), Fortis can take on a bit more leverage to finance the CH Energy purchase. However, we expect that Fortis would need to raise about \$500 million of equity to fund the acquisition, which could overhang the stock in the near term.

CH Energy's regulated utility has planned capital expenditures in excess of US\$100 million on average per year through 2016, although management expects capital expenditures could be modestly higher on average, which would represent an average annual 7.5% growth to rate base. Depending on interest rates used to finance a portion of the acquisition, we estimate that the returns could initially be around 6.5%, rising with rate base growth. The non-regulated assets represent a small portion of the business, and its earnings contributions are expected to be a couple of million dollars annually.

Fortis is very familiar with regulated assets, with almost 90% of its earnings generated from regulated operations in Canada and the Caribbean. The acquisition of CH Energy does not come as a surprise and is in line with the company's stated strategy to enter the US regulated utility arena (recall its interest in acquiring Central Vermont Public Service last year). If successful, this acquisition will be Fortis' first foray into the US, and may be a beachhead for additional US utility purchases in the future. Given the company previously indicated that it could complete US acquisitions with an enterprise value of up to \$5 billion on its own (and larger acquisitions with a financial partner), we do not rule out the possibility that Fortis could make further acquisitions of US-based utilities.

---

**Acquisition details**

- Acquiring CH Energy Group for US\$1.5 billion
    - Includes the assumption of US\$500 million debt
    - Purchasing CH Energy common shares at US\$65/share in cash
      - 10.5% premium to last close
    - ~\$20 million break fee
  - Regulated rate base ~US\$1 billion expected in 2013
    - Three-year rate settlement ending June 2013
      - 48% equity portion
      - 10% ROE through 2013
  - The assets:
    - Central Hudson Gas & Electric Corp.
      - Regulated electric and gas transmission and distribution utility
      - Operates in eight counties in the Mid-Hudson River Valley, NY
      - Regulated by the New York Public Service Commission
      - Debt rating/outlook
        - S&P: A/stable
        - Fitch: A/stable
        - Moody's: A3/stable
      - Electric business
        - 300,000 electric customers
        - 9,600 miles of distribution lines
        - 600 miles of transmission lines
        - 1,225 MW peak demand in 2011
        - 77% of regulated assets
      - Gas business
        - 75,000 natural gas customers
        - 1,900 miles of distribution pipelines
        - 160 miles of transmission pipelines
        - 115,807 Mcf peak demand in 2011
        - 23% of regulated assets
    - Griffith Energy Services
      - Fuel distribution company
      - Operates in 10 Mid-Atlantic states
      - US\$90 million assets
  - Closing subject to:
    - CH Energy shareholder approval
    - Regulatory approval
      - New York Public Service
      - Federal Energy Regulatory Commission
      - Hart-Scott Rodino Act waiting period
    - Customary closing conditions
-

**Investment risks**

Some of the specific risk factors that pertain to the projected 6- to 12-month stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties that are subject to operating risks associated with the industry.

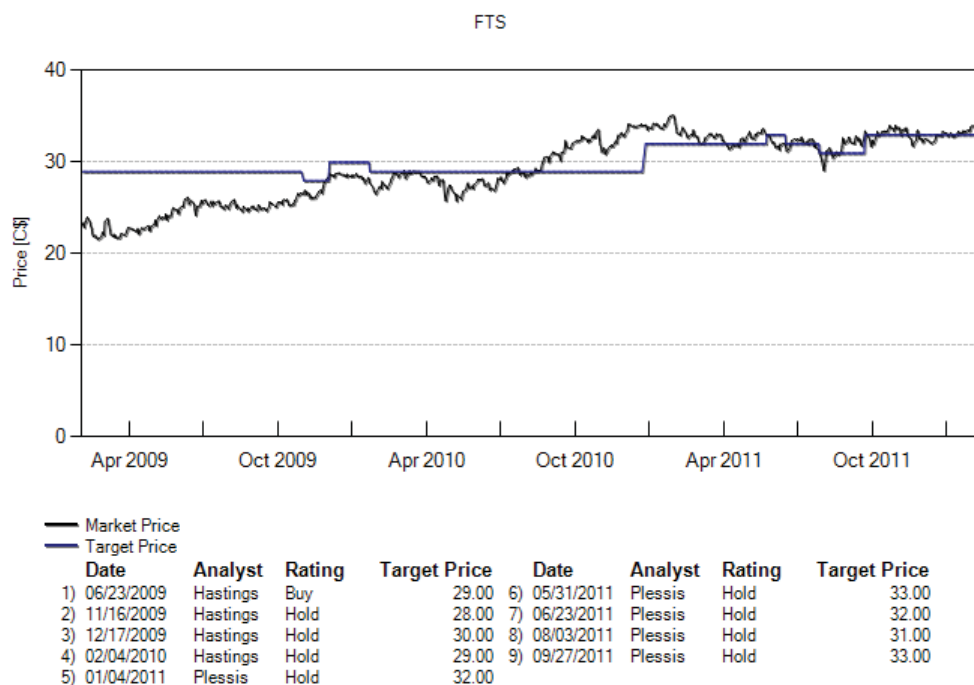
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\*****Distribution of Ratings:**

Global Stock Ratings  
(as of 2 February 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	481	60.2%	34	34.9%
Speculative Buy	87	10.9%	56	73.6%
Hold	215	26.9%	29	20.9%
Sell	16	2.0%	6	25.0%
	799	100%		

**Canaccord Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.  
**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.  
**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.  
**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Research Disclosures as of 21 February 2012

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:



Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United Kingdom Residents:** This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

**For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For European Residents:** If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2012. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2012. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2012. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

**Fortis Inc.**

FTS : TSX : C\$34.42

**HOLD****Target: C\$33.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

z lakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 34.39
Avg. Daily Vol. (000s):	552.2
Market Cap (M):	C\$6,516
Shares Out (M):	189.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.5

**EARNINGS SUMMARY:**

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.70	C\$1.80
P/E (x):	21.4	20.6	20.2	19.1
CFPS:	C\$4.23	C\$4.42	C\$4.50	C\$4.65
P/CF (x):	8.1	7.8	7.7	7.4

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****OPERATIONS PERFORMING WELL, BUT SOME EARNINGS UNCERTAINTY EXISTS****Investment recommendation**

We are maintaining our HOLD rating and C\$33.00 target price on the shares of Fortis. The company reported first quarter recurring earnings of \$0.66 per share, in line with our expectations and the consensus estimate. Overall, Fortis's businesses continue to perform well, with minor give and takes within the various operating segments during the quarter. We are lowering our 2012 earnings estimate by \$0.05 per share to \$1.70 to reflect lower expected earnings at FortisBC Electric due to the elimination of incentive earnings from the discontinuation of the performance-based, rate-setting (PBR) mechanism. We note that, although still achievable, EPS of \$1.75 this year would be at the high range of expectations. Our 2013 EPS estimate is unchanged at \$1.80. Beyond 2013, earnings should continue to benefit from the company's planned \$5.5 billion capital expenditure program (2012-2016), primarily in utility operations.

**Valuation**

Our target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Investment highlights**

- Q1 EPS of \$0.66, in line with \$0.67 consensus estimate
  - Higher rate base and strong hydrology at non-regulated Belize assets helped results
  - Absence of incentive earnings at FortisBC Electric and higher shares outstanding weighed on earnings
- Maintain HOLD rating and C\$33.00 target price
  - 2012 EPS estimate lowered to \$1.70 from \$1.75 due to the impact of elimination of PBR at FortisBC
  - 2013 EPS estimate unchanged at \$1.80
- BCUC Generic Cost of Capital Proceeding introduces 2013 EPS risk

**Outlook**

We are lowering our 2012 estimate to \$1.70 from \$1.75 to reflect slightly lower earnings expectations from the discontinuation of the PBR mechanism at FortisBC Electric. The PBR mechanism had allowed Fortis to share with ratepayers any cost savings the company achieved to allow it to earn above its regulated return. Note that we do not include any acquisition-related costs related to the pending \$1.5 billion purchase of CH Energy in our 2012 and 2013 EPS estimates.

Overall, Fortis's operations continue to perform in line with expectations. The company derives the majority of its earnings from regulated operations that can be influenced by changes in deemed returns and capital structure from regulatory decisions. While we are maintaining our 2013 EPS estimate of \$1.80, we note that there remains some uncertainty surrounding the British Columbia Utilities Commission's (BCUC) Generic Cost of Capital Proceeding. A decision from the BCUC is expected late in the year and could result in a lower allowed ROE at Fortis's BC operations beginning in 2013 (not retroactively). We estimate that the impact of a 100 bps decline at Fortis' BC utilities could reduce earnings by up to \$0.10 per share.

Fortis has a \$5.5 billion capital expenditure program through 2016, which should continue to drive earnings and dividend growth. In addition, the acquisition of CH Energy Group Inc. is expected to be immediately (albeit likely modestly) accretive once it closes (expected by the end of Q1/13). Although the company's balance sheet is strong with debt to total capital at ~55% (below its 60% target), the company will need to issue common equity to partially fund the purchase. We expect the company to access the equity market in late 2012 or early 2013, when the close of its acquisition of CH Energy becomes more certain.

**First quarter earnings summary**

Fortis reported first quarter recurring earnings of \$0.66, in line with our estimate and the consensus estimate. Note that our recurring earnings calculation does not include \$4 million of pre-tax costs related to the company's proposed acquisition

---

of CH Energy, or \$1.5 million of non-cash foreign exchange translation losses associated with the company's expropriated Belizean assets. Compared to Q1/11, earnings were flat. Rate-based growth in the western utility operations, and the timing of certain expenses at FortisBC Energy Companies, improved earnings; a return to normal hydrology in Belize also boosted the contribution from Fortis' non-regulated power generation segment. These factors were offset by lower earnings from FortisBC Electric due to the discontinuation of the PBR, the Caribbean utility operations that no longer receive contributions from Belize Electricity, which was expropriated by the Belize government in the second quarter of last year, and the dilutive impact of an 8% increase in the shares outstanding. For additional details on first quarter results, please refer to Figure 1.

**Noteworthy items***Regulatory*

- BCUC Generic Cost of Capital decision expected in late 2012
  - Will not be retroactive
- Applications filed with state and federal regulators seeking approval of CH Energy acquisition
  - Expected close end of Q1/13
- FortisBC Electric – written hearing process to review prudence of ~\$29 million of capex
- Caribbean Utilities - US\$122 million of non-generation capex approved

*Financing*

- \$2 billion of unused credit facilities available for consolidated entity
- Newfoundland Power extended term of \$100 million credit facility by two years to August 2017
- FortisBC Electric extended term of \$150 million credit facility
  - \$100 million maturing in May 2015
  - \$50 million maturing in May 2013
- Requested increase for Corporate credit facility to \$1 billion from \$800 million, as per credit facility agreement
  - Increase expected in May 2012

*Other*

- No new developments in matters related to expropriated Belize assets
-

Figure 1: Fortis first quarter earnings breakdown

Millions of dollars (except per share data)	First Quarter Earnings			Change Favourable (Unfavourable)	
	2011	2012			
<b>Regulated Utilities - Canadian</b>					
FortisBC Energy Companies	\$76	\$82	7.9%		Increase due to the timing of certain expenses not recognized this quarter and growth in rate base.
Newfoundland Power	\$7	\$7	0.0%		
FortisAlberta	\$19.7	\$21.0	6.6%		Experienced lower power purchase costs but cost sharing mechanism no longer in place.
FortisBC Electric	\$19	\$16	(15.8%)		
Other Canadian Regulated Utilities	\$6	\$7	16.7%		Lower effective income taxes due to lower statutory tax rates.
<b>Total Canadian Earnings</b>	<b>\$128</b>	<b>\$133</b>	<b>4.2%</b>		
<b>Regulated Utilities - Caribbean</b>	<b>\$4</b>	<b>\$3</b>	(25.0%)		
<b>Non-Regulated</b>					
Fortis Generation	\$3	\$5	66.7%		Return to normal hydrology in Belize.
Fortis Properties	\$1	\$1	n.m.		
<b>Total Non-Regulated Earnings</b>	<b>\$4</b>	<b>\$6</b>	71.4%		
Corporate and Consolidated Adjustments	(\$20)	(\$17)	(15.0%)		\$4 M pre-tax expenses related to acquisition of CH Energy Group. \$1.5 M pre-tax negative FX adjustment related to expropriated asset, Belize Electricity.
<b>Recurring Earnings</b>	<b>\$115</b>	<b>\$125</b>	8.5%		
Non-recurring items	\$1.5	(\$4.5)	n.m.		
<b>Reported Net Earnings</b>	<b>\$117</b>	<b>\$121</b>	3.3%		
<b>EPS:</b>					
<b>Recurring</b>	<b>\$0.66</b>	<b>\$0.66</b>	0.5%		In line with both our estimate and the consensus 67¢ estimate.
Non-recurring items	\$0.01	(\$0.02)	n.m.		
Reported	\$0.67	\$0.64	(4.4%)		
Cash Flow Per Share	\$1.38	\$1.32	n.m.		Public offering of 10.3 M common shares in June 2011.
Average Shares Outstanding (mln)	175.0	189.0	8.0%		
<b>Regulated</b>					
Earnings	\$132	\$136	3.3%		Very stable earnings.
% of total	114%	109%			
<b>Non-Regulated</b>					
Earnings	\$4	\$6	71.4%		
% of total	3%	5%			
<b>Corporate</b>					
Earnings	(\$20.0)	(\$17.0)	15.0%		
% of total	(17.4%)	(13.6%)			
<b>Capital Structure</b>					
	<b>March 31, 2012</b>				
Debt & working capital	\$6,284	55%			Some room for additional leverage.
Equity	\$3,901	34%			
Preferred shares	\$912	8%			
Non-controlling interests	\$246	2%			
Total capital	\$11,343	100%			

Source: Fortis Inc., Canaccord Genuity



**Investment risks**

Some of the specific risk factors that pertain to the projected stock price target for Fortis are as follows: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions, which may impact demand for products and services, peer group valuation, access to capital, and share trading liquidity; and (10) Fortis holds investments in commercial real estate and hotel properties that are subject to operating risks associated with the industry.

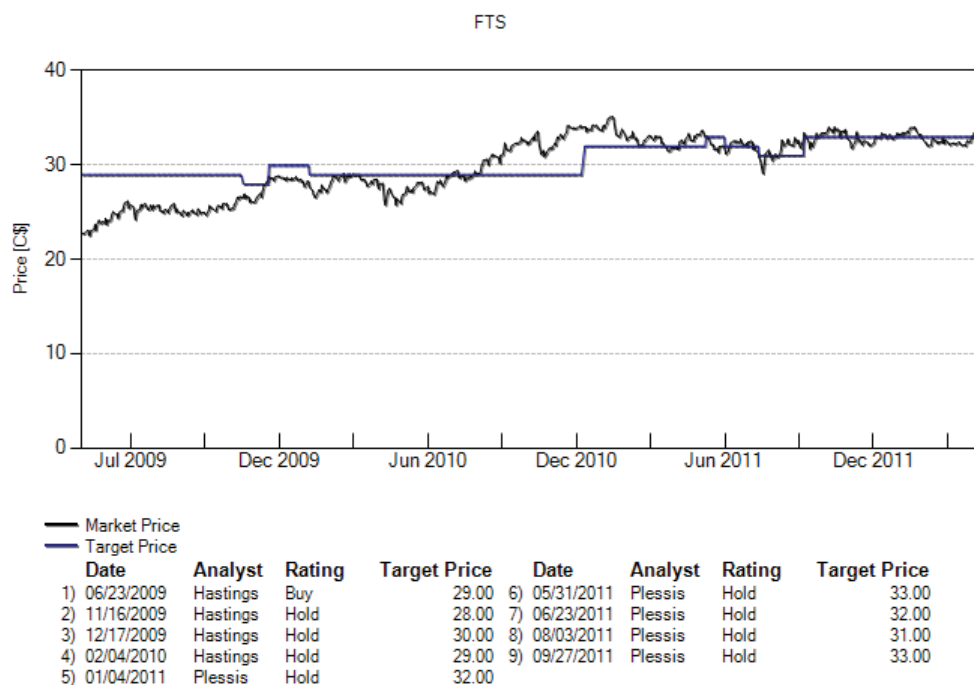
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\*****Distribution of Ratings:**

Global Stock Ratings  
(as of 2 April 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	503	59.3%	31	31.0%
Speculative Buy	91	10.7%	74	73.6%
Hold	232	27.4%	19	18.5%
Sell	22	2.6%	2	9.1%
	848	100%		

**Canaccord Genuity Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.  
**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.  
**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.  
**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Genuity Research Disclosures as of 2 May 2012

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Securities LLC, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Securities LLC, a US broker-dealer with principal offices located in New York or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by

reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United States Residents:** Canaccord Genuity Inc. and Canaccord Genuity Securities LLC, US registered broker-dealers, accept responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. or Canaccord Genuity Securities LLC. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc. or Canaccord Genuity Securities LLC are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

---

**For United Kingdom and European Residents:**

This investment research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Services Authority.

**For Jersey, Guernsey and Isle of Man Residents:**

This research is sent to you by Collins Stewart (CI) Limited ("CSCI") for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by a group company for circulation to its institutional clients and also CSCI. Its contents have been approved by CSCI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CSCI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser. CSCI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CSCI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Financial Inc.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2012. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2012. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2012. – Member FINRA/SIPC

Copyright © Canaccord Genuity Securities LLC 2012. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. and Canaccord Genuity Securities LLC. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

## Fortis Inc.

FTS : TSX : C\$33.08

HOLD

Target: C\$33.00

Juan Plessis, MBA, CFA

1.604.643.0181

jplessis@canaccordgenuity.com

Zayem Lakhani

1.604.643.7506

zlakhani@canaccordgenuity.com

## COMPANY STATISTICS:

52-week Range:	C\$28.24 - 34.98
Avg. Daily Vol. (000s):	546.3
Market Cap (M):	C\$6,262
Shares Out (M):	189.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.6

## EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.70	C\$1.80
P/E (x):	20.5	19.8	19.5	18.4
CFPS:	C\$4.23	C\$4.42	C\$4.50	C\$4.65
P/CF (x):	7.8	7.5	7.4	7.1

## SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

## COMPANY DESCRIPTION:

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.  
Refer to page 2 for target price valuation methodology.

## Infrastructure -- Utilities

## RAISES EQUITY FOLLOWING CH ENERGY SHAREHOLDER APPROVAL OF ACQUISITION

## Investment recommendation

The shareholders of CH Energy voted 92% in favour of Fortis' acquisition of the New York natural gas and electric transmission and distribution utility at US\$65 per share. Also, Fortis announced a \$601 million bought deal offering of subscription receipts (\$691 million if the over-allotment is exercised) to fund a portion of the acquisition. Both announcements were expected and were previously factored into our financial analysis. The acquisition is expected to close in Q1/13 and is subject to approval by the Federal Energy Regulatory Commission, the Federal Trade Commission, and the Public Service Commission, along with other normal closing conditions. As announced in February, Fortis is paying \$1.5 billion (including the assumption of ~US\$500 million of debt), which we calculate to be about a 45% premium to rate base and 96% premium to equity. While we expect the acquisition to be accretive to annual earnings per share beginning in 2013, given the full price being paid for CH Energy, we estimate the accretion to be only a few cents per share on an annual basis (depending on the cost of permanent debt financing). With planned capital investments of \$100 million annually through 2016 into CH Energy's rate base, we expect the forecast return to improve over time.

## Investment highlights

- Receives CH Energy shareholder approval for acquisition
  - US\$1.5 billion, includes US\$500 million debt assumption
  - Expected to close in Q1/13
- Acquisition expected to be slightly accretive to full year earnings
- \$601 million subscription receipt offering to partially fund the acquisition
- HOLD rating and C\$33.00 target price unchanged

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).



**Valuation**

Our 12-month target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and its utility and pipeline peers.

**Investment risks**

Some of the specific risk factors that pertain to our projected 12-month stock price target for Fortis include, but are not limited to: (1) price movements in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

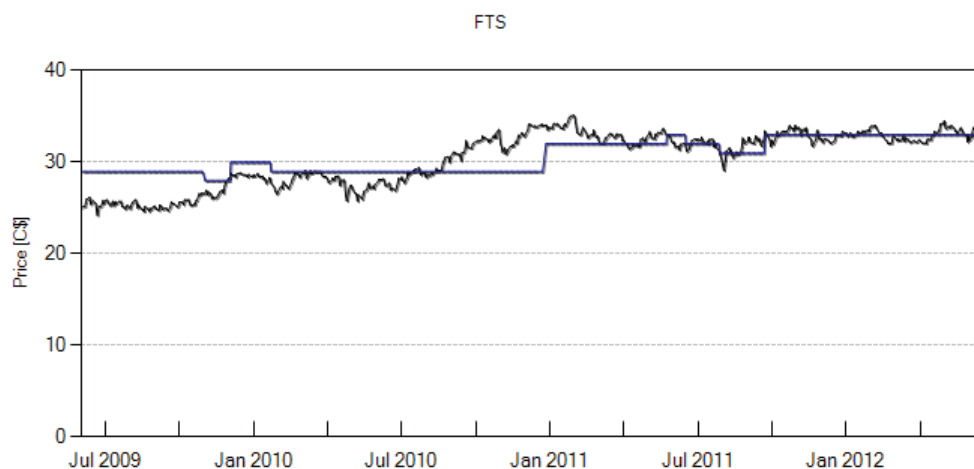
---

**APPENDIX: IMPORTANT DISCLOSURES****Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\***

Market Price				Target Price			
Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 06/23/2009	Hastings	Buy	29.00	6) 05/31/2011	Plessis	Hold	33.00
2) 11/16/2009	Hastings	Hold	28.00	7) 06/23/2011	Plessis	Hold	32.00
3) 12/17/2009	Hastings	Hold	30.00	8) 08/03/2011	Plessis	Hold	31.00
4) 02/04/2010	Hastings	Hold	29.00	9) 09/27/2011	Plessis	Hold	33.00
5) 01/04/2011	Plessis	Hold	32.00				

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 7 June 2012)

Coverage Universe			IB Clients	
Rating	#	%		%
Buy	589	60.7%		29.4%
Speculative Buy	87	9.0%		51.7%
Hold	264	27.2%		12.5%
Sell	30	3.1%		3.3%
	970	100.0%		

**Canaccord Genuity Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**Canaccord Genuity Research Disclosures as of 19 June 2012**

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Securities LLC, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Securities LLC, a US broker-dealer with principal offices located in New York or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by

reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

**For Canadian Residents:** This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United States Residents:** Canaccord Genuity Inc. and Canaccord Genuity Securities LLC, US registered broker-dealers, accept responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. or Canaccord Genuity Securities LLC. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc. or Canaccord Genuity Securities LLC are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

---

**For United Kingdom and European Residents:**

This investment research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Services Authority.

**For Jersey, Guernsey and Isle of Man Residents:**

This research is sent to you by Collins Stewart (CI) Limited ("CSCI") for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by a group company for circulation to its institutional clients and also CSCI. Its contents have been approved by CSCI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CSCI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser. CSCI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CSCI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Financial Inc.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2012. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2012. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2012. – Member FINRA/SIPC

Copyright © Canaccord Genuity Securities LLC 2012. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. and Canaccord Genuity Securities LLC. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---

**Fortis Inc.**

FTS : TSX : C\$33.54

**HOLD****Target: C\$34.00****Juan Plessis, MBA, CFA**

1.604.643.0181

jplessis@canaccordgenuity.com

**Zayem Lakhani**

1.604.643.7506

zlakhani@canaccordgenuity.com

**COMPANY STATISTICS:**

52-week Range:	C\$28.24 - 34.98
Avg. Daily Vol. (000s):	549.8
Market Cap (M):	C\$6,349
Shares Out (M):	189.3
Current Dividend:	C\$1.20
Current Dividend Yield %:	3.6

**EARNINGS SUMMARY:**

FYE Dec	2010A	2011A	2012E	2013E
EPS:	C\$1.61	C\$1.67	C\$1.70	C\$1.80
P/E (x):	20.8	20.1	19.7	18.6
CFPS:	C\$4.23	C\$4.42	C\$4.50	C\$4.65
P/CF (x):	7.9	7.6	7.5	7.2

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Fortis Inc. is a diversified, international utility company with assets over \$13.6 billion. Regulated holdings include electric distribution utilities in Alberta, BC, Ontario, Newfoundland, PEI and two Caribbean countries and a natural gas utility in BC. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns and operates hotels and commercial real estate in Canada.

All amounts in C\$ unless otherwise noted.

**Infrastructure -- Utilities****STEADFAST OPERATIONS DELIVER ANOTHER STABLE QUARTER****Investment recommendation**

Fortis reported second quarter recurring earnings of \$0.32 per share, in line with our estimate as well as the consensus estimate of \$0.33. The company's operations are performing in line with no material surprises in the quarter. Approximately 90% of Fortis' earnings are provided by stable utility operations. Currently, the company is in the midst of a regulatory approval process for its acquisition of New York based utility, CH Energy. The \$1.5 billion acquisition is expected to close in the first quarter of 2013 and should be immediately accretive to earnings per share, excluding acquisition-related costs. Going forward, Fortis' earnings are expected to continue to grow through its utility businesses, mainly in western Canada where the bulk of its \$5.5 billion capital expenditure program is to be implemented through 2016. Note that the program increases to \$6 billion with the addition of CH Energy's capital expenditures if the acquisition is approved. We believe the shares are currently fairly valued and are maintaining our C\$34.00 target price and HOLD rating.

**Investment highlights**

- Q2 recurring earnings per share of \$0.32
  - In-line with expectations
- Operations in line
  - No change to 2012 and 2013 EPS estimates
- \$5.5 billion capital expenditure program expected to drive earnings growth through 2016
  - Integration of CH Energy could potentially add another \$500 million
- No change to C\$34.00 target price and HOLD rating

**Valuation**

Our 12-month target price is derived from a combination of valuation metrics that include earnings and dividend yields relative to long-term interest rates, dividend discount models, and earnings and cash flow multiples relative to both historical valuation and the company's utility and pipeline peers.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : LSE)

The recommendations and opinions expressed in this research report accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).



**Outlook**

We are making no changes to our 2012 and 2013 earnings estimates of \$1.70 and \$1.80 per share, respectively. The company continues to progress with its \$5.5 billion capital expenditure program (for the 2012-2016 period) with \$511 million spent to date. Note that a majority (~85%) of the capital program will be invested in the company's Canadian utility operations, primarily in western Canada. This large capital spending program is expected to provide the bulk of EPS and dividend growth for the medium term.

On the regulatory front, Fortis currently faces a Generic Cost of Capital hearing at its BC utilities. Although the final outcome is uncertain, we suspect that the company's allowed return on equity may be adjusted downwards beginning in January 2013. A decision from the British Columbia Utilities Commission on the generic cost of capital is expected early next year, but the impact of the decision would likely be retroactive to January 1, 2013. Our estimates do not factor in lower allowed returns at Fortis' BC utilities, but we estimate that a 100 bps decline in the allowed ROE may impact 2013 earnings by up to \$0.07 per share.

The \$1.5 billion acquisition of CH Energy is currently under review by the Federal Energy Regulatory Commission, the Federal Trade Commission and the New York Public Service Commission, and is expected to close in Q1/13. We estimate the acquisition to be accretive by a few cents per share to annual earnings, excluding acquisition-related costs. If approved, the unit could potentially add another \$500 million of growth capex to Fortis' current \$5.5 billion capital expenditure program over the next five years.

**Second quarter earnings summary**

Fortis reported second quarter recurring earnings of \$0.32 per share, in line with both our estimate and the consensus estimate. Our calculation of recurring earnings adjusts for \$3 million of after tax acquisition costs as well as \$4.5 million of earnings from regulatory decisions related to Q1/12, but accrued in the second quarter. EPS in Q2/11 was \$0.31. The improvement was largely due to a \$6 million (\$0.03 per share) increase in earnings at FortisAlberta driven by rate base growth. In addition, the company's non-regulated hydro generation business in Belize benefitted from improved hydrology, increasing the segment's contribution by \$3 million compared to last year (although only modestly above the long term average). These increases were offset by mildly lower contributions from FortisBC energy companies, as well as the dilutive effect of the 10.3 million share issue in June 2011. All other operations were comparable y/y. YTD, the company has reported recurring earnings per share of \$1.00 compared to \$0.97 for the first half of 2011. For additional details on second quarter results, please refer to Figure 1.

---

**Noteworthy items**

- Capital expenditure plan
    - \$5.5 billion of capex from 2012 through 2016
      - Potential for \$500 million more if CH Energy acquisition is closed
    - 65% to be spent at regulated electricity operations
      - Mainly FortisAlberta and FortisBC Electric
    - 21% to be spent at regulated natural gas companies
    - 14% towards non-regulated operations
  - Utility acquisitions
    - In discussions with City of Kelowna to purchase the city's electricity distribution utility for >\$50 million
      - Fortis has been operating and maintaining the assets since 2000 and sells wholesale electricity to the utility already
      - Approximately 15,000 customers
      - Expected to close in Q1/13
      - Close subject to negotiation of definitive agreements and regulatory as well as municipal approvals
    - Exercised its option to acquire City of Port Colborne's electricity distribution assets for \$7 million in April 2012
  - Regulatory
    - FortisAlberta received a positive decision from the AUC denying the Central Alberta Rural Electrification Association's request to be entitled to service customers in overlapping service areas
-

31 July 2012

Figure 1: Fortis second quarter earnings details

Millions of dollars (except per share data)	Second Quarter Earnings			
	2011	2012	Change	
			Favourable (Unfavourable)	
<b>Regulated Utilities - Canadian</b>				
FortisBC Energy Companies	\$15	\$13	(13.3%)	Lower capitalized allowance for funds used during construction due to lower assets under construction.
Newfoundland Power	\$10	\$12	15.0%	Higher allowed ROE.
FortisAlberta	\$16	\$22	35.8%	
FortisBC Electric	\$9	\$9	0.0%	Reflects rate base growth due to continued investment in energy infrastructure offset partially by a lower allowed ROE.
Other Canadian Regulated Utilities	\$6	\$5	(16.7%)	
<b>Total Canadian Earnings</b>	<b>\$56</b>	<b>\$61</b>	7.7%	
<b>Regulated Utilities - Caribbean</b>	<b>\$6</b>	<b>\$6</b>	0.0%	
<b>Non-Regulated</b>				
Fortis Generation	\$2	\$5	150.0%	Stronger hydro generation at Belize.
Fortis Properties	\$8	\$8	0.0%	Excludes acquisition related costs of \$3 million after tax.
<b>Total Non-Regulated Earnings</b>	<b>\$10</b>	<b>\$13</b>	30.0%	
Corporate and Consolidated Adjustments	(\$17)	(\$19)	11.8%	
<b>Recurring Earnings</b>	<b>\$55</b>	<b>\$61</b>	9.6%	\$4.5 million of earnings recorded in Q2 2012 related to Q1 2012; \$3 million acquisition related costs.
Non-recurring items	\$2	\$2	n.m.	
<b>Reported Net Earnings</b>	<b>\$57</b>	<b>\$62</b>	9.3%	
<b>EPS:</b>				
<b>Recurring</b>	<b>\$0.31</b>	<b>\$0.32</b>	2.4%	In line with 33¢ consensus estimate as well as our 33¢ estimate.
Non-recurring items	\$0.01	\$0.01	n.m.	
Reported	\$0.33	\$0.33	0.0%	
Cash Flow Per Share	\$1.19	\$0.98	n.m.	Public offering of 10.3 M common shares in June 2011.
Average Shares Outstanding (mln)	177.1	189.6	7.1%	
<b>Regulated</b>				
Earnings	\$62	\$67	6.9%	
% of total	113%	110%		
<b>Non-Regulated</b>				
Earnings	\$10	\$13	30.0%	
% of total	18%	21%		
<b>Corporate</b>				
Earnings	(\$17.0)	(\$19.0)	(11.8%)	
% of total	(31%)	(31%)		

Source: Fortis Inc., Canaccord Genuity

**Investment risks**

Some of the specific risk factors that pertain to our projected 12-month stock price target for Fortis include, but are not limited to: (1) price movement in electricity rates and commodities used for electricity generation could impact profitability; (2) international operations have currency rate exposure and liquidity risks associated with those currencies; (3) credit risk of contract counterparties could improve or deteriorate; (4) debt refinancing at different interest rates could impact the income of the company; (5) equipment failure or extreme weather conditions could adversely affect operating facilities; (6) change in public policy on environmental health and safety risk could impose unexpected costs on Fortis; (7) change in regulatory or political climate could impact profitability and future growth and development of Fortis; (8) the inability to maintain, or to renew, the collective bargaining agreements with unionized workers on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes; (9) economic conditions which may impact demand for products and services, peer group valuation, access to capital and share trading liquidity; (10) Fortis holds investments in commercial real estate and hotel properties which are subject to operating risks associated with the industry.

---

**APPENDIX: IMPORTANT DISCLOSURES**

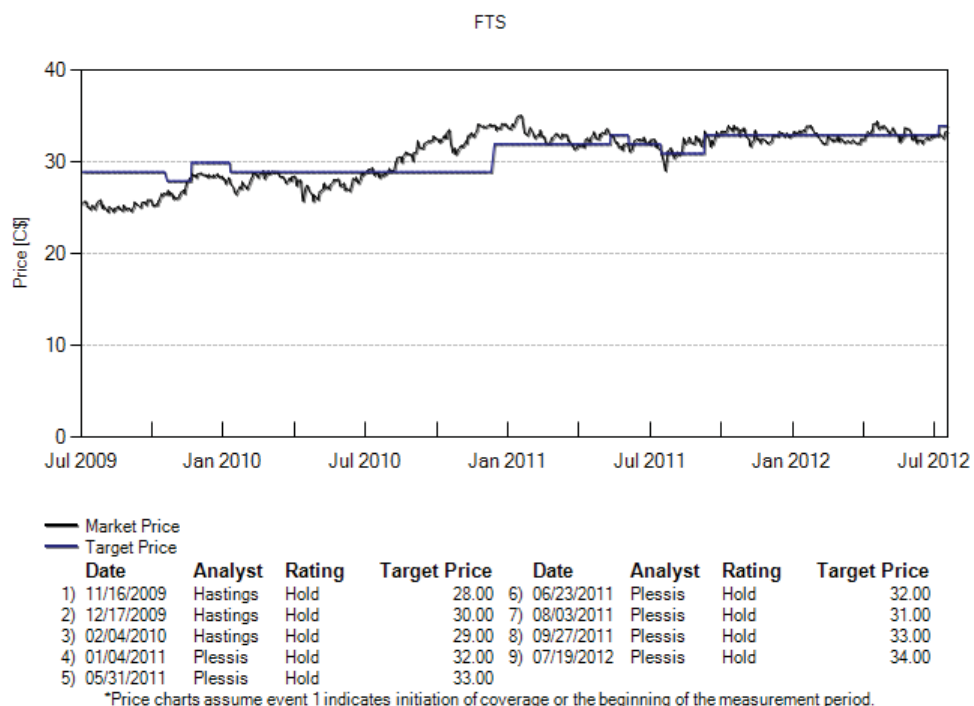
This Research Report was prepared by the affiliate company in the Canaccord Group named on the cover page.

**Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

**Site Visit:**

An analyst has visited Fortis's material operations in BC. No payment or reimbursement was received from the issuer for related travel costs.

**Price Chart:\*****Distribution of Ratings:**

Global Stock Ratings  
(as of 3 July 2012)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	590	60.9%	30.5%
Speculative Buy	88	9.1%	51.1%
Hold	263	27.1%	11.8%
Sell	28	2.9%	3.6%
	969	100.0%	

**Canaccord Genuity Ratings System:**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

**Risk Qualifier:**

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

## Canaccord Genuity Research Disclosures as of 31 July 2012

Company	Disclosure
Fortis Inc.	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this research, or any individual involved in the preparation of this research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Securities LLC, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Securities LLC, a US broker-dealer with principal offices located in New York or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of research. To access this material or for



more information, please refer to <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx> or send a request to Canaccord Genuity Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or [disclosures@canaccordgenuity.com](mailto:disclosures@canaccordgenuity.com).

The authoring analysts who are responsible for the preparation of this research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of research. This research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request. The information contained in this research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this research constitute Canaccord Genuity's judgement as of the date of this research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

This research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this research may not be eligible for sale in some jurisdictions. This research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this research.

**For Canadian Residents:** This research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

**For United States Residents:** Canaccord Genuity Inc. and Canaccord Genuity Securities LLC, US registered broker-dealers, accept responsibility for this research and its dissemination in the United States. This research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. or Canaccord Genuity Securities LLC. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc. or Canaccord Genuity Securities LLC are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**For United Kingdom and European Residents:** This research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment

Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Services Authority.

**For Jersey, Guernsey  
and Isle of Man  
Residents:**

This research is sent to you by Collins Stewart (CI) Limited ("CSCI") for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by a group company for circulation to its institutional clients and also CSCI. Its contents have been approved by CSCI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CSCI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser.

CSCI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CSCI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Financial Inc.

**Additional information is available on request.**

Copyright © Canaccord Genuity Corp. 2012. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2012. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2012. – Member FINRA/SIPC

Copyright © Canaccord Genuity Securities LLC 2012. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. and Canaccord Genuity Securities LLC. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

---



# Institutional Equity Research

## Initiating Coverage

May 24, 2011

### Stock Rating: Sector Performer

### Sector Weighting: Market Weight

12-18 mo. Price Target \$34.50  
FTS-TSX (5/18/11) \$32.93

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$25.14-\$35.45  
Shares Outstanding 175.4M  
Float 175.4M Shrs  
Avg. Daily Trading Vol. 471,979  
Market Capitalization \$5,776.6M  
Dividend/Div Yield \$1.16 / 3.5%  
Fiscal Year Ends December  
Book Value \$19.38 per Shr  
2011 ROE (E) 9.1%  
LT Debt \$5.9B  
Preferred \$912.00M  
Common Equity \$3.4B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011		\$1.79E
2012		\$1.88E

P/E	
2010	20.0x
2011	18.4x
2012	17.5x

Dividend Per Share	
2010	\$1.12A
2011	\$1.16E
2012	\$1.22E

Yield	
2010	3.4%
2011	3.5%
2012	3.7%

### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

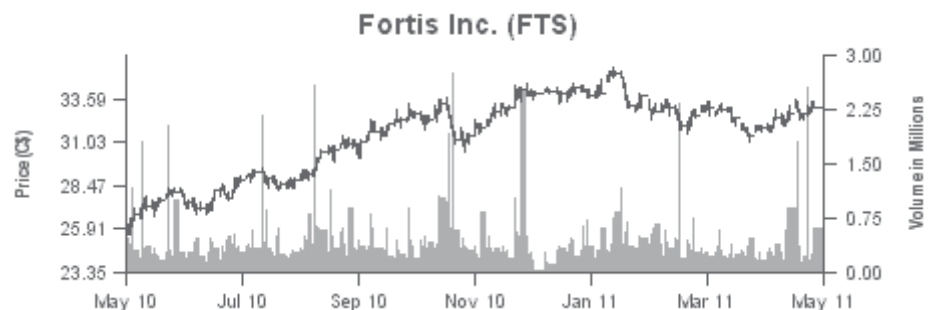
Pipelines, Utilities, & Power

## Fortis Inc.

### Solid Low-risk Growth, Already Priced In

- Fortis has expanded from its Atlantic Canada roots through a series of acquisitions to now own a strong western Canadian franchise and operations in the Caribbean. Acquired businesses have grown rapidly post-acquisition given ongoing investments and customer growth.
- The pace of growth is unlikely to slow in the short term, as Fortis is in the early stages of a five-year, \$5.5 billion capital program, which is expected to increase the regulated rate base by a CAGR of 6% and includes 51% of the non-regulated \$900 million Waneta expansion project.
- Fortis provides the benefits (stability) of its regulated utility business, but is in a period of solid organic investment and growth. Risks from non-regulated assets (Waneta) and international operations (Belize) appear containable, with little variability expected from overall operations.
- Our main concern is valuation. Despite solid low-risk growth, we believe the stock already reflects this outlook and expect a modest TSR of 8.3% to our price target. We are, therefore, initiating coverage with a Sector Performer rating and \$34.50 price target, as of May 24.

### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

11-109327 © 2011

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc. (FTS-TSX)

Current Price: \$32.93

12 to 18 month Price Target: \$34.50

## Sector Performer

Paul Lechem (416) 956-6429 paul.lechem@cibc.ca

Osvaldo Matias, CFA (416) 956-6428 osvaldo.matias@cibc.ca

All Figures in \$ millions, except per share data

Valuation	F2010A	F2011E	F2012E
P/E	20.0x	18.4x	17.5x
EV/EBITDA	10.8x	10.2x	9.5x
<b>Pipeline And Utility Sector Average</b>			
P/E	17.8x	18.2x	17.5x
EV/EBITDA	10.5x	9.5x	9.0x

Other Data	F2010A	F2011E	F2012E
<b>Dividend Per Share</b>	<b>\$1.12</b>	<b>\$1.16</b>	<b>\$1.22</b>
Dividend Yield (%)	3.4	3.5	3.7
Payout Ratio (%)	67.9	64.8	65.0
Book Value Per Share	\$18.97	\$20.20	\$21.03
Price / Book Value (x)	1.7	1.6	1.6
Cash Per Share	\$0.63	\$0.49	\$0.40
Debt / Total Capital (%)	57.9	57.0	57.9
Net Debt/EBITDA (x)	5.1	5.0	5.0

Income Statement	F2010A	F2011E	F2012E
FortisBC Energy	130	143	158
FortisAlberta	68	76	86
FortisBC Electric	42	50	55
Newfoundland Power	35	33	33
Other Canadian Electric Utilities	19	19	19
Regulated Electric Utilities - Caribbean	23	27	27
Fortis Generation	20	22	22
Fortis Properties	26	27	27
Corporate	(78)	(80)	(80)
<b>Operating Earnings</b>	<b>285</b>	<b>316</b>	<b>346</b>
Unusual Items	0	0	0
Reported Earnings	285	316	346
<b>Operating EPS</b>	<b>\$1.65</b>	<b>\$1.79</b>	<b>\$1.88</b>
Reported EPS	\$1.65	\$1.79	\$1.88
Shares Outstanding	174	183	185
EBITDA	1,170	1,248	1,336

Cash Flow	F2010A	F2011E	F2012E
Earnings (incl. pref share dividends)	323	344	374
Depreciation and Amortization	410	417	442
Total Operating Cash Flow	732	761	816
Capital Expenditures	(1,024)	(1,212)	(1,229)
Dividends	(230)	(249)	(263)
Net Long Term Debt Proceeds	194	294	481
Issuance of Common / Preferred Shares	322	287	80

Balance Sheet	F2010A	F2011E	F2012E
Cash & Cash Equivalents	109	90	74
Utility Capital Assets / Income Properties	8,762	7,347	7,517
Total Assets	12,903	13,579	14,251
Current Liabilities	1,517	1,517	1,517
Debt (incl. Current and Short Term Borrowings)	6,023	6,317	6,798
Future Income Taxes	623	623	623
Non Controlling Interests	162	153	144
Preferred Shares	320	320	320
Shareholders' Equity	3,897	4,288	4,488
Total Shareholders' Equity And Liabilities	12,903	13,579	14,251

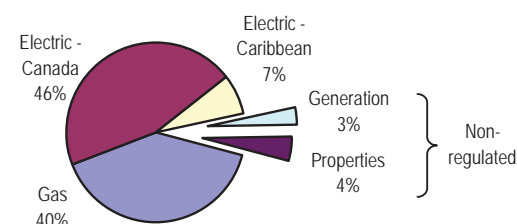
## Market Data

Share Price	\$32.93	Non Control Int.	175
Shares Outstanding	175	Preferred Shares	912
Market Capitalization	5,777	Enterprise Value	12,693
Net Debt	5,829		

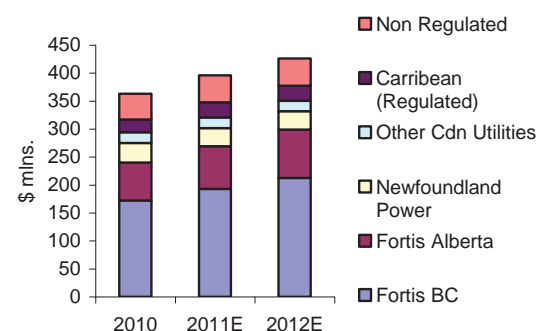
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

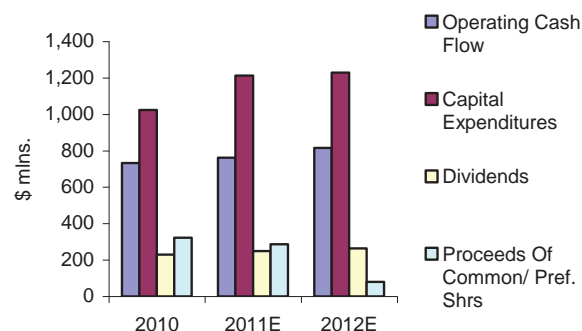
## Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.



## Investment Summary

Fortis Inc. (FTS-SP) has expanded from its Atlantic Canada roots through a series of acquisitions to now own a strong western Canadian franchise and operations in the Caribbean. Western Canadian operations have continued to grow post-acquisition, with, for instance, FortisAlberta and FortisBC, both acquired in May 2004, growing their combined rate base at a compound average annual growth rate (CAGR) of over 12% since acquisition. Terasen Gas (now FortisBC Energy) has grown its rate base on average by 3.2% annually since its acquisition in May 2007. Fortis' Caribbean operations have grown through a series of acquisitions and development initiatives.

The pace of growth is unlikely to slow in the short term, as Fortis is in the early stages of a five-year, \$5.5 billion capital program expected to grow the overall rate base on average by 6% annually from 2010 through 2015. In addition, the company is a 51% owner in the non-regulated \$900 million Waneta Hydroelectric Expansion Project, currently under construction with a spring 2015 in-service date.

For the most part, Fortis has remained focused on its distribution utility roots, an area in which the company has proficiency: managing its distribution assets, dealing with large numbers of customers, and operating within a highly regulated environment. As such, Fortis offers the benefits of a stable, regulated utility business with the upside provided by significant growth investments (at least, significant growth in context of a regulated utility). While the company already owns a number of non-regulated hydroelectric generation facilities, the Waneta Expansion stands out given its size (\$900 million), but major risks (construction, financing, hydrology) appear well contained. Adverse regulatory rulings in Belize reveal the heightened risks of operating in Central America. However, we expect little variability in overall company results given the heavy weighting to Canadian regulated businesses.

Our main concern is one of valuation: trading at 18.4x estimated 2011 and 17.5x estimated 2012 earnings and with a 3.5% yield, the stock is reflecting both the solid growth outlook as well as the current low interest rate environment. We acknowledge Fortis' solid, low-risk, growth forecast, and believe it justifies Fortis' premium current-year earnings multiple versus the Canadian utilities group average of 16.4x and the broader pipelines and utilities group average of 18.2x. Our fundamental discounted cash flow (DCF) valuation supports a price target of \$34.50/share, for a target multiple of 18.3x estimated 2012 earnings. This represents a 12-month total shareholder return (including dividends) of 8.3%, in line with our group average of 8.5%. As such, we believe the stock fairly represents the company's outlook and we are initiating coverage, as of May 24, with a Sector Performer rating and \$34.50 price target.

## Asset Overview

Fortis owns a number of regulated utilities (eight electric, one gas) with total assets of \$11.9 billion, non-regulated hydro generation facilities (\$0.4 billion) and non-regulated real estate assets (\$0.6 billion) held for tax optimization purposes. The western Canadian operations represent over 70% of rate base assets, including: FortisBC gas (40%) and electric (13%), and FortisAlberta (20%). The remainder of regulated operations are in Ontario, Atlantic Canada, Central America (Belize) and the Caribbean.

### Exhibit 1. Regulated Operations (2010)

Company	Customers	Peak Demand	Rate Base (\$ blns.)	Earnings (\$ mlns.)	Allowed ROE (2011)
FortisBC Energy (Terasen)	949,000	1,421 TJ	\$3.4	\$130	9.50%
FortisAlberta	491,000	2,555 MW	1.7	68	9.00%
FortisBC	161,000	707 MW	1.1	42	9.90%
Newfoundland Power	243,000	1,206 MW	0.9	35	8.38%
Maritime Electric	74,000	207 MW	0.3	12	9.75%
FortisOntario	64,000	273 MW	0.2	7	8.01%–9.85%
Belize Electricity	77,000	81 MW	0.2	2	To be resolved
Caribbean Utilities	26,000	102 MW	0.4	11	7.75%–9.75%
Fortis Turks and Caicos	9,000	31 MW	0.2	10	17.50%

Source: Company reports and CIBC World Markets Inc.

### FortisBC Energy (Formerly Terasen)

FortisBC Energy is the largest distributor of natural gas in British Columbia, serving virtually all the province's gas users. FortisBC Energy also owns a natural gas pipeline from the mainland across the Georgia Strait to service customers on Vancouver Island. Gas is sourced from northeastern BC, and from Alberta via FortisBC Energy's Southern Crossing Pipeline.

FortisBC Energy comprises three separate entities, formerly known as Terasen Gas, Terasen Gas (Vancouver Island) and Terasen Gas (Whistler). In March 2011, FortisBC Energy (and its separate Vancouver Island and Whistler entities) was rebranded from Terasen Gas to share the FortisBC name used by the company's electric utility in the province, although it will remain a separate legal entity from the FortisBC electric utility. The three separate Terasen entities are also proposing an amalgamation into one, with a regulatory application for this expected in 2011.

FortisBC Energy's allowed rate of return on equity is 9.5% [10% for FortisBC Energy (Vancouver Island) and for FortisBC Energy (Whistler)] with a 40% equity component on a total rate base of \$3.4 billion. These rates were increased by roughly 100 basis points (bps) in mid-2009. Commodity costs of natural gas (and propane gas for customers in the Revelstoke area) and mid-stream costs are flowed through to customers without mark-up.

Growth in the gas operations comes from customer additions (currently running around 1% of the installed base), as well as capital improvement projects such as: replacing suspended pipelines over the Columbia and Fraser Rivers with pipelines buried underneath the rivers; constructing a new natural gas storage facility on Vancouver Island; and, converting Whistler from propane to natural gas. FortisBC Energy had capital expenditures of \$253 million in 2010 with a further \$281 million planned for 2011 to be spent on completion of the above-noted projects, ongoing implementation of a new customer information system and related call centers, and normal course capital expenditures.



## Regulated Electric Utilities – Canadian

- **FortisBC:** FortisBC is an integrated electric utility serving 161,000 customers in the southern interior of BC. The company owns ~7,000 km of transmission and distribution lines as well as four hydro projects on the Kootenay River with combined capacity of 223 MW, which generate about 45% of the utility's energy requirements, with the balance met through Power Purchase Agreements (PPAs) with third parties. FortisBC also manages a further 947 MW of hydro generation facilities in the region. Allowed ROE is 9.9% on a rate base of \$1.1 billion. Capital expenditures of \$139 million in 2010 and planned \$99 million in 2011 are directed at various system upgrades and the substantial completion of the major \$106 million Okanagan Transmission Reinforcement Project.
- **FortisAlberta:** FortisAlberta is an electric utility serving about half a million customers in southern Alberta. The company owns 112,000 km of distribution lines, representing 45% of Alberta's low voltage distribution system. Allowed ROE is 9.0% on a rate base of \$1.7 billion, although FortisAlberta is seeking a higher allowed ROE (e.g., more in line with that of FortisBC, which is at 9.9%). Growth stems from new customer additions (about 2% annually) and capital projects, including: a \$126 million project to install automated meters, the connection of multiple renewable power generation projects, and capacity expansions. Total capital expenditures were \$379 million in 2010 and Fortis is forecasting a rise to \$420 million in 2011, directed to the capital programs noted above as well as to payments to the Alberta Electric System Operator (AESO) for major transmission system upgrades.
- **FortisOntario:** FortisOntario is a small electric utility servicing regions in northern, southwestern and eastern Ontario, with a total customer base of 64,000 customers. Allowed ROE ranges from 8.01% (Canadian Niagara Power) to 9.85% (for the Algoma Power assets acquired in 2009), with a 40% equity component on a rate base of \$0.2 billion.
- **Newfoundland Power:** Newfoundland Power is the main electricity distribution utility in Newfoundland with about a quarter of a million customers – about 85% of electricity consumers in the province. The utility purchases over 90% of its electricity from Newfoundland and Labrador Hydro (a division of Nalcor Energy), but generates the remainder from its own (primarily hydro) facilities. The business has 11,000 km of transmission and distribution lines and has installed generating capacity of 139 MW. Allowed ROE is a (comparatively low) 8.38% for 2011, but on a higher-than-average equity component of 45%. Rate base assets total \$0.9 billion. Fortis made capital investments totaling \$78 million in 2010, and expects to invest a further \$73 million in 2011 towards customer additions, and system upgrades and maintenance.
- **Maritime Electric:** Maritime Electric is the main electricity utility on Prince Edward Island, serving about 74,000 customers (90% of electricity consumers). The utility has ~5,300 km of transmission and distribution lines, and has an in-house generating capacity of 150 MW from thermal-powered units although it purchases the majority (86%) of electricity needs from New Brunswick Power. Allowed ROE is 9.75%, with a 40% equity component on rate base assets of \$0.3 billion. Capital spending is being directed to improved system reliability, and connections to new renewable power projects as the business works towards a target of 30% of power sourced from renewable energy by 2013.

## Regulated Electric Utilities – Caribbean

- **Belize Electricity:** Although located in Central America, Belize Electricity (BEL) is grouped in with Fortis' Caribbean businesses. Belize Electricity is the primary distributor of electricity in the country, serving 77,000 customers. Fortis owns 70% of Belize Electricity. Historically, BEL purchased about half its power from CFE, the Mexican state-owned electricity company, but recent investments in non-regulated hydro projects by Belize Electric Company (BECOL), part of Fortis Generation, as well as a new (third-party-owned) cogeneration facility, make the country self-sufficient. Unfortunately for Fortis, Belize is proving an unfriendly regulatory regime. BEL continues to battle the Belize Public Utilities Commission, which, in a reversal of prior rulings, has effectively forced BEL to absorb the cost of high oil prices in 2008 and further ordered BEL to lower electricity rates. In March 2011, BEL's appeal of these rulings to the Supreme Court of Belize was denied, and the company continues to evaluate its options to appeal the ruling.
- **Caribbean Utilities:** Caribbean Utilities serves 26,000 customers on Grand Cayman Island, with ~500 km of transmission and distribution lines and a 24 km subsea cable, and 17 generating units with a combined capacity of ~150 MW, sufficient to satisfy domestic requirements. The division's capital spending decreased 50% in 2010 to \$21 million from \$43 million in 2009, which included \$19 million related to a new 16 MW diesel generating unit.
- **Fortis Turks & Caicos:** Fortis Turks and Caicos serves 9,000 customers, approximately 88% of electricity consumers on the islands, owning and operating 325 km of transmission and distribution lines and 57 MW of diesel generation capacity, sufficient to meet demand.

## Fortis Generation – Non-regulated

Fortis Generation is comprised primarily of a number of small non-regulated power generation projects with combined capacity of 139 MW, 134 MW of which is hydro. Power is sold through a mix of long-term contracts or into the market. The generation facilities are located near, and for the most part are complementary to, Fortis' utility operations in Belize, eastern Ontario, Newfoundland, and BC, although Fortis also owns four small hydro facilities in Upper New York State.

Fortis has also announced a major investment in the Waneta Expansion Hydro Project in south central BC. Fortis own 51% of the project and will also purchase some of the power from the project through its FortisBC subsidiary (more on this below).

## Fortis Properties – Non-regulated

Fortis Properties includes approximately 2.7 million square feet of office and retail space primarily in Atlantic Canada and 21 hotels across the country. These properties have been acquired through a series of property-specific acquisitions through the years. The company's intent in owning these properties is to generate income sufficient to fully offset corporate costs that otherwise would not be utilized (for tax purposes), as profits in the regulated subsidiaries are not transferable. The subsidiary earned \$26 million in 2010 on assets of \$0.6 billion.

## Growth Initiatives

Fortis has a projected five-year average annual growth rate for its rate base of 6% from \$7.7 billion in 2010 to \$10.1 billion by 2015. In addition to the regular course-of-business growth projects noted above, we specifically note the following:

### Waneta Hydroelectric Expansion Project

Fortis announced in August 2010 that it will invest in a major hydro generation project to expand the existing Waneta Dam in south central BC. The existing 493 MW Waneta hydro project is owned by Teck Resources (TCK-SO) (2/3) and BC Hydro (1/3). The \$900 million, 335 MW Waneta Expansion Project will be 51%-owned by Fortis and the remainder by Columbia Power Corporation and Columbia Basin Trust, Crown corporations of the province of BC. Fortis will fund its 51% share of the construction costs, and will operate and maintain the facility once in service, expected by spring 2015. Fortis expects the project ROE to be about 200 bps higher than that on the company's regulated assets (i.e., about 11.5%–12.5% over the life of the project).

This project meets FortisBC's requirement for extra capacity to meet periods of peak demand, although actual energy usage is expected to be relatively modest, with BC Hydro purchasing the bulk of the generated power. As such, the Waneta Expansion will receive fixed energy and capacity payments, with 630 GWh (energy and related capacity) sold to BC Hydro under a long-term (40 year) agreement, and surplus capacity (on an average annual basis of 234 MW) sold to FortisBC (also under a 40-year agreement). Energy and capacity sales to BC Hydro are at prices "comparable" to those under BC Hydro's 2008 Clean Power Call (around \$100/MWh). Capacity payments from FortisBC will be in the range of \$11–\$17.50/kW-month.

While the project is not a regulated asset, Fortis is exposed to limited risk given: the long-term capacity and energy sales agreements, a fixed-price design-build construction contract with SNC-Lavalin (SNC-SO), and well-understood hydrology given that FortisBC already owns and/or operates several hydro facilities in the region. The expansion also falls under the Canal Plant Agreement under which BC Hydro manages the overall water resources (i.e., hydro facilities and related water usage) on the Kootenay, Columbia and Pend d'Oreille Rivers (on which the Waneta Dam and Expansion are located), thereby further reducing hydrology risk to the project.

### Acquisitions

Fortis has built the business over time through a series of acquisitions, with the most significant being those of FortisAlberta and FortisBC in May 2004 for \$1.5 billion and of Terasen Gas in May 2007 for \$3.7 billion. The company has also made numerous tuck-in acquisitions to build out its operations (e.g., the October 2009 purchase of Algoma Power in Ontario for \$75 million) or properties [e.g., acquiring a Holiday Inn (IHG-NYSE) in Windsor, Ontario in April 2009 for \$7 million and a Sheraton Hotel (HOT-NYSE) in Newfoundland for \$22 million in November 2008].

**Exhibit 2. Select Acquisition History**

Company	Date	Vendor	Amount
Algoma Power	October 2009	Great Lakes Power	\$75 million
Terasen	May 2007	Kinder Morgan	\$3.7 billion
Fortis Turks and Caicos	August 2006	T.C. Energy Holdings	\$98 million
FortisAlberta and FortisBC	May 2004	Aquila	\$1.5 billion
Belize Electric Company	May 2004 and January 2001	Duke Energy	US\$65 million
Caribbean Utilities	Various	International Power Holdings	US\$155+ million

Source: Company reports and CIBC World Markets Inc.

Fortis continues to look for acquisitions to build out its platform. However, it does not regard Canada as fertile ground: most of the private sector electric [e.g., Emera (EMA-SO), AltaLink, ATCO (ACO.X-TSX), etc.] and gas [e.g., Enbridge Gas Distribution (ENB-SP), Union Gas (owned by Spectra Energy (SE-NYSE)), PNG (PNG-TSX)] utilities do not appear to be for sale, and the likelihood of government-owned utilities being privatized also appears low.

The company, therefore, is increasingly turning its attention south of the border, looking for regulated transmission and distribution utilities with enterprise values in the low to mid-billions of dollars. Several recent transactions have been announced/completed, with valuations in the range of 1.0x–1.2x rate base. With these valuation metrics, Fortis could acquire similar-sized companies as FortisBC Energy or FortisAlberta/FortisBC, which both currently have rate bases of around \$3 billion.

**Exhibit 3. Recent U.S. Utility Acquisitions**

Acquirer	Target	Date	Purchase Price (EV)	Est. Valuation (Multiple Of Rate Base)
PPL Corp.	E.ON US	Nov. 2010	US\$7.6 billion	1.1x
AGL Resources	Nicor Inc.	Dec. 2010 (announced)	3.1 billion	1.0x
Northeast Utilities	NSTAR	Oct. 2010 (announced)	4.2 billion	1.2x
FirstEnergy	Allegheny Energy	Feb. 2011	8.5 billion	NA

Source: Company reports and CIBC World Markets Inc.

The company would prefer companies in the U.S. northeast or northwest, close to its existing Canadian operations, but would not rule out other regions.

**Risks/Sensitivities**

- Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.

- Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions. In recent years, Fortis has benefited from increasing ROEs for most of its Canadian operations (e.g., Terasen Gas' allowed ROE rising in mid-2009 to 9.50% from 8.47%, FortisAlberta's allowed ROE rising in 2009 to 9.00% from 8.51%, and FortisBC's allowed ROE rising in 2010 to 9.90% from 8.87% in 2009).

#### Exhibit 4. Regulator Approved Allowed ROEs

	2007	2008	2009	2010	2011
Terasen	8.37%	8.62%	9.50% <sup>1</sup>	9.50%	9.50%
FortisAlberta	8.51	8.75	9.00	9.00	9.00 <sup>2</sup>
FortisBC	8.77	9.02	8.87	9.90	9.90
Newfoundland Power	8.60	8.95	8.95	9.00	8.38 <sup>3</sup>

Notes: 1) Effective July 1, 2009; 2) Interim basis; 3) Automatic adjustment formula.

Source: Company reports and CIBC World Markets Inc.

However, the company is also at risk of adverse regulatory decisions, with the potential that allowed ROEs could be reduced over time, as regulators that moved away from automatic ROE adjustment formulas might look to re-examine their generic ROE rates.

Fortis could also be impacted by operation-specific regulatory rulings. For instance, its regulated operation in Belize (i.e., Belize Electricity) has been denied an appeal on a Public Utilities Commission decision, which effectively forced Belize Electricity to absorb \$38 million of "excess costs" resulting from high oil prices in 2008. In Newfoundland, Fortis jointly owned 51% of a hydro facility with AbitibiBowater (ABH-TSX) through the Exploits Partnership. A dispute between AbitibiBowater and the Newfoundland and Labrador government resulted in expropriation of the Partnership's assets in 2009. The government has stated it is not its intent to adversely affect the business interests of AbitibiBowater's business partners, and although Fortis no longer controls the assets, the company continues to receive associated cash flows.

- Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Source And Uses Of Cash

Fortis has identified a five-year, \$5.5 billion capital program, including the Waneta Expansion Project, which would increase its rate base from \$7.7 billion in 2010 to \$10.1 billion by 2015, a 6% CAGR. For 2011 the company has broken out spending by operation, as noted in Exhibit 5.

**Exhibit 5. Capital Spending (\$ mlns.)**

	2010	2011E
FortisBC Energy	\$253	\$281
FortisAlberta	379	420
FortisBC	139	99
Newfoundland Power	78	73
Other Canadian Electric Utilities (FortisOntario/Maritime Electric)	48	46
Total Regulated Utilities – Canada	897	919
Regulated Utilities – Caribbean	72	83
Non-regulated (Generation/Properties)	104	210
Total	1,073	1,212

Source: Company reports and CIBC World Markets Inc.

We calculate that this capital spending program will contribute to estimated annual cash needs of up to \$1.9 billion over the next several years (through 2014), a little under half of which is expected to be funded from operating cash flow. Our forecast highlights the need for substantial debt issuances or utilization of credit facilities (\$1.5 billion available on total \$2.1 billion credit facilities) over the next few years to fund the growth program as well as fund scheduled debt repayments. Nevertheless, based on this outlook, we foresee the debt/capitalization ratio remaining stable at around 58% from 2010 through 2014, declining thereafter if funding requirements drop. We have, therefore, modeled only modest equity issuance (\$200 million in 2011), with some further amounts coming from various dividend reinvestment and employee share purchase and option programs.

We expect total dividends to amount to \$249 million in 2011 (up from \$230 million in 2010), with dividends expected to increase commensurately with any further equity and/or preferred share issuances and earnings growth (and based on a mid-point of the targeted 60%–70% payout range). We have also included in our outlook funds received from the company's dividend reinvestment, employee share purchase and options programs, which in 2010 resulted in the issuance of 3.1 million shares and generated a combined \$80 million, almost double the level in 2009.

**Exhibit 6. Sources And Uses Of Cash (\$ mlns.)**

	2010	2011E	2012E	2013E	2014E	2015E
<b>Sources Of Cash</b>						
Operating Cash Flow	\$732	\$761	\$816	\$876	\$928	\$986
Proceeds From Issue Of Long-term Debt/Utilization of Credit Facilities	523	350	750	500	750	200
Proceeds From Asset Sales and Other	79	100	100	100	100	100
Issue Of Common Shares	80	287	80	80	80	80
Issue Of Preferred Shares	242	0	0	0	0	0
Total	1656	1498	1746	1556	1858	1366
<b>Uses Of Cash</b>						
Capital Expenditures	(1024)	(1212)	(1229)	(1192)	(885)	(692)
Acquisitions	0	0	0	0	0	0
Dividends	(230)	(249)	(263)	(281)	(293)	(311)
Debt Repayment	(329)	(56)	(269)	(114)	(692)	(105)
Total	(1583)	(1517)	(1762)	(1586)	(1870)	(1107)
Surplus / (Requirement For) Cash	73	(19)	(16)	(30)	(12)	258

Source: CIBC World Markets Inc.



## Earnings Profile

Our earnings profile captures the following factors:

- Ongoing underlying growth of the rate base across the company's operations due to customer/market growth (especially FortisAlberta) and system improvements.
- Within a framework of a five-year, \$5.5 billion capital spending program, major project activities such as: (for FortisBC Energy) a \$210 million LNG storage facility on Vancouver Island and a \$110 million customer care enhancement program; (for FortisBC) the \$106 million Okanagan Transmission Reinforcement Project; (for FortisAlberta) a \$126 million program to install automated meters and a \$283 million program to replace 80,000 aging utility poles; and, (non regulated) the \$900 million (\$459 million to Fortis) Waneta Expansion Project.
- A generally favorable regulatory environment in Canada, where allowed rates of return on equity have increased over the past couple of years, generally to the 9%+ range. Unfavorable rulings in Belize have impacted, and will likely continue to impact, those operations.

We do not include any potential upside from acquisitions, although note that Fortis has a history of such activity – both for tuck-ins (Caribbean, Ontario, properties) and major build-outs (Terasen, FortisBC/FortisAlberta).

### Exhibit 7. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2010	2011E	2012E	2013E	2014E	2015E
<b>Regulated Utilities</b>						
FortisBC Energy	\$130	\$143	\$158	\$164	\$170	\$172
FortisAlberta	68	76	86	99	109	114
FortisBC Electric	42	50	55	60	63	65
Newfoundland Power	35	33	33	34	35	36
Other Canadian Electric Utilities	19	19	19	20	20	20
Regulated Electric Utilities – Caribbean	23	27	27	27	27	27
Total Regulated Utilities	317	348	378	404	423	434
<b>Non-regulated Operations</b>						
Fortis Generation	20	22	22	22	22	37
Fortis Properties	26	27	27	27	27	27
Total Non-regulated Operations	46	49	49	49	49	64
Corporate	(78)	(80)	(80)	(80)	(80)	(80)
<b>Operating Earnings For Common</b>	<b>285</b>	<b>316</b>	<b>346</b>	<b>373</b>	<b>392</b>	<b>418</b>
Unusual Items	0	0	0	0	0	0
Reported Earnings	285	316	346	373	392	418
Weighted Average Shares Outstanding (mlns.)	173	177	184	186	189	191
<b>Operating EPS</b>	<b>1.65</b>	<b>1.79</b>	<b>1.88</b>	<b>2.00</b>	<b>2.08</b>	<b>2.19</b>
Reported EPS	1.65	1.79	1.88	2.00	2.08	2.19
<b>Dividend Per Share</b>	<b>1.12</b>	<b>1.16</b>	<b>1.22</b>	<b>1.30</b>	<b>1.35</b>	<b>1.42</b>
Pay out Ratio	67.9%	64.8%	65.0%	65.0%	65.0%	65.0%

Source: CIBC World Markets Inc.

Our discounted cash flow analysis (Exhibit 8) captures this outlook and the expected returns from the capital spending program. We calculate that FortisBC Energy (Terasen) comprises about 41% of total company value at present, the Canadian electric utilities about 45% and the Caribbean, non-regulated operations and other the remaining 14%. Our analysis suggests a total company value of about \$34.50 per share.

**Exhibit 8. Discounted Cash Flow Analysis (\$ mlns., except per share)**
**DCF Valuation - Fortis**

	Cost Of Equity	Cost Of Debt	Equity %	WACC	Terminal Growth	Terminal Multiple	PV Of Cash Flows	PV Of Terminal	FCFF	Per Share
A) Regulated Gas Utilities (FortisBC Energy)	7.0%	6.8%	40.0%	5.9%	1.0%	20.6	\$1,634	\$3,711	\$5,345	\$30.47
B) Regulated Electric Utilities - Canada	7.0%	6.3%	40.0%	5.6%	0.5%	19.5	1,357	4,457	5,813	33.14
C) Regulated Electric Utilities - Caribbean	8.5%	6.8%	40.0%	6.5%	0.5%	16.7	202	317	519	2.96
D) Non-regulated - Generation/Properties	9.0%	5.9%	40.0%	6.3%	0.5%	17.3	-9	1,059	1,050	5.99
E) Corporate	7.0%	5.9%	40.0%	5.5%	0.0%	18.3	99	145	244	1.39

Period Ending	Q1/11	
Total FCFF	12,972	73.95
+ Cash	86	0.49
- Debt	-5,915	-33.72
- Preferreds	-912	-5.20
- Non-controlling Interest	-175	-1.00
Total FCFE	6,056	34.52
Shares Outstanding (mlns.)	175	
Value Per Share	34.52	

	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	TV
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
<b>A) Regulated Gas Utilities (FortisBC Energy)</b>												
EBITDA	396	426	465	488	507	519	525	531	536	541	547	
Depreciation And Amortization	-108	-109	-119	-125	-130	-133	-134	-135	-137	-138	-139	
Capex	253	281	275	250	200	150	125	126	128	129	130	
Free Cash Flow To The Firm	71	66	104	147	213	272	302	305	309	312	315	6,553
<b>B) Regulated Electric Utilities - Canada</b>												
EBITDA	573	616	665	735	797	838	862	866	871	875	879	
Depreciation And Amortization	-237	-252	-267	-295	-322	-339	-347	-348	-350	-352	-353	
Capex	644	638	669	677	530	427	345	348	350	352	353	
Free Cash Flow To The Firm	-155	-113	-104	-51	149	286	388	389	391	393	394	7,714
<b>C) Regulated Electric Utilities - Caribbean</b>												
EBITDA	86	86	86	86	86	86	86	87	87	88	89	
Depreciation And Amortization	-36	-36	-36	-36	-36	-36	-36	-36	-36	-37	-37	
Capex	72	83	40	40	40	40	40	40	40	41	41	
Free Cash Flow To The Firm	2	-10	33	33	33	33	33	34	34	35	35	594
<b>D) Non-regulated - Generation/Properties</b>												
EBITDA	115	120	120	120	120	163	185	186	186	187	188	
Depreciation And Amortization	-22	-20	-20	-20	-20	-32	-38	-39	-39	-39	-39	
Capex	104	210	245	225	115	75	75	39	39	39	39	
Free Cash Flow To The Firm	-12	-115	-150	-130	-20	55	73	110	111	111	112	1,947
<b>E) Corporate</b>												
EBITDA	14	14	14	14	14	14	14	14	14	14	15	
Depreciation And Amortization	-7	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	
Free Cash Flow To The Firm	12	13	13	13	13	13	13	13	13	13	14	247

Source: CIBC World Markets Inc.



## Recommendation

Fortis presents an appealing investment proposition: stable regulated returns plus solid growth from investments in regulated and non-regulated businesses. In addition, the company has a track record of successful acquisitions, and continues to evaluate tuck-in opportunities and larger step-out targets, likely in the U.S.

Our primary concern at present is one of valuation: the company is trading at 18.4x current-year (2011) and 17.5x next-year (2012) estimated earnings, above the Canadian utility group average of 16.4x current-year earnings and the broader pipelines and utilities group at 18.2x. We view the premium earnings multiple vs. the utilities group as supportable given Fortis' low-risk profile and growth outlook. Our fundamental discounted cash flow valuation analysis suggests a price target of \$34.50, for an implied P/E multiple of 18.3x our 2012 estimate, and representing a 12-month total shareholder return of 8.3% vs. a group average of 8.5%. While acquisitions might provide upside to our forecast, we do not model these given uncertainty as to timing, magnitude and/or financial impact. While we, therefore, view Fortis as a company offering solid, low-risk growth, we believe the stock is at present fairly valued and we initiate coverage with a Sector Performer rating and \$34.50 price target.

## Price Target Calculation

Our price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. The price target of \$34.50 equates to a P/E multiple of 18.3x our 2012 estimate, a premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

## Key Risks To Price Target

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as an adverse ruling in Belize).
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Current	\$0.67A	\$0.35E	\$0.27E	\$0.50E	\$1.79E
2012 Current	--	--	--	--	\$1.88E

---

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/24/2011:**

Emera Inc. (2a, 2c, 2e, 2g, 7) (EMA-TSX, \$31.87, Sector Outperformer)

Enbridge Inc. (2a, 2c, 2e, 2g, 7, 9) (ENB-TSX, \$31.55, Sector Performer)

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$55.90, Sector Outperformer)

Teck Resources Limited (2a, 2b, 2c, 2d, 2e, 2f, 2g, 3a, 3c, 7, 9, 12) (TCK-NYSE, \$48.75, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/24/2011:**

AbitibiBowater Inc. (ABH-TSX, \$23.51, Not Rated)

AGL Resource Inc. (AGL-NYSE, US\$40.11, Not Rated)

Atco Ltd. (ACO.X-TSX, \$64.50, Not Rated)

Duke Energy (DUK-NYSE, US\$18.75, Not Rated)

FirstEnergy Corp. (FE-NYSE, US\$44.64, Not Rated)

InterContinental Hotels Group plc (IHG-NYSE, US\$20.45, Not Rated)

Kinder Morgan Energy Partners (KMP-NYSE, US\$73.29, Not Rated)

NICOR Inc. (GAS-NYSE, US\$54.19, Not Rated)

Northeast Utilities (NU-NYSE, US\$35.56, Not Rated)

NStar (NST-NYSE, US\$46.22, Not Rated)

Pacific Northern Gas Ltd. (PNG-TSX, \$30.50, Not Rated)

PPL Corporation (PPL-NYSE, US\$27.81, Not Rated)

Spectra Energy Corp (SE-NYSE, US\$27.13, Not Rated)

Starwood Hotels and Resorts (HOT-NYSE, US\$57.69, Not Rated)

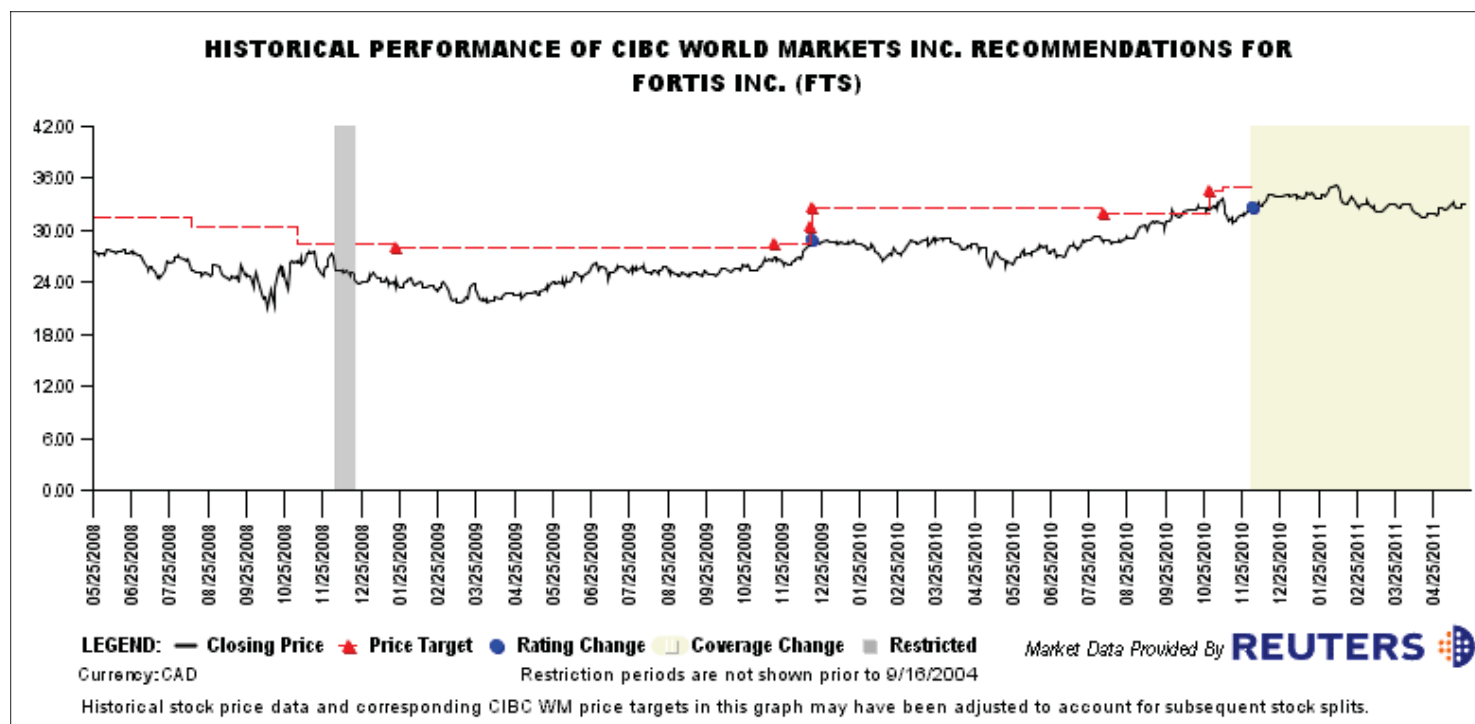
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**



## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲●■	32.69	NR	None	CIBC World Markets Inc.

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 24 May 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	147	44.7%	Sector Outperformer (Buy)	147	100.0%
Sector Performer (Hold/Neutral)	143	43.5%	Sector Performer (Hold/Neutral)	140	97.9%
Sector Underperformer (Sell)	25	7.6%	Sector Underperformer (Sell)	24	96.0%
Restricted	13	4.0%	Restricted	13	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 24 May 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2011 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

June 15, 2011

**Stock Rating:**

**Sector Performer**

**Sector Weighting:**

**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (6/14/11) \$31.77

Key Indices: Toronto, TSX Utils

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$26.80-\$35.45  
Shares Outstanding 184.5M  
Float 184.5M Shrs  
Avg. Daily Trading Vol. 471,979  
Market Capitalization \$5,862.3M  
Dividend/Div Yield \$1.16 / 3.7%  
Fiscal Year Ends December  
Book Value \$18.43 per Shr  
2011 ROE (E) 8.9%  
LT Debt \$5.9B  
Preferred \$912.00M  
Common Equity \$3.4B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011	\$1.79E	\$1.75E
2012	\$1.88E	\$1.89E

P/E	
2010	19.3x
2011	17.7x
2012	16.9x

Dividend Per Share	
2010	\$1.12A
2011	\$1.16E
2012	\$1.24E

Yield	
2010	3.5%
2011	3.7%
2012	3.9%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

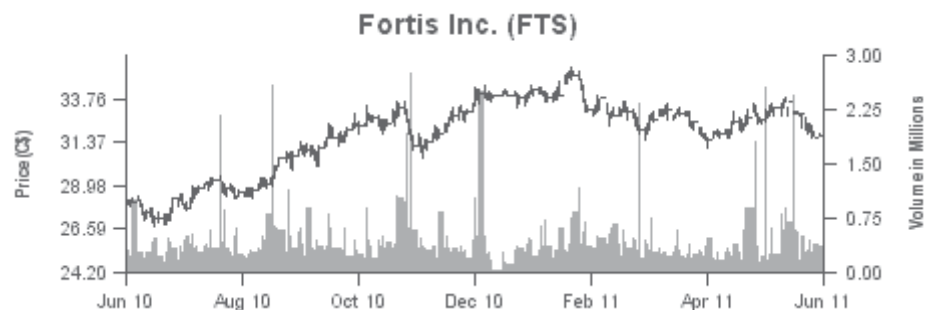
Pipelines, Utilities, & Power

## Fortis Inc.

### Acquisition Of New England Utility; Update On Belize

- On May 30, Fortis announced that it has entered into an agreement to acquire Central Vermont Public Service (CVPS) for approximately US\$700 million including assumed debt. CVPS is the largest electric utility in Vermont, and has a stake in the state's transmission system.
- Fortis paid full price for CVPS, although it has a strong growth profile, with its rate base expected to grow from US\$426 million in 2010 to ~US\$650 million in 2015 (9% CAGR) through the acquisition of Vermont Marble, investments in transmission, and capex in its base distribution business.
- Fortis also announced a bought deal, issuing 9.1 million shares at \$33/share, resulting in net proceeds of \$288 million. As a result, our 2011E EPS decreases from \$1.79 to \$1.75. Our 2012E and 2013E EPS increase from \$1.88 and \$2.00 to \$1.89 and \$2.03, reflecting the acquisition impact.
- We view the acquisition as modestly positive, with upside to the extent Fortis can become a consolidator in the region. In Belize, the government is looking to nationalize Fortis' operations, although financial implications are still unclear. Maintain SP rating; PT to \$35.00 vs. prior \$34.50.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

11-109974 © 2011

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



# Fortis Inc.

FTS - TSX 6/14/11 \$31.77  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weight: Market Weight

# Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

Market Data			
Share Price	\$31.77	Net Debt	5,829
Shares Outstanding	175	Non Control Int.	175
Market Capitalization	5,573	Preferred Shares	912
		Enterprise Value	12,489

Valuations	2009A	2010A	2011E	2012E
P/E	21.0x	19.3x	18.2x	16.8x
EV/EBITDA	11.6x	10.7x	10.0x	8.9x

## Pipeline And Utilities Sector Average

P/E	18.0x	18.0x	18.0x	18.0x
EV/EBITDA	11.8x	11.8x	11.8x	11.8x

Other Data	2009A	2010A	2011E	2012E
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.24
Dividend Yield	3.3%	3.5%	3.7%	3.9%
Payout Ratio	68.7%	67.9%	66.3%	65.5%
Book Value Per Share	\$18.64	\$18.97	\$20.30	\$21.11
Price / Book Value	1.7x	1.7x	1.6x	1.5x
Cash Per Share	\$0.50	\$0.63	\$0.94	\$0.47
Debt / Total Capital	59.8%	57.9%	56.6%	60.2%
Net Debt/EBITDA	5.4x	5.1x	4.9x	5.4x

Income Statement	2009A	2010A	2011E	2012E
FortisBC Energy	117	130	143	158
FortisAlberta	60	68	76	86
FortisBC Electric	37	42	50	55
Newfoundland Power	32	35	33	33
Other Canadian Electric Utilities	17	19	19	19
Central Vermont Public Service (CVPS)	0	0	0	21
Regulated Electric Utilities - Caribbean	25	23	27	27
Fortis Generation	16	20	22	22
Fortis Properties	24	26	27	27
Corporate	(72)	(78)	(80)	(94)

Operating Earnings	256	285	316	354
Unusual Items	6	0	0	0

Reported Earnings	262	285	316	354
-------------------	-----	-----	-----	-----

Operating EPS	\$1.51	\$1.65	\$1.75	\$1.89
---------------	--------	--------	--------	--------

Reported EPS	\$1.54	\$1.65	\$1.75	\$1.89
--------------	--------	--------	--------	--------

Shares Outstanding	171	174	186	189
--------------------	-----	-----	-----	-----

EBITDA	1,078	1,170	1,248	1,398
--------	-------	-------	-------	-------

Cash Flow	2009A	2010A	2011E	2012E
-----------	-------	-------	-------	-------

Earnings (incl. pref share dividends)	280	323	344	382
---------------------------------------	-----	-----	-----	-----

Depreciation and Amortization	364	410	417	456
-------------------------------	-----	-----	-----	-----

Total Operating Cash Flow	637	732	761	838
---------------------------	-----	-----	-----	-----

Capital Expenditures	940	1,024	1,212	1,295
----------------------	-----	-------	-------	-------

Dividends	161	230	253	270
-----------	-----	-----	-----	-----

Net Long Term Debt Proceeds	557	194	294	1,316
-----------------------------	-----	-----	-----	-------

Balance Sheet	2009A	2010A	2011E	2012E
---------------	-------	-------	-------	-------

Cash & Cash Equivalents	85	109	175	89
-------------------------	----	-----	-----	----

Utility Capital Assets / Income Properties	8,246	8,762	9,457	11,050
--	-------	-------	-------	--------

Total Assets	12,160	12,903	13,663	15,171
--------------	--------	--------	--------	--------

Current Liabilities	1,594	1,517	1,517	1,517
---------------------	-------	-------	-------	-------

Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	7,633
--	-------	-------	-------	-------

Future Income Taxes	5	(3)	0	0
---------------------	---	-----	---	---

Non Controlling Interests	123	162	153	144
---------------------------	-----	-----	-----	-----

Preferred Shares	667	912	912	912
------------------	-----	-----	-----	-----

Shareholders' Equity	3,540	3,897	4,372	4,573
----------------------	-------	-------	-------	-------

Total Shareholders' Equity And Liabilities	12,160	12,903	13,663	15,171
--	--------	--------	--------	--------

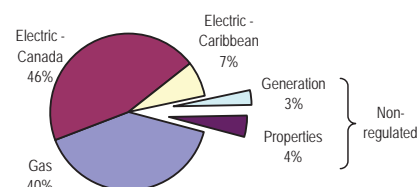
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

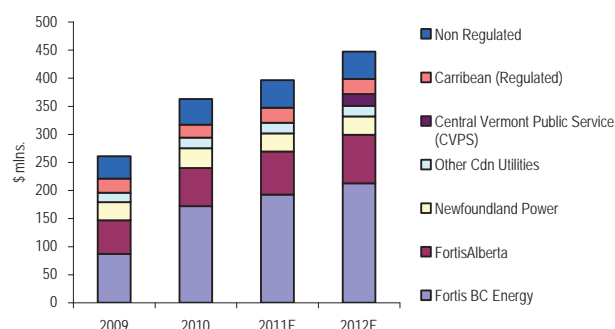
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

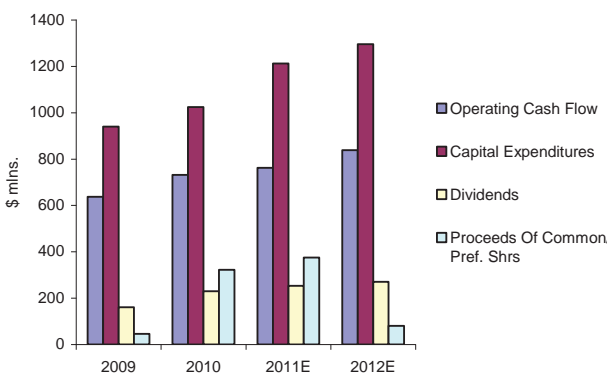
## Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.



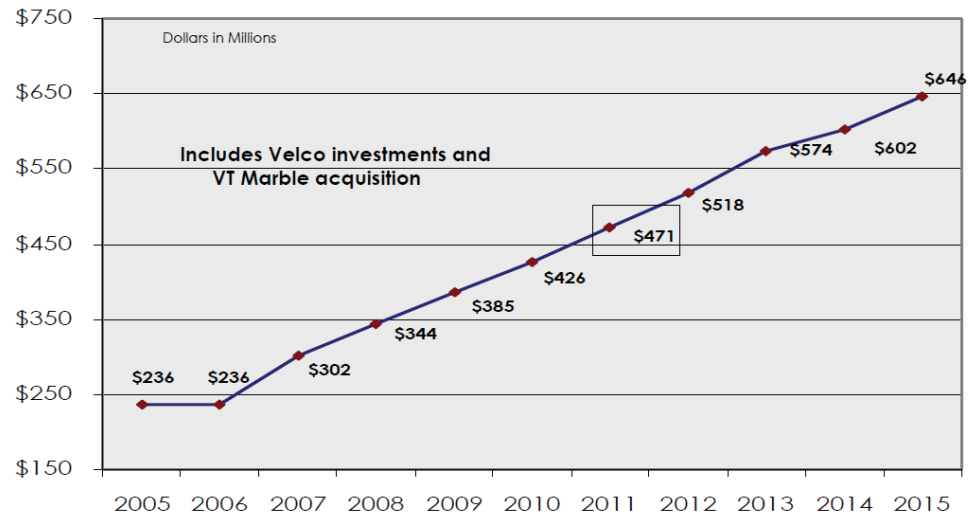
## Acquiring New England Utility

On May 30, Fortis (FTS-SP) announced that it has entered into an agreement to acquire all of the outstanding common shares of Central Vermont Public Service (CVPS) (CV-NYSE) for \$35.10/share in cash, representing a 44% premium over the CVPS closing price on the prior trading day. The total purchase price, including the assumption of approximately US\$230 million in debt, amounts to roughly US\$700 million. The closing of the acquisition is subject to a variety of approvals, including CVPS shareholders, the Vermont Public Service Board, and the U.S. Federal Energy Regulatory Commission (FERC). Fortis expects the transaction to close within six to 12 months.

CVPS is the largest electric utility in Vermont, serving nearly 160,000 customers. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. CVPS also holds a 41% ownership interest in Vermont Transco LLC [managed by Vermont Electric Power Company (Velco)], which owns and operates the high-voltage transmission system in Vermont.

CVPS expects its rate base to grow from US\$426 million in 2010 to approximately US\$650 million by 2015, representing a compound annual growth rate of 9% (Exhibit 1). The rate base growth is expected to be driven by Vermont Marble (a US\$33 million acquisition of primarily transmission and distribution assets), additional investments in transmission (through its equity interest in Velco), and capital expenditures in its base distribution business. The allowed rate of return on common equity for 2011 is set at 9.45%, and equity level is set at 57%.

**Exhibit 1. CVPS Rate Base Projections**



Source: Company reports.

Fortis has been looking for acquisitions for some time, and targeted the U.S. northeast as a potential entry point. At US\$700 million, the CVPS acquisition is smaller than our expectation for a low- to mid-billion-dollar transaction. In addition, at a 1.4x rate base (when factoring in CVPS' proportional ownership in Velco), the acquisition is moderately more expensive than recent U.S. utility acquisitions in the 1.0x–1.2x rate base range. However, CVPS has a strong growth profile, with a 9% CAGR in its rate base expected through 2015.

In addition, while Fortis will operate CVPS in its normal decentralized fashion, there may be further opportunities to add assets in the region. Vermont has a population of roughly 600,000 people, but is home to 20 electric distributors. The second-largest utility in Vermont is Green Mountain Power, which has approximately 90,000 customers covering a territory encompassing approximately 25% of the state's population, and is owned by Gaz Metro Inc.

## Equity Issuance

In conjunction with the acquisition announcement, Fortis announced a bought deal for 9.1 million shares at \$33.00/share. Net proceeds of approximately \$288 million (\$300 million in gross proceeds less underwriting fees) will be used to repay outstanding debt under the company's committed credit facility, finance additional equity injections into Fortis' western Canadian regulated utilities and the Waneta Expansion, and for general corporate purposes. While Fortis is not using the proceeds from the equity issue directly to purchase CVPS, it is using a portion of the proceeds to repay the debt on its committed credit facility, and it will ultimately use that same credit facility to fund its purchase of CVPS. There is also an overallotment option whereby the underwriters will be able to purchase an additional 1.365 million shares, which would bring an additional \$43 million in net proceeds to Fortis if fully exercised. We have not incorporated the over-allotment proceeds in our forecasts. We do not expect Fortis to issue any additional common equity over the forecast horizon, unless it makes further acquisitions.

## Estimate Revisions

Fortis expects the acquisition to be accretive to EPS in its first full year of ownership. In the interim, however, we expect the impact of the equity issue to reduce EPS in 2011 from \$1.79 to \$1.75. We have assumed that the transaction will close at the end of Q1/12. Our 2012 EPS forecast increases from \$1.88 to \$1.89, reflecting the partial-year contribution from CVPS. Our 2013 EPS estimate increases from \$2.00 to \$2.03, reflecting the first full year of CVPS.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

	2010	2011E		2012E		2013E	
		Previous	Current	Previous	Current	Previous	Current
<b>Segmented Earnings</b>							
<b>Regulated Utilities</b>							
FortisBC Energy	\$130	\$143	\$143	\$158	\$158	\$164	\$164
FortisAlberta	68	76	76	86	86	99	99
FortisBC Electric	42	50	50	55	55	60	60
Newfoundland Power	35	33	33	33	33	34	34
Other Canadian Electric Utilities	19	19	19	19	19	20	20
Central Vermont Public Service (CVPS)	0	0	0	0	21	0	31
Regulated Electric Utilities – Caribbean	23	27	27	27	27	27	27
Total Regulated Utilities	317	348	348	378	398	404	435
<b>Non-regulated Operations</b>							
Fortis Generation	20	22	22	22	22	22	22
Fortis Properties	26	27	27	27	27	27	27
Total Non-regulated Operations	46	49	49	49	49	49	49
Corporate	(78)	(80)	(80)	(80)	(94)	(80)	(98)
<b>Operating Earnings For Common</b>	<b>285</b>	<b>316</b>	<b>316</b>	<b>346</b>	<b>354</b>	<b>373</b>	<b>385</b>
Unusual Items	0	0	0	0	0	0	0
Reported Earnings	285	316	316	346	354	373	385
Weighted Average S/O (mlns.)	173	177	181	184	187	186	190
<b>Operating EPS</b>	<b>1.65</b>	<b>1.79</b>	<b>1.75</b>	<b>1.88</b>	<b>1.89</b>	<b>2.00</b>	<b>2.03</b>
Reported EPS	1.65	1.79	1.75	1.88	1.89	2.00	2.03
<b>Dividend Per Share</b>	<b>1.12</b>	<b>1.16</b>	<b>1.16</b>	<b>1.22</b>	<b>1.24</b>	<b>1.30</b>	<b>1.32</b>
Payout Ratio	67.9%	64.8%	66.3%	65.0%	65.5%	65.0%	65.0%

Source: CIBC World Markets Inc.

## Belize Saga Continues

Fortis' regulated electricity distribution operations in Belize (Belize Electricity Limited, or BEL) have been under pressure since a June 2008 decision by the Belize Public Utilities Commission reversed previous rate-setting agreements, lowered BEL's allowable rates of return, and forced BEL to assume the cost of surging energy prices in 2008. BEL's legal appeals, including to the Belize Supreme Court, have been dismissed. The left-leaning government of Prime Minister Dean Barrow "was always ideologically opposed to the privatization of essential resources" and has resisted allowing any rate increases.

With oil prices again on the rise, and unable to increase rates accordingly, BEL has been facing mounting financial pressures. Furthermore, BEL has been unable to qualify for bank credit given the unsettled regulatory regime. Fortis is understandably unwilling to further invest in the operation. Given BEL's financial distress, the operation is facing mounting debts to Mexico's Comisión Federal de Electricidad (CFE), from which BEL purchases a substantial portion (in 2010, 33%) of its power. Year-end 2010 financial statements show BEL also owed BZ\$9 million (US\$4.5 million) to Fortis and BECOL (a hydro generation facility in Belize which Fortis also owns). BEL has asked the Belize government to prepay its energy bills of roughly \$2 million/month to help cover power purchases.

The government has now announced its intent “in purchasing majority shares in BEL so as to assume control of the company,” although no formal purchase proposal has been received by Fortis. Fortis currently owns 70% of BEL, the Belize government indirectly holds 27% (through the Social Security Board of Belize), and the remainder is held by smaller shareholders in Belize. It is unclear at present:

1. How much of BEL the government intends to buy: The government would need a further 24% to reach a majority position, but Fortis is unwilling to become a minority shareholder and would likely seek to sell its entire stake.
2. What price the government will pay: Prime Minister Barrow has stated “you trade off the fact that there is an asset value against the fact that the company virtually is insolvent” – ignoring the fact that his government’s actions have placed BEL in this situation, and that at the end of 2010 BEL had net PP&E of BZ\$445 million (approximately US\$222 million). The purchase would represent an enormous sum for the government of Belize – the country’s total GDP in 2009 was US\$1.354 billion (World Bank data), and certainly begs the question of how the government could afford to pay anything approaching fair value.
3. Whether the government will expropriate the business: The Belize government has set a precedent with the expropriation in 2009 of the country’s main telephone company, Belize Telemedia, with legal proceedings still ongoing.

The assets of BEL represent less than 2% of Fortis’ total assets; the combined assets of BEL and BECOL represent less than 3% of Fortis’ total assets. Nevertheless, a worst-case scenario could be a partial or total writedown of Fortis’ investment in BEL, with its net book investment in BEL currently at ~US\$125 million (~\$0.70/share). We are making no changes to our financial outlook at present until there is further clarity on the situation.

## Price Target Calculation

We are raising our price target from \$34.50 to \$35.00, reflecting the contribution of the CVPS acquisition to our discounted cash flow (DCF) forecast. The \$35.00 price target equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given Fortis’ solid, and for the most part low-risk, growth outlook.

## Outlook And Investment Summary

Overall, we view the CVPS acquisition as modestly positive to Fortis. As a standalone investment, the acquisition was on the expensive end, although CVPS has a strong growth profile through 2015. Upside may exist to the extent that Fortis can become a consolidator in the region. As noted above, we have not adjusted our financial estimates for Belize given the uncertainty as to the government’s intentions, although a nationalization of the business at a price below Fortis’ net book investment could result in an (at least partial) writedown. We maintain our Sector Performer rating.

## Key Risks To Price Target

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Prior	\$0.67A	\$0.35E	\$0.27E	\$0.50E	\$1.79E
2011 Current	\$0.67A	\$0.35E	\$0.26E	\$0.48E	\$1.75E
2012 Prior	--	--	--	--	\$1.88E
2012 Current	--	--	--	--	\$1.89E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/15/2011:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$53.31, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/15/2011:**

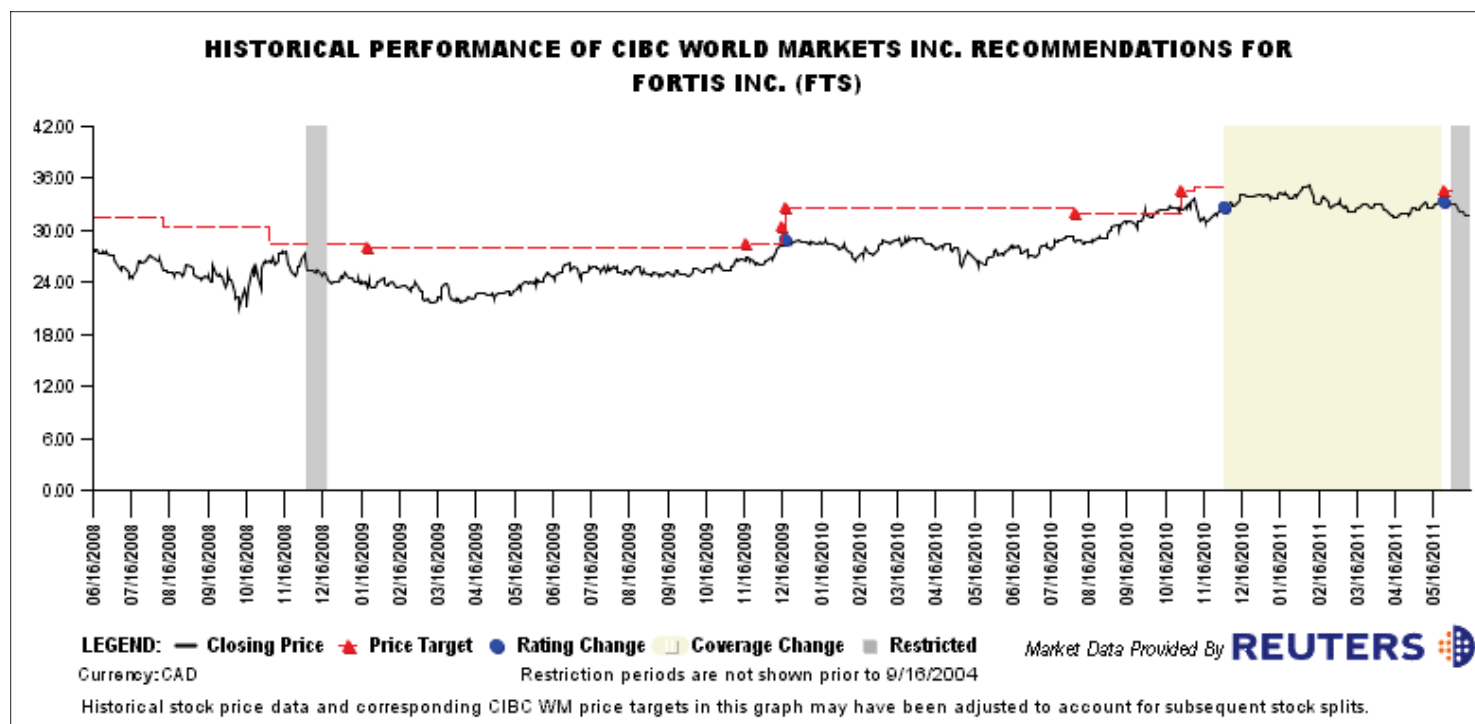
Central Vermont Public Service Corp. (CV-NYSE, US\$34.41, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲●■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲●■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 15 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	44.8%	Sector Outperformer (Buy)	148	100.0%
Sector Performer (Hold/Neutral)	146	44.2%	Sector Performer (Hold/Neutral)	141	96.6%
Sector Underperformer (Sell)	26	7.9%	Sector Underperformer (Sell)	23	88.5%
Restricted	9	2.7%	Restricted	9	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 15 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2011 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





# Institutional Equity Research Company Update

June 23, 2011

## Stock Rating: Sector Performer

## Sector Weighting: Market Weight

12-18 mo. Price Target \$35.00  
FTS-TSX (6/23/11) \$31.46

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$26.80-\$35.45  
Shares Outstanding 184.5M  
Float 184.5M Shrs  
Avg. Daily Trading Vol. 471,979  
Market Capitalization \$5,805.1M  
Dividend/Div Yield \$1.16 / 3.7%  
Fiscal Year Ends December  
Book Value \$18.43 per Shr  
2011 ROE (E) 8.9%  
LT Debt \$5.9B  
Preferred \$912.00M  
Common Equity \$3.4B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011		\$1.75E
2012		\$1.89E

P/E	
2010	19.1x
2011	18.0x
2012	16.6x

Dividend Per Share	
2010	\$1.12A
2011	\$1.16E
2012	\$1.24E

Yield	
2010	3.6%
2011	3.7%
2012	3.9%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

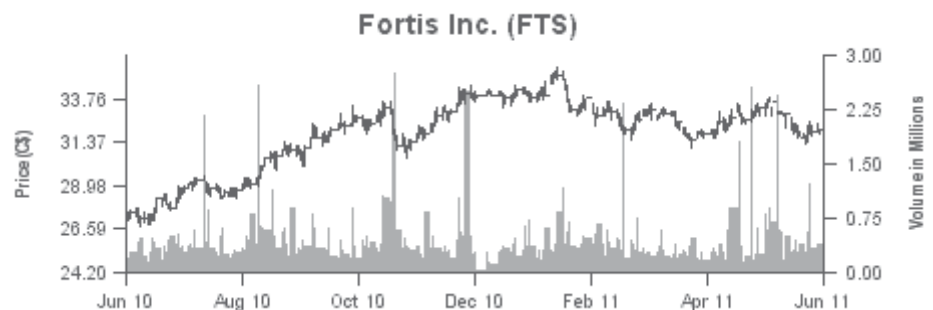
Pipelines, Utilities, & Power

## Fortis Inc.

### Not A Good Week: Belize Operations Expropriated, Rival Bid Emerges For CVPS

- On Monday, the government of Belize passed legislation to nationalize Fortis' 70%-owned regulated utility, Belize Electricity Limited (BEL), which is under financial duress due to adverse regulatory rulings, which provide insufficient returns and force BEL to absorb high energy costs.
- Compensation for BEL is unknown and any agreement is likely to take some time. Fortis' net book investment in BEL is ~US\$125 million (~\$0.70/share). Currently, Fortis' unregulated hydro facilities in Belize (BECOL) have not been expropriated.
- On Thursday, Gaz Metro announced a rival bid for CVPS, a Vermont utility that Fortis announced it was acquiring on May 30. Gaz Metro's bid (US\$35.25/share) is at only a US\$0.15/share premium to Fortis' bid (US\$35.10/share); CVPS must determine if this represents a superior bid.
- Given a \$17.5 million break fee + \$2 million in expense reimbursement (totaling ~US\$1.50/CVPS share), it is unclear whether Gaz Metro's bid is "superior." If it is deemed so, Fortis could match the bid, but we foresee little appetite for further increases given its existing bid is already pricey.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

11-110111 © 2011

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



# Fortis Inc.

FTS - TSX 6/23/11 \$31.46  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weight: Market Weight

# Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

## Market Data

Share Price	\$31.46	Net Debt	5,829
Shares Outstanding	175	Non Control Int.	175
Market Capitalization	5,519	Preferred Shares	912
		Enterprise Value	12,435

## Valuations

	2009A	2010A	2011E	2012E
P/E	20.8x	19.1x	18.0x	16.7x
EV/EBITDA	11.5x	10.6x	10.0x	8.9x

## Pipeline And Utilities Sector Average

P/E	17.8x	17.8x	17.8x	17.8x
EV/EBITDA	11.7x	11.7x	11.7x	11.7x

## Other Data

	2009A	2010A	2011E	2012E
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.24
Dividend Yield	3.3%	3.6%	3.7%	3.9%
Payout Ratio	68.7%	67.9%	66.3%	65.5%
Book Value Per Share	\$18.64	\$18.97	\$20.30	\$21.11
Price / Book Value	1.7x	1.7x	1.6x	1.5x
Cash Per Share	\$0.50	\$0.63	\$0.94	\$0.47
Debt / Total Capital	59.8%	57.9%	56.6%	60.2%
Net Debt/EBITDA	5.4x	5.1x	4.9x	5.4x

## Income Statement

	2009A	2010A	2011E	2012E
FortisBC Energy	117	130	143	158
FortisAlberta	60	68	76	86
FortisBC Electric	37	42	50	55
Newfoundland Power	32	35	33	33
Other Canadian Electric Utilities	17	19	19	19
Central Vermont Public Service (CVPS)	0	0	0	21
Regulated Electric Utilities - Caribbean	25	23	27	27
Fortis Generation	16	20	22	22
Fortis Properties	24	26	27	27
Corporate	(72)	(78)	(80)	(94)

## Operating Earnings

Operating Earnings	256	285	316	354
Unusual Items	6	0	0	0

## Operating EPS

Operating EPS	\$1.51	\$1.65	\$1.75	\$1.89
Reported EPS	\$1.54	\$1.65	\$1.75	\$1.89

## Cash Flow

Cash Flow	2009A	2010A	2011E	2012E
-----------	-------	-------	-------	-------

Earnings (incl. pref share dividends)	280	323	344	382
Depreciation and Amortization	364	410	417	456
Total Operating Cash Flow	637	732	761	838
Capital Expenditures	940	1,024	1,212	1,295
Dividends	161	230	253	270
Net Long Term Debt Proceeds	557	194	294	1,316

## Balance Sheet

	2009A	2010A	2011E	2012E
Cash & Cash Equivalents	85	109	175	89
Utility Capital Assets / Income Properties	8,246	8,762	9,457	11,050
Total Assets	12,160	12,903	13,663	15,171
Current Liabilities	1,594	1,517	1,517	1,517
Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	7,633
Future Income Taxes	5	(3)	0	0
Non Controlling Interests	123	162	153	144
Preferred Shares	667	912	912	912
Shareholders' Equity	3,540	3,897	4,372	4,573
Total Shareholders' Equity And Liabilities	12,160	12,903	13,663	15,171

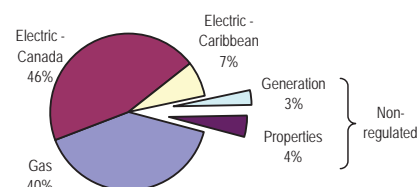
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

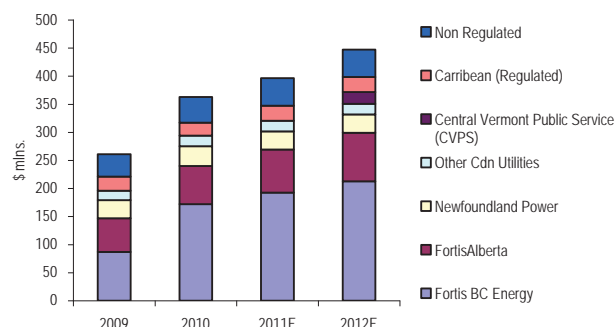
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

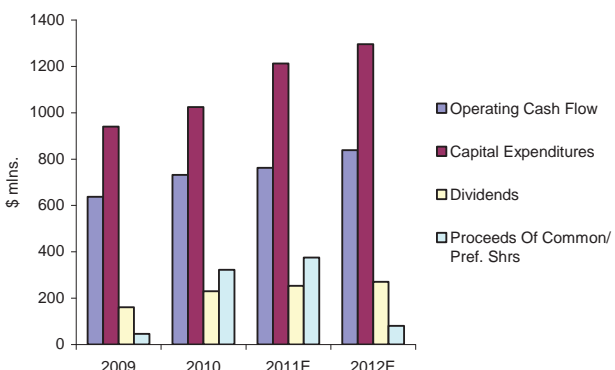
## Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.



Fortis (FTS-SP) has had a rough week.

---

## Belize Operations Expropriated, As Expected

On Monday, the Belize government announced it is expropriating Fortis' 70%-owned regulated utility, Belize Electricity Ltd. (BEL). This is not unexpected given recent government pronouncements. BEL has been under financial duress given adverse regulatory rulings that have not allowed BEL to collect appropriate returns, and, furthermore, have forced BEL to absorb high energy prices (rather than, as is typically the case, pass through energy costs to the consumers). As a result, BEL has amassed debt to major electricity suppliers, including Mexican utility CFE, which has now demanded upfront payment before making further electricity sales to BEL. Rather than rectifying the regulatory issues, the Belize government has chosen to expropriate BEL's operations.

Fortis' net book investment in BEL is ~US\$125 million, or roughly \$0.70/share. The government of Belize has not provided any compensation nor has it announced whether any (or how much) would be forthcoming. Fortis is evaluating its legal options. Fortis' unregulated hydro generation operation, BECOL, has not (yet) been similarly affected, although is at risk given amounts owed by BEL (approximately \$5 million) and its ownership by Fortis. We would not expect a speedy outcome; the Belize government expropriated telephone company Belize Telemedia in 2009 and legal proceedings are still ongoing, with no compensation paid to date.

---

## Rival Bid For CVPS

On Thursday, Gaz Metro announced it was making an unsolicited bid for Central Vermont Public Service (CVPS) (CV-NYSE), the Vermont utility that Fortis announced an agreement to acquire on May 30. Gaz Metro's bid is at US\$35.25 per CVPS share, a slim US\$0.15/share premium to Fortis' own bid of US\$35.10/share. Gaz Metro also notes that it intends to continue making CVPS quarterly dividend payments of US\$0.23/share through closing vs. Fortis' intent to make only two regular quarterly dividend payments (and only \$0.01/share/quarter thereafter, until closing); with Gaz Metro expecting closing to take up to 12 months, this could imply further upside for CVPS shareholders.

Gaz Metro currently owns Green Mountain Power, the second-largest electric utility in Vermont (after CVPS), and believes there are synergies from owning both operations. The Gaz Metro bid also includes provisions for: CVPS employees (no layoffs), customers (cost savings from joint synergies with Green Mountain Power and the creation of a trust to subsidize low income customers), and the state of Vermont (investments in new headquarters and a solar development). The trust for low income customers will be created through the donation of a 30% economic interest in VELCO, the manager and part owner of the Vermont transmission system.

CVPS' board of directors must now determine that Gaz Metro's bid represents a "superior proposal" to the shareholders. Whether it meets this criterion is unclear given that CVPS, if it accepted Gaz Metro's bid, would be required to pay to Fortis a break fee of US\$17.5 million plus up to US\$2 million reimbursement of related fees and expenses. The US\$0.15/share premium amounts to only US\$2 million, and even factoring in additional dividend payments received under the Gaz Metro bid (if the closing takes up to a year), the total premium amounts to less than half the break fee.

If CVPS does decide that Gaz Metro's bid is superior, then Fortis must choose whether to match the relevant terms (e.g., US\$35.25/share + full dividend payments through closing) or to walk away. The small incremental costs might suggest that Fortis should be prepared to match the (initial) Gaz Metro bid, but we would not expect Fortis to get into a prolonged bidding war, as we believe its existing bid already represented full value (around 1.4x rate base). Any meaningful increase in the purchase price would bring the economics of the transaction into question.

Gaz Metro might be able to justify a higher price given the potential synergies to be realized from its existing ownership of Green Mountain Power, the second-largest Vermont electric utility (after CVPS). However, it is unclear whether any such synergies are truly sustainable, as any savings are typically required to be passed on to customers over time.

---

## Downward Bias To Price Target, But No Change For Now

We believe that these two issues – expropriation of BEL and rival bid for CVPS – represent a downward bias on Fortis' value. The loss of BEL (with no compensation) would represent ~\$0.70/share impact; the potential loss of CVPS to Gaz Metro would represent about a further \$0.50/share. Furthermore, if Fortis were not to acquire CVPS, we note that the recent \$300 million (net \$288 million) equity offering would be dilutive until an alternate (and accretive) use of funds were found. We believe Fortis management is sufficiently disciplined to avoid acting precipitously, but nonetheless we note that there will be additional pressure for Fortis to find and close a suitable acquisition.

Despite the downward bias in valuation, we are not updating our price target (\$35) for now given the uncertainty surrounding these issues. We maintain our Sector Performer rating.

---

## Price Target Calculation

Our \$35.00 price target equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given Fortis' solid, and for the most part low-risk, growth outlook. We note, however, that failure to close the CVPS acquisition represents a potential downside of ~\$0.50/share and a total write-off of BEL would represent ~\$0.70/share. We have not yet included either of these impacts to the stock price, given current uncertainties as to outcome.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC–SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Current	\$0.67A	\$0.35E	\$0.26E	\$0.48E	\$1.75E
2012 Current	--	--	--	--	\$1.89E

---



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/23/2011:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$54.62, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/23/2011:**

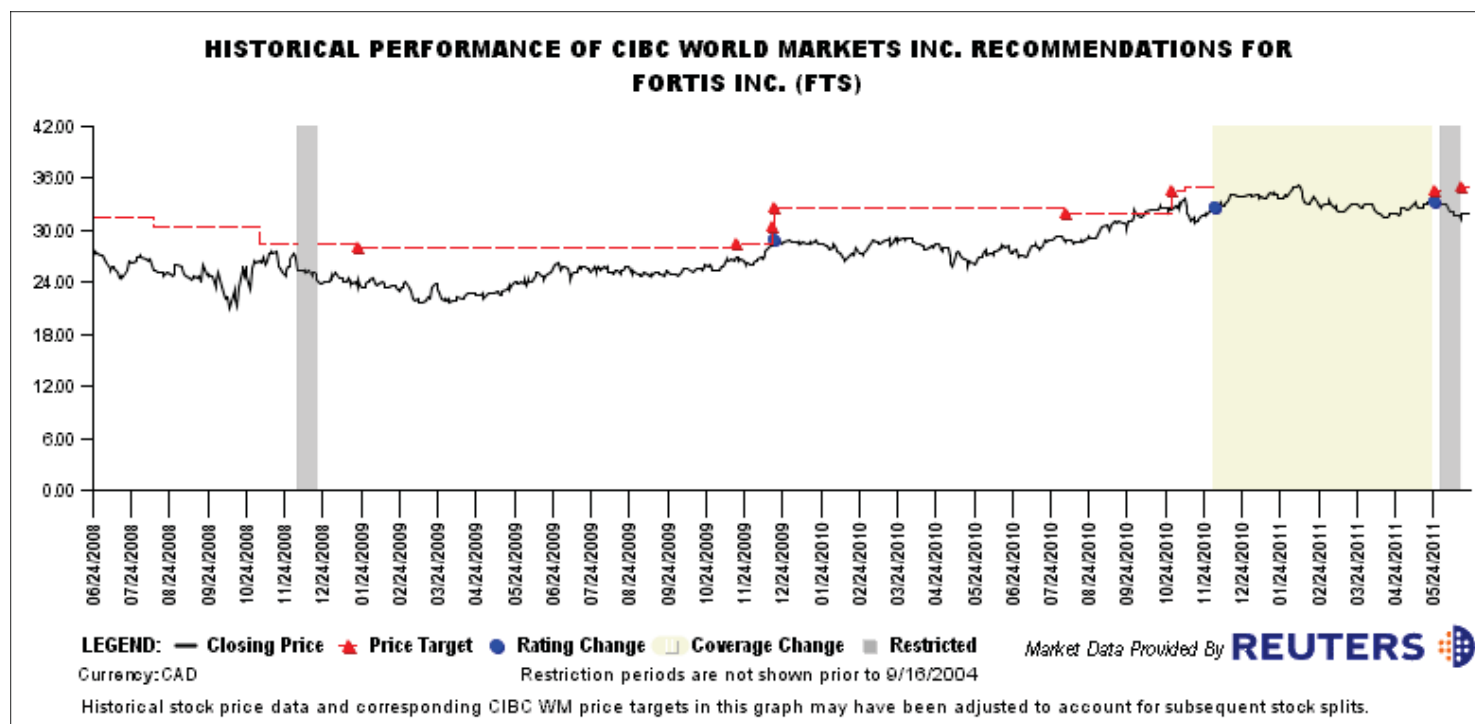
Central Vermont Public Service Corp. (CV-NYSE, US\$35.65, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 23 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	44.7%	Sector Outperformer (Buy)	148	100.0%
Sector Performer (Hold/Neutral)	146	44.1%	Sector Performer (Hold/Neutral)	141	96.6%
Sector Underperformer (Sell)	24	7.3%	Sector Underperformer (Sell)	21	87.5%
Restricted	12	3.6%	Restricted	12	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 23 Jun 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2011 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

August 3, 2011

**Stock Rating:**

**Sector Performer**

**Sector Weighting:**

**Market Weight**

12-18 mo. Price Target \$33.50  
FTS-TSX (8/3/11) \$30.87

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$28.25-\$35.45  
Shares Outstanding 186.3M  
Float 186.3M Shrs  
Avg. Daily Trading Vol. 461,847  
Market Capitalization \$5,751.1M  
Dividend/Div Yield \$1.16 / 3.8%  
Fiscal Year Ends December  
Book Value \$19.86 per Shr  
2011 ROE (E) 8.8%  
LT Debt \$5.9B  
Preferred \$912.00M  
Common Equity \$3.7B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011	\$1.74E	\$1.72E
2012	\$1.83E	\$1.81E

P/E		
2010		18.7x
2011	17.7x	17.9x
2012	16.9x	17.1x

#### Dividend Per Share

2010	\$1.12A
2011	\$1.16E
2012	\$1.20E

#### Yield

2010	3.6%
2011	3.8%
2012	3.9%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

**Paul Lechem**  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

**Oswaldo Matias, CFA**  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

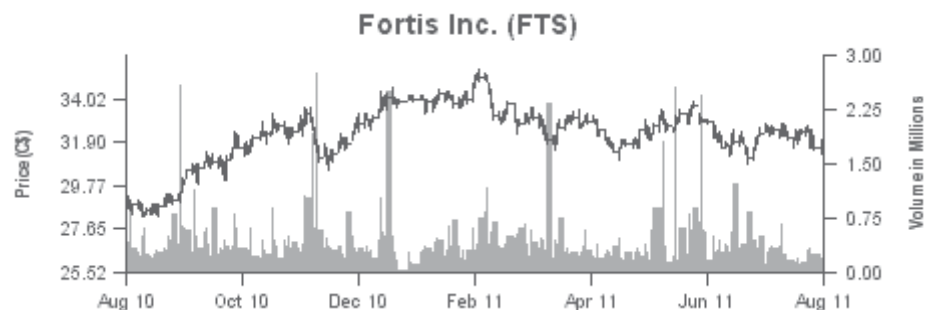
Pipelines, Utilities, & Power

## Fortis Inc.

### Q2 Slightly Below Expectations On Lower Gas, Generation Earnings

- Fortis reported Q2/11 EPS of \$0.33 vs. our estimate of \$0.35 (consensus \$0.35). The variance was largely due to lower earnings from FortisBC Energy (higher regulator-approved expenses), Fortis Generation (lower production in Belize), and Fortis Properties (decrease in occupancy).
- Earnings were still up Y/Y (\$0.33 vs. \$0.32 in Q2/10), largely reflecting a higher rate base (especially at company's regulated utilities in Western Canada). Fortis is on track for its \$1.2 bln. capex program in 2011, and has raised its 5-year (2011-2015) capex budget to \$5.7 bln. (up \$0.2 bln.).
- In Q2/11, Fortis suffered setbacks: 70% owned Belize Electricity was expropriated on June 20; BECOL (its Belize hydro generation facility) is owed US\$6.5 mln.; and Fortis walked away from its acquisition of CVPS after a superior bid from Gaz Metro.
- Fortis' capex program is expected to grow rate base at 6% CAGR. Fortis continues to seek a U.S. acquisition, and has a strong financial position. However, given Q2 setbacks, a slightly soft Q2, and high acquisition multiples, we maintain our SP rating. PT revised to \$33.50 (prior \$34).

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

11-11076 © 2011

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**





## Fortis Inc.

FTS - TSX 8/3/11 \$30.87  
 12- To 18- Month Price Target: \$33.50  
 Pipelines, Utilities & Power  
 Sector Utilities: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

## Market Data

Share Price	\$30.87	Net Debt	5,559
Shares Outstanding	186	Non Control Int.	178
Market Capitalization	5,751	Preferred Shares	912
		Enterprise Value	12,400

## Valuations

	2009A	2010A	2011E	2012E
P/E	20.4x	18.7x	17.9x	17.1x
EV/EBITDA	11.5x	10.6x	10.0x	9.3x

## Pipeline And Utilities Sector Average

P/E	18.0x	18.0x	17.5x	17.5x
EV/EBITDA	11.9x	11.4x	9.6x	9.1x

## Other Data

	2009A	2010A	2011E	2012E
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.20
Dividend Yield	3.4%	3.6%	3.8%	3.9%
Payout Ratio	68.7%	67.9%	67.6%	66.5%
Book Value Per Share	\$18.64	\$18.97	\$20.22	\$20.99
Price / Book Value	1.7x	1.6x	1.5x	1.5x
Cash Per Share	\$0.50	\$0.63	\$0.69	\$0.99
Debt / Total Capital	59.8%	57.9%	56.6%	57.5%
Net Debt/EBITDA	5.4x	5.1x	5.0x	4.9x

## Income Statement

	2009A	2010A	2011E	2012E
FortisBC Energy	117	130	141	155
FortisAlberta	60	68	78	89
FortisBC Electric	37	42	49	52
Newfoundland Power	32	35	33	34
Other Canadian Electric Utilities	17	19	21	21
Central Vermont Public Service (CVPS)	0	0	0	0
Regulated Electric Utilities - Caribbean	25	23	25	25
Fortis Generation	16	20	20	20
Fortis Properties	24	26	25	25
Corporate	(72)	(78)	(80)	(80)

## Operating Earnings

Operating Earnings	256	285	311	341
Unusual Items	6	0	0	0

## Reported Earnings

Reported Earnings	262	285	311	341
-------------------	-----	-----	-----	-----

## Operating EPS

Operating EPS	\$1.51	\$1.65	\$1.72	\$1.81
---------------	--------	--------	--------	--------

## Reported EPS

Reported EPS	\$1.54	\$1.65	\$1.72	\$1.81
--------------	--------	--------	--------	--------

## Shares Outstanding

Shares Outstanding	171	174	187	189
--------------------	-----	-----	-----	-----

## EBITDA

EBITDA	1,078	1,170	1,237	1,338
--------	-------	-------	-------	-------

## Cash Flow

	2009A	2010A	2011E	2012E
--	-------	-------	-------	-------

Earnings (incl. pref share dividends)	280	323	339	369
---------------------------------------	-----	-----	-----	-----

Depreciation and Amortization	364	410	411	448
-------------------------------	-----	-----	-----	-----

Total Operating Cash Flow	637	732	750	817
---------------------------	-----	-----	-----	-----

Capital Expenditures	940	1,024	1,212	1,154
----------------------	-----	-------	-------	-------

Dividends	161	230	254	265
-----------	-----	-----	-----	-----

Net Long Term Debt Proceeds	557	194	294	481
-----------------------------	-----	-----	-----	-----

## Balance Sheet

	2009A	2010A	2011E	2012E
--	-------	-------	-------	-------

Cash & Cash Equivalents	85	109	129	187
-------------------------	----	-----	-----	-----

Utility Capital Assets / Income Properties	8,246	8,762	9,508	10,114
--	-------	-------	-------	--------

Total Assets	12,160	12,903	13,668	14,333
--------------	--------	--------	--------	--------

Current Liabilities	1,594	1,517	1,517	1,517
---------------------	-------	-------	-------	-------

Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	6,798
--	-------	-------	-------	-------

Future Income Taxes	5	(3)	0	0
---------------------	---	-----	---	---

Non Controlling Interests	123	162	153	144
---------------------------	-----	-----	-----	-----

Preferred Shares	667	912	912	912
------------------	-----	-----	-----	-----

Shareholders' Equity	3,540	3,897	4,377	4,570
----------------------	-------	-------	-------	-------

Total Shareholders' Equity And Liabilities	12,160	12,903	13,668	14,333
--	--------	--------	--------	--------

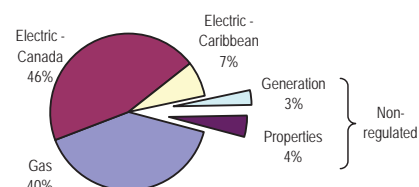
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

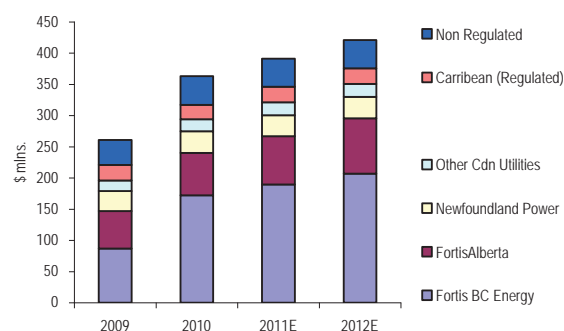
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

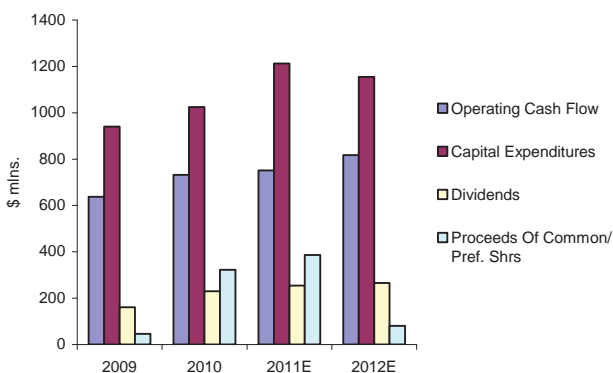
## Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Q2/11 – Slightly Below Consensus

Fortis (FTS-SP) reported Q2/11 results, with EPS of \$0.33, slightly below our estimate of \$0.35 (consensus \$0.35). The main variances to expectations were lower earnings from:

- (1) FortisBC Energy (formerly Terasen Gas), due to timing of regulator approved increases in operating expenses.
- (2) Non-regulated Fortis Generation, given decreased production in Belize due to lower rainfall.
- (3) Non-regulated Fortis Properties, given a 2.2% decrease in hotel occupancy and a 1.4% decrease in occupancy in commercial/retail real estate.

---

## Capital Spending On Track

Earnings were still up Y/Y (\$0.33 versus \$0.32 in Q2/10), largely driven by rate base growth, especially in the Western Canadian regulated utilities. The company is on track for its \$1.2 billion capital program in 2011, with \$519 million spent through H1/11. The company also slightly raised its 5-year (2011-2015) capital plan to \$5.7 billion from \$5.5 billion, reflecting higher planned spending at FortisBC Energy.

The company has substantially completed work on many major projects, including its \$214 million LNG storage facility on Vancouver Island and \$126 million Automated Metering Project in Alberta, and expects to reach substantial completion later in the year on the \$105 million Okanagan Transmission Reinforcement Project. The Waneta Dam Expansion project is on budget/schedule.

---

## Q2/11 Setbacks

As has been previously noted, Fortis suffered setbacks in Q2/11:

- (1) On June 20, the government of Belize expropriated Fortis' 70% interest in Belize Electricity (BEL). Fortis is starting to pursue legal avenues to seek compensation, although this will likely be a lengthy process. The book value of BEL was \$112 million; the company does not anticipate writing this value down until there is further clarity on the situation. The company's BECOL hydro generation facility remains, for now, unaffected (and management does not believe the government has any current intent to expropriate the facility), although it is currently owed US\$6.5 million from BEL (after receiving a US\$0.5 million payment in July). BECOL's book value is \$150 million.
- (2) On May 30, Fortis announced an agreement to acquire CVPS (CV-NYSE) at a total value of US\$700 million, including acquired debt. On June 23, CVPS received an unsolicited offer from Gaz Metro, which was subsequently deemed a superior offer to Fortis. Subsequently, on July 12, Fortis terminated the acquisition agreement, collecting a US\$17.5 million termination fee plus US\$2 million in expenses.

## Maintain Sector Performer

Fortis continues to progress its capital spending program, which is expected to result in 6% rate base CAGR. Furthermore, the company has a strong financial position, with (at quarter end) \$1.5 billion of unused credit facilities and \$298 million in cash due to a \$300 million equity offering in June. The company continues to seek U.S. acquisition targets.

Nevertheless, given the above-noted setbacks in the quarter and the slightly lower-than-expected Q2/11 results, we believe short-term upside is more limited and continue to rate Fortis as Sector Performer, with a \$33.50 price target (down slightly from prior \$34 to reflect Q2/11 results and updated outlook).

## Q2/11 Results

Fortis reported adjusted Q2/11 EPS of \$0.33, up from \$0.32 in Q2/10, and modestly below our \$0.35 expectation (consensus \$0.35). The main variance from our estimates was lower-than-expected earnings from FortisBC Energy, and a lower-than-expected contribution from its non-regulated businesses (Fortis Generation and Fortis Properties).

### Exhibit 1. Q2/11 Results (\$ mlns., except per share)

Segmented Earnings	Q2/11A	Q2/11E	Q2/10A
<b>Regulated Utilities</b>			
FortisBC Energy	15	19	17
FortisAlberta	19	18	17
FortisBC Electric	9	9	8
Newfoundland Power	11	10	11
Other Canadian Electric Utilities	6	4	4
Regulated Electric Utilities – Caribbean	7	7	7
Total Regulated Utilities	67	67	64
<b>Non-regulated Operations</b>			
Fortis Generation	2	6	3
Fortis Properties	7	9	8
Total Non-regulated Operations	9	15	11
Corporate	(18)	(20)	(20)
<b>Operating Earnings For Common</b>	<b>58</b>	<b>62</b>	<b>55</b>
Unusual Items	0	0	0
Reported Earnings	58	62	55
Weighted Average Shares Outstanding (mlns.)	177	177	172
<b>Operating EPS</b>	<b>0.33</b>	<b>0.35</b>	<b>0.32</b>
Reported EPS	0.33	0.35	0.32
Dividend Per Share	0.29	0.29	0.28
Pay out Ratio	88.6%	82.3%	87.8%

Source: CIBC World Markets Inc.

### Regulated Utilities:

- **FortisBC Energy:** FortisBC Energy earnings totaled \$15 million in Q2/11, compared to \$17 million in Q2/10 and our estimate of \$19 million. The variance from our estimate is the result of the timing of an increase in regulator-approved operating expenses, driven by labor and benefit costs and consulting expenses. Q2 and Q3 are FortisBC Energy's seasonally weakest quarters, with most of its earnings coming in Q1 and Q4.
- **FortisAlberta:** FortisAlberta contributed \$19 million to earnings in Q2/11, versus \$17 million in Q2/10, and our \$18 million estimate. The Y/Y increase is mainly due to \$2.5 million of accrued revenue recognized in Q2/11 associated with the cumulative return and amortization on the additional capex included in rate base associated with the Automated Metering Project.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$9 million in Q2/11, compared to \$8 million in Q2/10, and our \$9 million estimate. The Y/Y increase reflects rate base growth, as well as lower-than-expected average market-priced purchased power costs.
- **Newfoundland Power:** Newfoundland Power earnings were \$11 million in the quarter, compared to \$11 million in Q2/10 and our \$10 million estimate. Y/Y results were flat as electricity sales growth and lower effective corporate income taxes were offset by lower customer rates due to a lower allowed ROE in 2011.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$6 million in the quarter, up from \$4 million in Q2/10 and above our \$4 million estimate. The variance from our estimate was due to lower effective corporate income taxes.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$7 million, versus \$7 million in Q2/10 and our \$7 million estimate. The reduction of costs and improving efficiencies and a positive commercial customer billing adjustment at Caribbean Utilities were offset by lower electricity sales on Grand Cayman and removal of Belize Electricity from consolidated results effective June 20, 2011, the day the Government of Belize expropriated Fortis' 70% interest in Belize Electricity.

### Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$2 million, down from \$3 million in Q2/10 and below our \$6 million estimate. Lower-than-expected results reflected lower production in Belize due to lower rainfall and higher finance charges.
- **Fortis Properties:** Fortis Properties earnings came in at \$7 million in Q2/11, compared to \$8 million in Q2/10 and our \$9 million estimate. The variance from our estimate reflects higher operating costs due to inflationary pressures, and the lower performance of hotel operations due to decreased occupancies in western Canada.

---

## Revising Estimates

We have made minor changes to our estimates to reflect slightly lower expected earnings in Fortis' non-regulated operations (Fortis Generation and Fortis Properties). We have also updated our forecasts for the regulated businesses, mainly to reflect recently filed rate applications. As a result of these changes, our 2011 EPS estimate declines from \$1.74 to \$1.72, while our 2012 EPS estimate declines from \$1.83 to \$1.81.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2011E			2012E	
	2010A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	130	143	141	158	155
FortisAlberta	68	76	78	86	89
FortisBC Electric	42	50	49	55	52
Newfoundland Power	35	33	33	33	34
Other Canadian Electric Utilities	19	19	21	19	21
Regulated Electric Utilities – Caribbean	23	25	25	25	25
Total Regulated Utilities	317	346	346	376	376
<b>Non-regulated Operations</b>					
Fortis Generation	20	22	20	22	20
Fortis Properties	26	27	25	27	25
Total Non-regulated Operations	46	49	45	49	45
Corporate	(78)	(80)	(80)	(80)	(80)
<b>Operating Earnings For Common</b>	<b>285</b>	<b>314</b>	<b>311</b>	<b>344</b>	<b>341</b>
Unusual Items	0	0	0	0	0
Reported Earnings	285	314	311	344	341
Weighted Average Shares Outstanding (mlns.)	173	181	181	188	188
<b>Operating EPS</b>	<b>1.65</b>	<b>1.74</b>	<b>1.72</b>	<b>1.83</b>	<b>1.81</b>
Reported EPS	1.65	1.74	1.72	1.83	1.81
<b>Dividend Per Share</b>	1.12	1.16	1.16	1.20	1.20
Pay out Ratio	67.9%	66.8%	67.6%	65.5%	66.5%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are reducing our price target from \$34.00 to \$33.50 as a result of our reduced estimates. Our \$33.50 price target equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given Fortis' solid, and for the most part low-risk, growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), and operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Prior	\$0.67A	\$0.35E	\$0.25E	\$0.48E	\$1.74E
2011 Current	\$0.67A	\$0.33A	\$0.24E	\$0.49E	\$1.72E
2012 Prior	--	--	--	--	\$1.83E
2012 Current	--	--	--	--	\$1.81E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 08/03/2011:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$54.03, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 08/03/2011:**

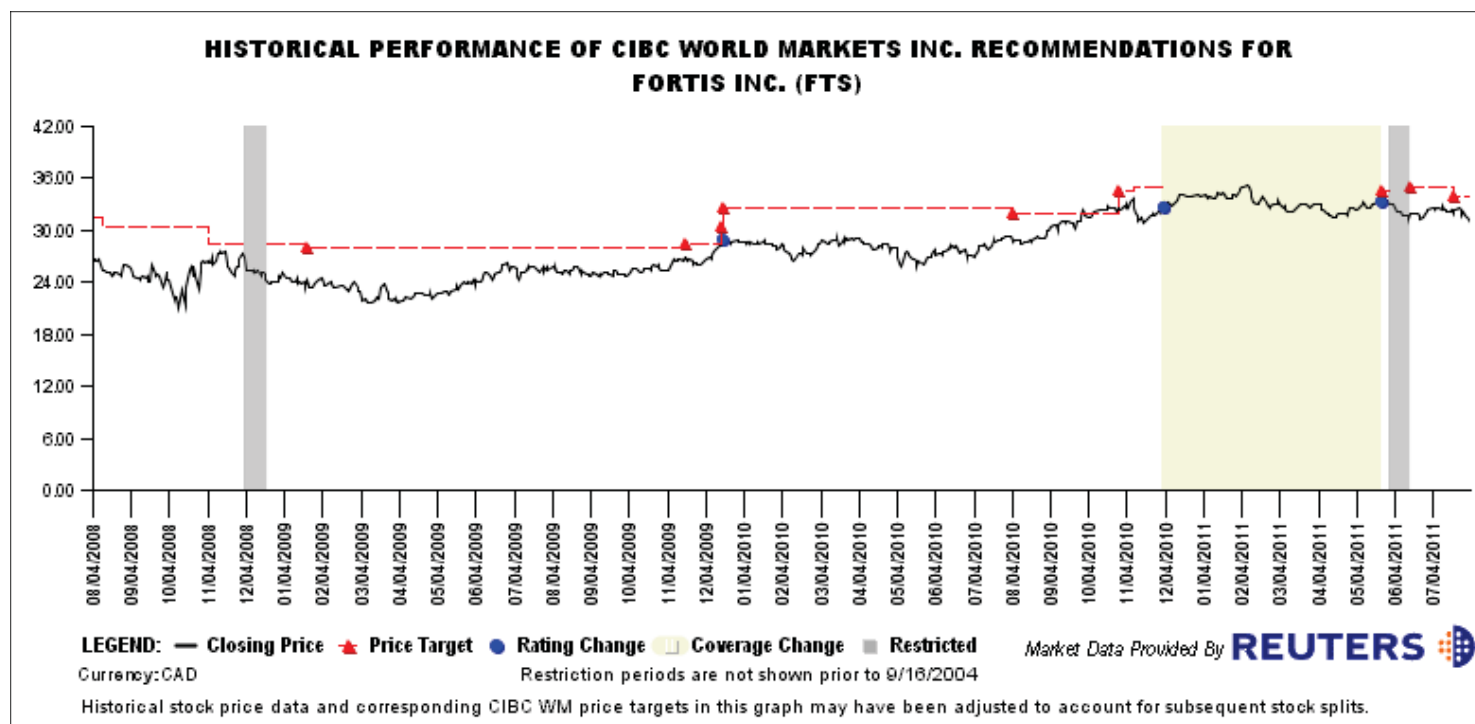
Central Vermont Public Service Corp. (CV-NYSE, US\$35.12, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/10/2008	▲	26.76	SP	30.50	Petro Panarites, CFA
11/02/2008	▲	26.30	SP	28.50	Petro Panarites, CFA
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 03 Aug 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	148	43.8%	Sector Outperformer (Buy)	148	100.0%
Sector Performer (Hold/Neutral)	151	44.7%	Sector Performer (Hold/Neutral)	148	98.0%
Sector Underperformer (Sell)	25	7.4%	Sector Underperformer (Sell)	23	92.0%
Restricted	13	3.8%	Restricted	12	92.3%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 03 Aug 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	40.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	2	40.0%	Sector Performer (Hold/Neutral)	2	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2011 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

November 3, 2011

## Stock Rating: Sector Performer

## Sector Weighting: Market Weight

12-18 mo. Price Target \$33.50  
FTS-TSX (11/3/11) \$34.06

Key Indices: Toronto, TS XUtls

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$28.24-\$35.45
Shares Outstanding	186.9M
Float	186.9M Shrs
Avg. Daily Trading Vol.	475,146
Market Capitalization	\$6,367.0M
Dividend/Div Yield	\$1.16 / 3.4%
Fiscal Year Ends	December
Book Value	\$20.33 per Shr
2011 ROE (E)	8.8%
LT Debt	\$5.8B
Preferred	\$912.00M
Common Equity	\$3.8B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2010		\$1.65A
2011	\$1.72E	\$1.72E
2012	\$1.81E	\$1.81E

P/E		
2010		20.6x
2011	19.8x	19.8x
2012	18.8x	18.8x

Dividend Per Share	
2010	\$1.12A
2011	\$1.16E
2012	\$1.20E

Yield	
2010	3.3%
2011	3.4%
2012	3.5%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

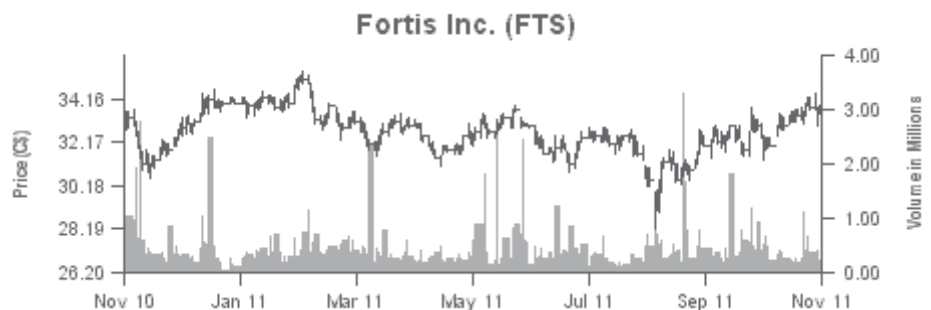
Pipelines, Utilities, & Power

## Fortis Inc.

### In-line Q3, No Change To Outlook

- Fortis reported Q3/11 adjusted EPS of \$0.25 vs. our \$0.24 estimate (consensus \$0.23). Our adjusted EPS figure excludes the \$11 million after-tax fee (\$0.06/share) paid to Fortis in July 2011 from the termination of the merger agreement between Fortis and Central Vermont Public Service.
- Regulated utility results were in line with expectations, while slightly lower non-regulated results were offset by lower corporate costs. Results declined y/y from \$0.26 in EPS in Q3/10 due to the issuance of 10.3 million shares in June 2011 associated with the unsuccessful attempt to acquire CVPS.
- On November 2, FortisBC filed an application to amalgamate its three natural gas utilities into one legal entity, and implement common rates and services for these customers across the province, starting January 1, 2013. This proposal is revenue neutral to FortisBC.
- There has been no change to Fortis' outlook. The company is still in the early stages of its 5-year, \$5.7 billion capital expenditure program, and continues to evaluate acquisition opportunities. Fortis offers strong, stable growth, and its multiple reflects that. We maintain SP rating and \$33.50 PT.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

11-112566 © 2011

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**





## Fortis Inc.

FTS - TSX 11/3/11

\$34.06

12- To 18- Month Price Target:

\$33.50

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

## Market Data

Share Price	\$34.06	Net Debt	5,729
Shares Outstanding	187	Non Control Int.	205
Market Capitalization	6,367	Preferred Shares	912
		Enterprise Value	13,213

## Valuations

	2009A	2010A	2011E	2012E
P/E	22.5x	20.6x	19.8x	18.8x
EV/EBITDA	12.3x	11.3x	10.6x	9.8x

## Pipeline And Utilities Sector Average

P/E	20.2x	19.3x	18.6x	17.7x
EV/EBITDA	12.4x	11.8x	10.0x	9.5x

## Other Data

	2009A	2010A	2011E	2012E
Dividend Per Share	\$1.04	\$1.12	\$1.16	\$1.20
Dividend Yield	3.1%	3.3%	3.4%	3.5%
Payout Ratio	68.7%	67.9%	67.5%	66.5%
Book Value Per Share	\$18.64	\$18.97	\$20.16	\$20.93
Price / Book Value	1.8x	1.8x	1.7x	1.6x
Cash Per Share	\$0.50	\$0.63	\$0.70	\$0.95
Debt / Total Capital	59.8%	57.9%	56.6%	57.4%
Net Debt/EBITDA	5.4x	5.1x	5.0x	4.9x

## Income Statement

	2009A	2010A	2011E	2012E
FortisBC Energy	117	130	141	155
FortisAlberta	60	68	78	89
FortisBC Electric	37	42	49	52
Newfoundland Power	32	35	33	34
Other Canadian Electric Utilities	17	19	21	21
Regulated Electric Utilities - Caribbean	25	23	25	25
Fortis Generation	16	20	18	20
Fortis Properties	24	26	23	24
Corporate	(72)	(78)	(76)	(79)

<b>Operating Earnings</b>	<b>256</b>	<b>285</b>	<b>312</b>	<b>342</b>
Unusual Items	6	0	0	0

Reported Earnings	262	285	312	342
-------------------	-----	-----	-----	-----

<b>Operating EPS</b>	<b>\$1.51</b>	<b>\$1.65</b>	<b>\$1.72</b>	<b>\$1.81</b>
----------------------	---------------	---------------	---------------	---------------

Reported EPS	\$1.54	\$1.65	\$1.72	\$1.81
--------------	--------	--------	--------	--------

Shares Outstanding	171	174	188	190
--------------------	-----	-----	-----	-----

EBITDA	1,078	1,170	1,242	1,343
--------	-------	-------	-------	-------

## Cash Flow

	2009A	2010A	2011E	2012E
Earnings (incl. pref share dividends)	280	323	340	370
Depreciation and Amortization	364	410	413	446
Total Operating Cash Flow	637	732	753	816
Capital Expenditures	940	1,024	1,212	1,162
Dividends	161	230	255	266
Net Long Term Debt Proceeds	557	194	294	481

## Balance Sheet

	2009A	2010A	2011E	2012E
Cash & Cash Equivalents	85	109	131	181
Utility Capital Assets / Income Properties	8,246	8,762	9,506	10,121
Total Assets	12,160	12,903	13,669	14,334
Current Liabilities	1,594	1,517	1,517	1,517
Debt (incl. Current and Short Term Borrowings)	5,915	6,023	6,317	6,798
Future Income Taxes	5	(3)	0	0
Non Controlling Interests	123	162	153	144
Preferred Shares	667	912	912	912
Shareholders' Equity	3,540	3,897	4,378	4,571
Total Shareholders' Equity And Liabilities	12,160	12,903	13,669	14,334

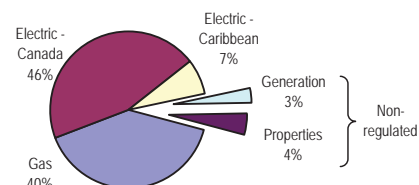
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

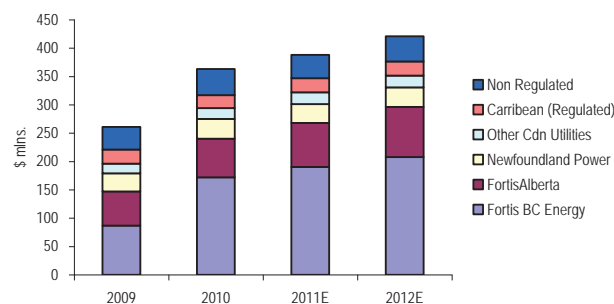
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

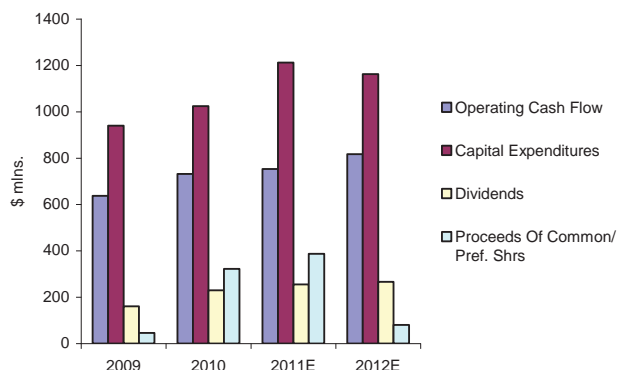
## Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc..

---

## In-line Q3

Fortis (FTS-SP) reported adjusted Q3/11 EPS of \$0.25 versus consensus of \$0.23, and our \$0.24 estimate. Total reported EPS of \$0.31 included a US\$19.5 million payment (\$11 million after tax, or \$0.06 EPS) related to the break fee and costs payable to Fortis on termination of the acquisition of Central Vermont Public Service (CVPS) due to a superior offer from Gaz Metro.

Regulated utility results were generally in line with expectations across all segments. Results from non-regulated operations were slightly lower-than-expected due to decreased generation resulting from lower rainfall in Belize (Fortis Generation) and higher administrative expenses (Fortis Properties). This was offset by lower corporate costs due to FX gains. Results declined y/y (\$0.26 in Q3/10) as a result of the issuance of 10.3 million shares in June 2011 associated with the unsuccessful attempt to acquire CVPS. Q3 is Fortis' seasonally weakest quarter, with the majority of earnings growth taking place in Q1 and Q4.

---

## Proposal To Merge FortisBC Gas Utilities

FortisBC has filed an application with the British Columbia Utilities Commission (BCUC) to amalgamate its three natural gas utilities into one legal entity, and implement common rates and services for these customers across the province, starting January 1, 2013. This application is revenue neutral to FortisBC, and is expected to provide lower rates to some customers (specifically Vancouver Island, Sunshine Coast, and Whistler customers), along with greater rate stability, consistency in programs and services, and greater reporting and operating efficiencies.

Currently, FortisBC provides natural gas to customers under three separate legal entities [FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.] with entity-specific rate structures. These separate entities were formed as various natural gas utilities were acquired across the province. Each entity provides different service offerings by region, such as energy efficiency and conservation initiatives or renewable natural gas.

The company's electric operations will remain a separate utility with a separate legal name, Fortis BC Inc., with separate rates and service offerings for electricity customers.

---

## Outlook Unchanged

Fortis' outlook remains unchanged. There have been no significant ROE changes at the various regulated utilities, although Fortis has generally applied for customer rate increases reflecting recent and ongoing investments to grow rate base. The company is still in the early stages of a five-year, \$5.7 billion capital expenditure program (through 2015), expecting to spend \$1.2 billion in 2011 and a comparable amount in 2012. The failed CVPS acquisition leaves Fortis with a strong balance sheet to fund future transactions, with the company continuing to evaluate prospects for acquiring electric and gas utilities in the U.S. and Canada. We are maintaining our Sector Performer rating and \$33.50 price target.

## Q3/11 Results

Fortis reported adjusted Q3/11 EPS of \$0.25, versus \$0.26 in Q3/10, and in line with our \$0.24 expectation (consensus \$0.23). Our \$0.25 adjusted EPS figure excludes the \$11 million after-tax fee (\$0.06/share) paid to Fortis in July 2011 from the termination of the merger agreement between Fortis and Central Vermont Public Service (CVPS).

### Exhibit 1. Q3/11 Results (\$ mlns., except per share)

Segmented Earnings	Q3/11A	Q3/11E	Q3/10A
<b>Regulated Utilities</b>			
FortisBC Energy	(3)	(4)	(5)
FortisAlberta	19	19	19
FortisBC Electric	10	11	11
Newfoundland Power	8	8	8
Other Canadian Electric Utilities	6	5	5
Regulated Electric Utilities – Caribbean	6	7	8
Total Regulated Utilities	46	46	46
<b>Non-regulated Operations</b>			
Fortis Generation	8	9	9
Fortis Properties	9	10	9
Total Non-regulated Operations	17	19	18
Corporate	(16)	(20)	(19)
<b>Operating Earnings For Common</b>	<b>47</b>	<b>45</b>	<b>45</b>
Unusual Items	11	0	0
Reported Earnings	58	45	45
Weighted Average Shares Outstanding (mlns.)	187	186	173
<b>Operating EPS</b>	<b>0.25</b>	<b>0.24</b>	<b>0.26</b>
Reported EPS	0.31	0.24	0.26
Dividend Per Share	0.29	0.29	0.28
Pay out Ratio	115.1%	120.4%	107.8%

Source: CIBC World Markets Inc.

### Regulated Utilities:

- FortisBC Energy:** FortisBC Energy losses totaled \$3 million in Q3/11, compared to \$5 million in losses in Q3/10 and our estimate of \$4 million in losses. Q3 is FortisBC Energy's seasonally weakest quarter, with most of its earnings coming in Q1 and Q4. The y/y improvement reflects rate base growth and the timing of operating expenses.
- FortisAlberta:** FortisAlberta contributed \$19 million to earnings in Q3/11, versus \$19 million in Q3/10, and our \$19 million estimate. Y/Y results were flat reflecting rate base growth in 2011 offset by the recording of the cumulative impact of a positive revenue requirement regulatory decision in Q3/10.

- **FortisBC Electric:** FortisBC Electric earnings totaled \$10 million in Q3/11, compared to \$11 million in Q3/10, and our \$11 million estimate. The modest y/y decline reflects higher effective corporate income taxes and lower capitalized allowance for funds used during construction (AFUDC) due to fewer assets under construction in 2011, partially offset by rate base growth.
- **Newfoundland Power:** Newfoundland Power earnings were \$8 million in the quarter, compared to \$8 million in Q3/10 and our \$8 million estimate. Y/Y results were flat as electricity sales growth and lower effective corporate income taxes were offset by lower customer rates due to a lower allowed ROE in 2011.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$6 million in the quarter, up from \$5 million in Q3/10 and above our \$5 million estimate. The modest outperformance reflects a higher allowed ROE at Algoma Power and lower effective corporate income taxes at FortisOntario.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$6 million, versus \$8 million in Q3/10 and our \$7 million estimate. The y/y decline reflects the removal of Belize Electricity from consolidated results (expropriated by the Government of Belize in June 2011) which contributed \$2 million to earnings in Q3/10. An independent valuation is underway in preparation for Fortis to seek compensation from the Government of Belize, and Fortis expects to submit its claim to the government in Q4/11. We do not expect a quick resolution to this situation.

#### Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$8 million, from \$9 million in Q3/10 and below our \$9 million estimate. Results were moderately lower-than-expected due to decreased production in Belize resulting from lower rainfall associated with a longer dry season in 2011.
- **Fortis Properties:** Fortis Properties earnings came in at \$9 million in Q3/11, compared to \$9 million in Q3/10 and our \$10 million estimate. Results were slightly below expectations as a result of higher administrative expenses.
- **Corporate:** Corporate expenses totaled \$16 million in the quarter, down from \$19 million in Q3/10 and below our \$20 million estimate, reflecting foreign exchange gains in Q3/11.

---

## EPS Estimates Unchanged

We have made minor modifications to our estimates (modestly lower non-regulated earnings offset by lower corporate expenses) mainly to reflect year-to-date results. Our 2011 and 2012 EPS estimates remain unchanged at \$1.72 and \$1.81, respectively.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2011E			2012E	
	2010A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	130	141	141	155	155
FortisAlberta	68	78	78	89	89
FortisBC Electric	42	49	49	52	52
Newfoundland Power	35	33	33	34	34
Other Canadian Electric Utilities	19	21	21	21	21
Regulated Electric Utilities – Caribbean	23	25	25	25	25
Total Regulated Utilities	317	346	347	376	376
<b>Non-regulated Operations</b>					
Fortis Generation	20	20	18	20	20
Fortis Properties	26	25	23	25	24
Total Non-regulated Operations	46	45	41	45	45
Corporate	(78)	(80)	(76)	(80)	(79)
<b>Operating Earnings For Common</b>	<b>285</b>	<b>311</b>	<b>312</b>	<b>341</b>	<b>342</b>
Unusual Items	0	0	0	0	0
Reported Earnings	285	311	312	341	342
Weighted Average Shares Outstanding (mlns.)	173	181	181	188	189
<b>Operating EPS</b>	<b>1.65</b>	<b>1.72</b>	<b>1.72</b>	<b>1.81</b>	<b>1.81</b>
Reported EPS	1.65	1.72	1.72	1.81	1.81
Dividend Per Share	1.12	1.16	1.16	1.20	1.20
Pay out Ratio	67.9%	67.6%	67.5%	66.5%	66.5%

Source: CIBC World Markets Inc.

**Price Target Calculation**

Our price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.7 billion capital spending program. The price target of \$33.50 equates to a P/E multiple of 18.5x our 2012 estimate, a premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2010 Current	\$0.58A	\$0.32A	\$0.26A	\$0.49A	\$1.65A
2011 Prior	\$0.67A	\$0.33A	\$0.24E	\$0.49E	\$1.72E
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.48E	\$1.72E
2012 Prior	--	--	--	--	\$1.81E
2012 Current	--	--	--	--	\$1.81E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 11/03/2011:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$51.86, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 11/03/2011:**

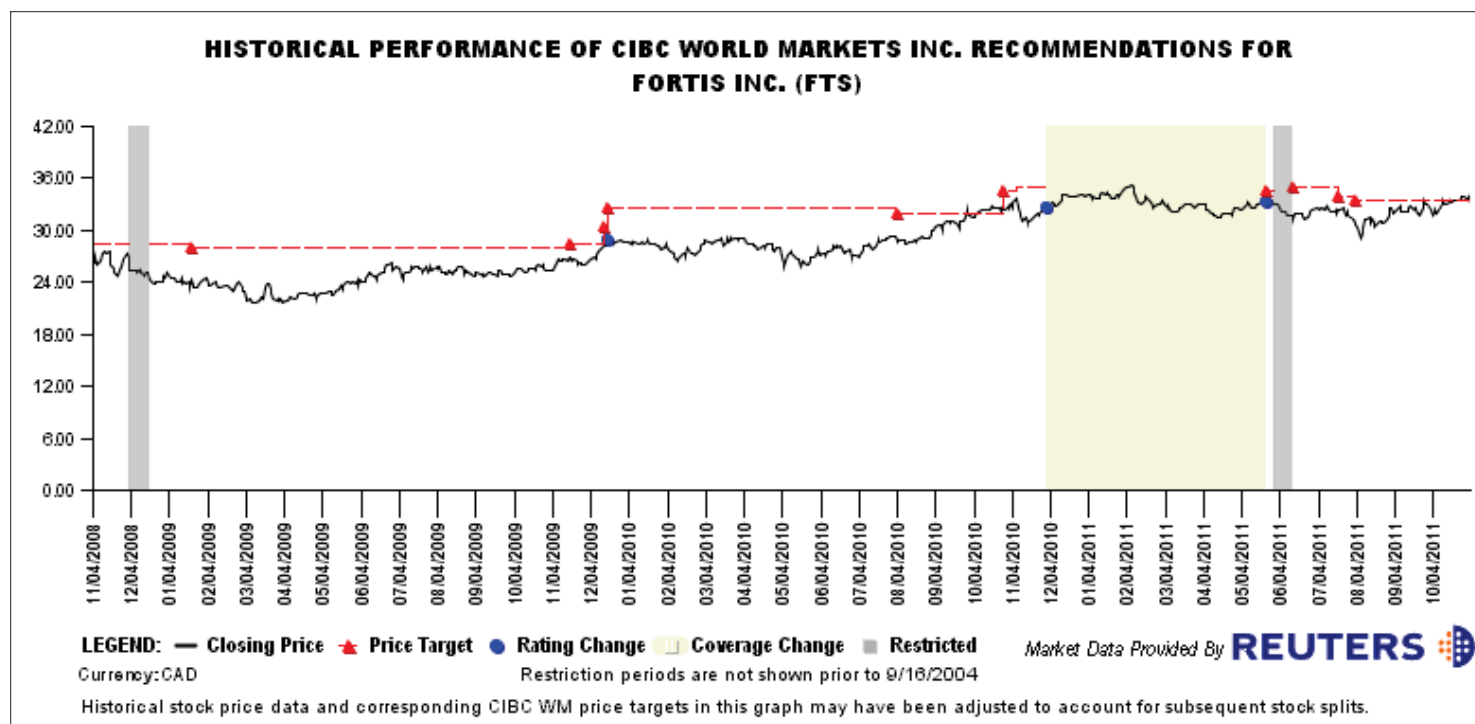
Gaz Métro Limited Partnership (GZM.UN-TSX, \$16.87, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
12/02/2008	■	27.00	R	-	Petro Panarites, CFA
12/19/2008	■	24.34	SP	28.50	Petro Panarites, CFA
01/20/2009	▲	23.33	SP	28.00	Petro Panarites, CFA
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 03 Nov 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	158	45.3%	Sector Outperformer (Buy)	150	94.9%
Sector Performer (Hold/Neutral)	150	43.0%	Sector Performer (Hold/Neutral)	132	88.0%
Sector Underperformer (Sell)	27	7.7%	Sector Underperformer (Sell)	24	88.9%
Restricted	13	3.7%	Restricted	12	92.3%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 03 Nov 2011)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	1	20.0%	Sector Outperformer (Buy)	1	100.0%
Sector Performer (Hold/Neutral)	3	60.0%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	20.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: EMA, ENB, FTS, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2011 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





# Institutional Equity Research

## Earnings Update

February 9, 2012

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (2/9/12) \$33.79

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$28.24-\$35.21  
Shares Outstanding 189.3M  
Float 189.3M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,396.4M  
Dividend/Div Yield \$1.20 / 3.6%  
Fiscal Year Ends December  
Book Value \$20.60 per Shr  
2012 ROE (E) 8.5%  
LT Debt \$5.9B  
Preferred \$912.00M  
Common Equity \$3.9B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2011	\$1.71E	\$1.69A
2012	\$1.80E	\$1.78E
2013		\$1.87E

P/E		
2011	19.8x	20.0x
2012	18.8x	19.0x
2013		18.1x

#### Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

#### Yield

2011	3.4%
2012	3.6%
2013	3.7%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

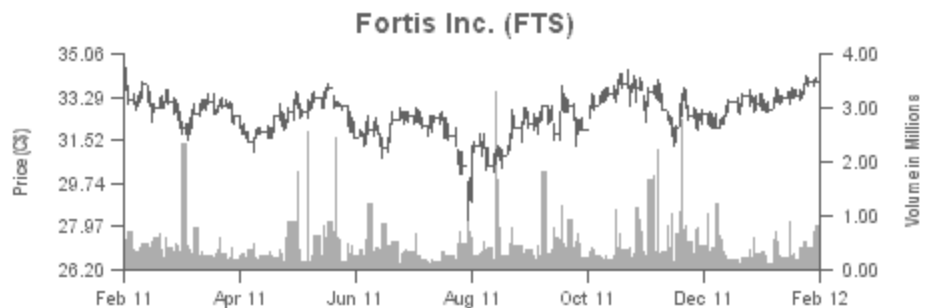
Pipelines, Utilities, & Power

## Fortis Inc.

### Q4 In Line. 2012: Strong Capex, Potential Pressure On Rates Of Return

- Fortis reported Q4/11 EPS of \$0.46 versus our estimate of \$0.47 (consensus \$0.47). EPS was down Y/Y versus \$0.49, reflecting the issuance of 10.3 mln. shares and the conversion of 1.4 mln. convertible debentures in 2011. Fortis will increase its dividend to \$0.30/share/quarter in Q1/12.
- Key items of note for Q4: increased earnings for FortisBC Energy due to rate base growth; a decrease in allowed ROE for FortisAlberta; lower Caribbean Utility earnings (expropriation of BEL and higher costs in Turks & Caicos); and lower corporate costs (debt refinancing and repayment).
- The company had capital expenditures of \$1.2 billion in 2011, with planned spending of \$1.3 billion in 2012 (\$5.5 billion through 2016), expected to deliver 7% rate base growth in 2012, and 5% CAGR through 2016.
- Fortis provides a stable distribution utility platform with organic growth driven by a significant capex program, but faces pressures on allowed ROE (recently reduced in Alberta, under review in B.C.). We believe the stock is fairly valued, trading at 18.1x 2013 P/E. Maintain SP rating, \$35 PT.

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

12-114261 © 2012

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**





## Fortis Inc.

FTS - TSX 2/9/12 \$33.79  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data.

Market Data					Company Profile				
Share Price	\$33.79	Net Debt	5,855		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	189	Non Control Int.	208						
Market Capitalization	6,396	Preferred Shares	912						
		Enterprise Value	13,371						
Valuations					Investment Thesis				
P/E	20.5x	20.0x	19.0x	18.1x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	11.4x	10.9x	10.4x	9.8x					
Pipeline And Utilities Sector Average									
P/E	19.3x	19.2x	18.4x	17.7x					
EV/EBITDA	12.7x	10.8x	10.0x	9.3x					
Other Data					Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)				
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24					
Dividend Yield	3.3%	3.4%	3.6%	3.7%					
Payout Ratio	67.9%	68.6%	67.6%	66.4%					
Book Value Per Share	\$18.97	\$20.48	\$21.22	\$21.99					
Price / Book Value	1.8x	1.6x	1.6x	1.5x					
Cash Per Share	\$0.63	\$0.47	\$0.28	\$0.70					
Debt / Total Capital	57.9%	54.3%	55.6%	56.2%					
Net Debt/EBITDA	5.1x	4.8x	5.0x	4.9x					
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	130	139	148	156					
Fortis Alberta	68	75	86	95					
FortisBC Electric	42	48	49	52					
Newfoundland Power	35	34	35	36					
Other Canadian Electric Utilities	19	22	22	23					
Regulated Electric Utilities - Caribbean	23	20	21	21					
Fortis Generation	20	18	20	20					
Fortis Properties	26	23	24	24					
Corporate	(78)	(72)	(68)	(68)					
<b>Operating Earnings</b>	<b>285</b>	<b>307</b>	<b>338</b>	<b>360</b>					
Unusual Items	0	11	0	0					
Reported Earnings	285	318	338	360					
<b>Operating EPS</b>	<b>\$1.65</b>	<b>\$1.69</b>	<b>\$1.78</b>	<b>\$1.87</b>					
Reported EPS	\$1.65	\$1.75	\$1.78	\$1.87					
Shares Outstanding	174	189	192	194					
EBITDA	1,170	1,228	1,281	1,365					
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	323	357	367	389					
Depreciation and Amortization	410	419	426	458					
Total Operating Cash Flow	732	905	794	847					
Capital Expenditures	1,024	1,116	1,291	1,053					
Dividends	230	205	268	278					
Net Long Term Debt Proceeds	194	307	550	386					
Balance Sheet									
Cash & Cash Equivalents	109	89	54	135					
Utility Capital Assets / Income Properties	8,762	9,281	10,046	10,540					
Total Assets	12,903	13,562	14,291	14,868					
Current Liabilities	1,517	1,320	1,320	1,320					
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	6,880					
Future Income Taxes	(3)	4	0	0					
Non Controlling Interests	162	208	199	190					
Preferred Shares	912	912	912	912					
Shareholders' Equity	3,897	4,469	4,657	4,857					
Total Shareholders' Equity And Liabilities	12,903	12,903	14,291	14,868					

Source: Company reports and CIBC World Markets Inc..

---

## In-line Q4

Fortis (FTS-SP) reported Q4/11 EPS of \$0.46, roughly in line with our \$0.47 estimate (consensus \$0.47). Net income of \$86 million was up modestly (1%) compared to \$85 million in Q4/10; however, EPS declined Y/Y versus \$0.49, reflecting the dilution from issuance of 10.3 million shares (gross proceeds of \$341 million) in June and July 2011, and the conversion of 1.4 million convertible debentures into common shares in November 2011.

Q4/11 results generally reflected growth in Fortis' western Canadian operations driven by strong customer and rate base growth in the region. FortisAlberta earnings in Q4 were flat Y/Y as the company recorded a \$2 million rate revenue reduction as a result of the Q4/11 ruling (retroactive for the full-year 2011) of a reduction in allowed ROE from 9.00% to 8.75%.

The company's Caribbean operations reported weaker results both for the quarter (earnings of \$3 million versus \$4 million Y/Y) and the year (\$20 million versus \$23 million) given the mid-year 2011 expropriation of Belize Electricity by the government, and due to higher costs at Fortis Turks and Caicos. The non-regulated Fortis Properties' earnings were down Y/Y due to a benefit in 2010 on the future income tax liability from the reduction in corporate taxes. Corporate and other costs were lower than expected, reflecting lower finance charges due to refinancing maturing debt at lower rates, and the repayment of credit facility borrowings during Q3/11.

---

## 2012: Strong Rate Base Growth, Some Risk To Rates Of Return

Fortis invested \$1.2 billion in capital spending in 2011, with plans for investing \$1.3 billion in 2012. The largest capital projects planned for 2012 include: the ongoing construction of the \$900 million Waneta Expansion Project (\$254 million in 2012); a 12-storey office building in St. John's, Newfoundland (\$32 million); and ongoing replacement of utility poles in Alberta (\$27 million). The remainder of the investment is directed to a large number of sustaining capital or smaller growth capital projects. This capex is expected to drive total rate base by 7% in 2012, and an average of 5% CAGR through to 2016.

A potential offset to this is downward pressure on regulated rates of return. In December 2011, the Alberta Utilities Commission (AUC) reduced FortisAlberta's allowed ROE for 2011 from 9.00% to 8.75% (applied retroactively for the year). In B.C., Fortis' gas and electric utilities are both starting a regulator-initiated cost of capital review, with decisions expected by October 2012. The B.C. utilities are currently at higher allowed ROEs than Alberta – 9.90% for FortisBC Electric, 9.50% for FortisBC Energy – suggesting that there exists downside risk. We are reducing our ROE assumptions for both B.C. utilities by 50 bps for 2012 onward. We note that the B.C. utilities collectively account for forecast 2012 rate base of \$4.7 billion – over half of the company's total forecast rate base of \$8.7 billion – and thus have a meaningful impact on overall company results.

On a positive note, Newfoundland Power has received regulatory approval to suspend use of the automatic ROE adjustment formula which has resulted in ever lower allowed ROEs as interest rates decline (2011 ROE was 8.38%; 2012 was calculated at 7.85% under the formula). We view the 2011 allowed ROE of 8.38% as a floor, and even see the potential for modest upward movement in this rate.

---

## Solid Business, But Fully Valued

Fortis is a well-managed utility, with solid mid-single-digit organic growth driven by a sizable capital spending program. Possible downward revisions in allowed ROE for the B.C. utilities represent a modest short-term headwind. The company continues to evaluate acquisition opportunities which could provide upside mid- to longer term. The company announced in December that it will increase its quarterly dividend to \$0.30/share (up from \$0.29/share), effective for Q1/2012.

Nevertheless, with the stock trading at 18.1x our estimated 2013 earnings, we believe that Fortis' outlook is already fairly reflected in its valuation, and we are maintaining our Sector Performer rating and \$35 price target.

---

## Q4/11 Results

Fortis reported adjusted Q4/11 EPS of \$0.46, versus \$0.49 in Q4/10, and basically in line with our \$0.47 expectation (consensus \$0.47). The Y/Y decline reflects the impact of the issuance of 10.3 million shares in June and July 2011 and the conversion of 1.4 million convertible debentures to common shares in November 2011. The main differences versus our expectations were from modestly lower FortisBC Energy earnings (highly seasonal business which is difficult to accurately pinpoint on a quarterly basis), lower Caribbean Utilities earnings (higher operating costs and amortization than expected in Turks and Caicos), partially offset by lower corporate and other costs (lower finance charges).

In December, Fortis announced that it is increasing its dividend from \$1.16/share annually (\$0.29/share quarterly) to \$1.20/share annually (\$0.30/share quarterly) beginning with the Q1/12 dividend payable on March 1, 2012.

**Exhibit 1. Q4/11 Results (\$ mlns., except per share)**

Segmented Earnings	Q4/11A	Q4/11E	Q4/10A
<b>Regulated Utilities</b>			
FortisBC Energy	51	53	45
FortisAlberta	17	17	17
FortisBC Electric	11	11	10
Newfoundland Power	8	7	9
Other Canadian Electric Utilities	4	3	5
Regulated Electric Utilities – Caribbean	3	8	5
Total Regulated Utilities	94	99	91
<b>Non-regulated Operations</b>			
Fortis Generation	5	5	5
Fortis Properties	5	6	7
Total Non-regulated Operations	10	11	12
Corporate	(18)	(22)	(18)
<b>Operating Earnings For Common</b>	<b>86</b>	<b>88</b>	<b>85</b>
Unusual Items	0	0	0
Reported Earnings	86	88	85
Weighted Average Shares Outstanding (mlns.)	188	187	174
<b>Operating EPS</b>	<b>0.46</b>	<b>0.47</b>	<b>0.49</b>
Reported EPS	0.46	0.47	0.49
Dividend Per Share	0.29	0.29	0.28
Pay out Ratio	63.4%	61.6%	57.3%

Source: CIBC World Markets Inc.

**Regulated Utilities:**

- **FortisBC Energy:** FortisBC Energy earnings totaled \$51 million in Q4/11, up from \$45 million in Q4/10, but slightly below our estimate of \$53 million. The Y/Y increase reflects rate base growth due to continued investment in energy infrastructure.
- **FortisAlberta:** FortisAlberta contributed \$17 million to earnings in Q4/11, versus \$17 million in Q4/10, and our \$17 million estimate. Rate base growth was offset by the cumulative impact of the AUC's December 2011 decision to set the allowed ROE at 8.75% (versus 9.00% assumed previously) realized in Q4/11.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$11 million in Q4/11, compared to \$10 million in Q4/10, and our \$11 million estimate. Growth in the rate base was partially offset in the quarter by higher-than-expected operating expenses and lower electricity sales due to warmer-than-normal weather.
- **Newfoundland Power:** Newfoundland Power earnings were \$8 million in the quarter, compared to \$9 million in Q4/10 and our \$7 million estimate. The Y/Y decline reflects lower allowed ROE in 2011 and higher operating expenses in Q4/11, partially offset by a reduction in energy supply costs associated with its hydroelectric generating facilities.

- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$4 million in the quarter, versus \$5 million in Q4/10 and our \$3 million estimate. The Y/Y decline reflects lower electricity sales at FortisOntario, a negative rate of return adjustment at Maritime Electric and higher operating expenses.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$3 million, versus \$5 million in Q4/10 and our \$8 million estimate. Lower-than-expected earnings reflect higher amortization and operating expenses at Fortis Turks and Caicos.

### Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million, compared to \$5 million in Q4/10 and our \$5 million estimate. Increased production in Belize was offset by lower average energy sale prices in Upper New York State and higher business development costs in Ontario.
- **Fortis Properties:** Fortis Properties earnings came in at \$5 million in Q4/11, compared to \$7 million in Q4/10 and our \$6 million estimate. The Y/Y decline reflects higher corporate income taxes relative to Q4/10, as lower statutory tax rates reduced future income tax liability balances in Q4/10, which in turn, reduced corporate income taxes in Q4/10.
- **Corporate:** Corporate costs totaled \$18 million, unchanged from \$18 million in Q4/10, and below our \$22 million estimate, as a result of refinancing maturing debt at lower interest rates, and the repayment of credit facility borrowings during Q3/11.

---

## Revising Estimates

We have made the following changes to our forecasts:

- **FortisBC Energy:** We are reducing our allowed ROE assumption for FortisBC Energy Inc. from 9.50% to 9.00% for 2012 and beyond as we anticipate that the cost of capital hearings in B.C. will result in lower allowed ROEs. We are maintaining the 50 bps spread between FortisBC Energy Inc. and the other FortisBC Energy utilities [FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc., and FortisBC Energy (Fort Nelson) Inc.], implying a reduction in the allowed ROEs for these entities from 10.00% to 9.50%. As a result, our 2012 and 2013 FortisBC earnings estimates decline from \$155 million and \$164 million to \$148 million and \$156 million, respectively.
- **FortisBC Electric:** We are reducing our allowed ROE assumption for FortisBC Electric Inc. from 9.90% to 9.40% for 2012 and beyond, resulting in a decline in our FortisBC Electric earnings estimates for 2012 and 2013 from \$52 million and \$55 million to \$49 million and \$52 million, respectively.
- **Caribbean Utilities:** We are reducing our Caribbean Utilities forecasts from \$25 million to \$21 million for 2012 and 2013, reflecting more modest growth expectations from the segment.
- **Corporate:** We are reducing our 2012 and 2013 corporate costs estimates from \$79 million to \$68 million, reflecting lower financing charges due to the refinancing of debt at lower interest rates, and lower debt levels due to the repayment of credit facility borrowings during Q3/11.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2012E		2013E		
	2011A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	139	155	148	164	156
FortisAlberta	75	87	86	96	95
FortisBC Electric	48	52	49	55	52
New foundland Power	34	34	35	35	36
Other Canadian Electric Utilities	22	21	22	22	23
Regulated Electric Utilities – Caribbean	20	25	21	25	21
Total Regulated Utilities	338	374	362	396	383
<b>Non-regulated Operations</b>					
Fortis Generation	18	20	20	20	20
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	45	45	45	45
Corporate	(72)	(79)	(68)	(79)	(68)
<b>Operating Earnings For Common</b>	<b>307</b>	<b>340</b>	<b>338</b>	<b>362</b>	<b>360</b>
Unusual Items	11	0	0	0	0
Reported Earnings	318	340	338	362	360
Weighted Average Shares Outstanding (mlns.)	182	189	190	191	193
<b>Operating EPS</b>	<b>1.69</b>	<b>1.80</b>	<b>1.78</b>	<b>1.89</b>	<b>1.87</b>
Reported EPS	1.75	1.80	1.78	1.89	1.87
Div idend Per Share	1.16	1.20	1.20	1.23	1.21
Payout Ratio	68.6%	66.7%	67.6%	65.0%	65.0%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are maintaining our \$35 price target, which is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. The price target of \$35 equates to a P/E multiple of 18.7x our 2013 estimate (versus 18.5x previously), a modest premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).



## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Prior	\$0.67A	\$0.33A	\$0.25A	\$0.47E	\$1.71E
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	--	--	--	--	\$1.80E
2012 Current	\$0.66E	\$0.34E	\$0.26E	\$0.51E	\$1.78E
2013 Current	--	--	--	--	\$1.87E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/09/2012:**

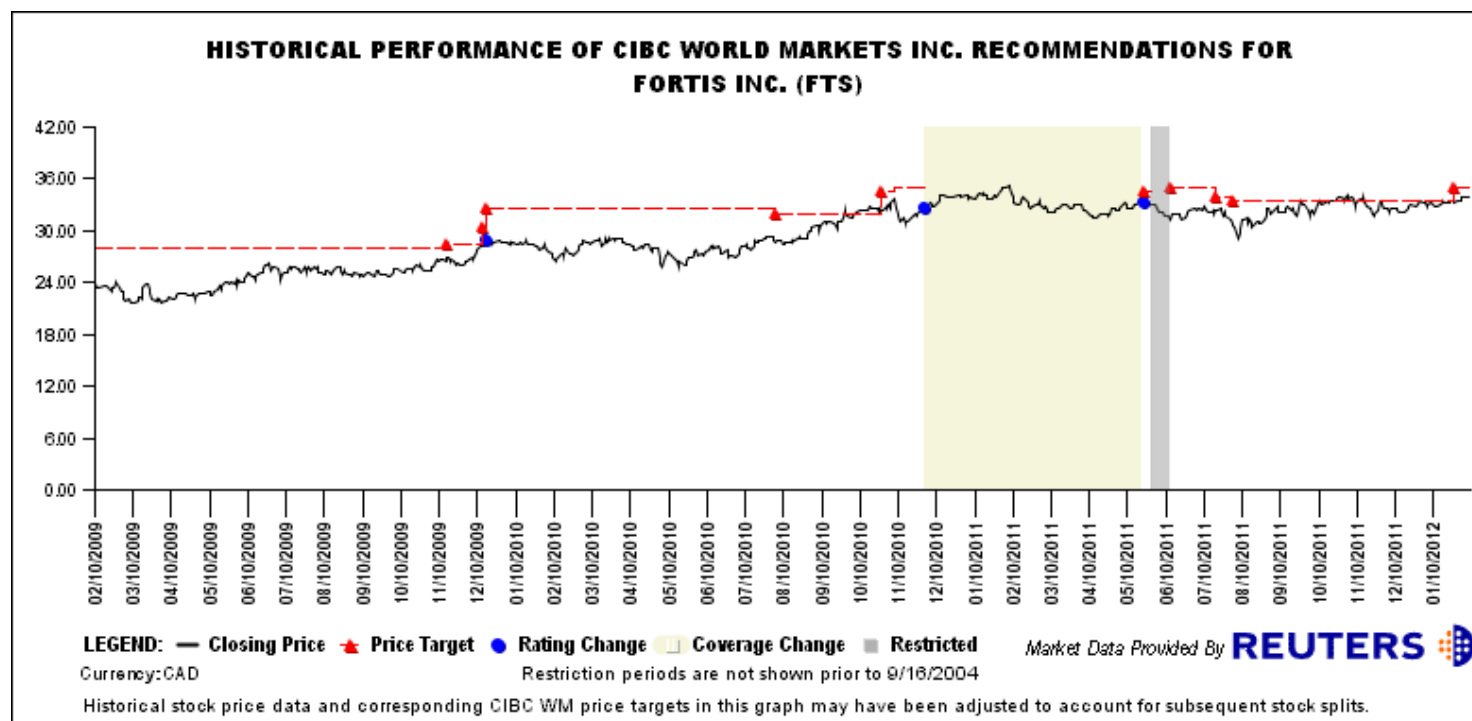
SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$53.55, Sector Outperformer)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 09 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	160	44.2%	Sector Outperformer (Buy)	159	99.4%
Sector Performer (Hold/Neutral)	163	45.0%	Sector Performer (Hold/Neutral)	159	97.5%
Sector Underperformer (Sell)	26	7.2%	Sector Underperformer (Sell)	25	96.2%
Restricted	12	3.3%	Restricted	11	91.7%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 09 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





# Institutional Equity Research Earnings Update

February 21, 2012

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.50  
FTS-TSX (2/21/12) \$32.50

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$28.24-\$34.39
Shares Outstanding	189.3M
Float	189.3M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,152.3M
Dividend/Div Yield	\$1.20 / 3.7%
Fiscal Year Ends	December
Book Value	\$20.60 per Shr
2012 ROE (E)	8.5%
LT Debt	\$5.9B
Preferred	\$912.00M
Common Equity	\$3.9B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012		\$1.78E
2013	\$1.87E	\$1.89E
<b>P/E</b>		
2011		19.2x
2012		18.3x
2013	17.4x	17.2x

#### Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

#### Yield

2011	3.6%
2012	3.7%
2013	3.8%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

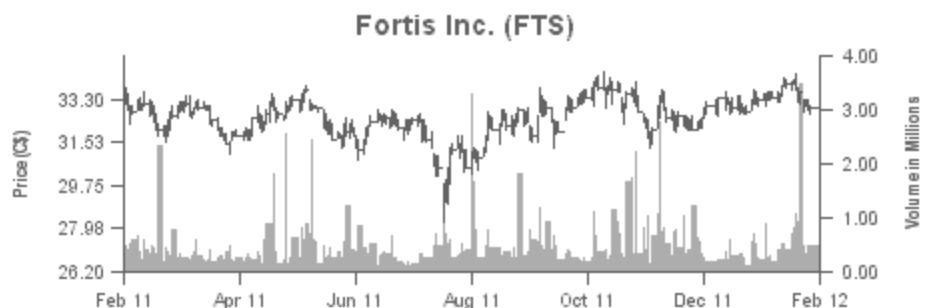
Pipelines, Utilities, & Power

## Fortis Inc.

### Announces Agreement To Acquire CH Energy Group

- Fortis announced an agreement to acquire CH Energy Group for ~US\$1.5 billion. CH Energy is the parent of Central Hudson Gas & Electric Corp., a regulated transmission and distribution utility serving 300,000 electric and 75,000 gas customers in New York State's Mid-Hudson River Valley.
- Fortis is purchasing CH Energy for US\$65/share, a 10.5% premium over the prior day's close. The purchase price includes the assumption of US\$500 million in debt, and implies an EV/rate base of 1.5x. The valuation equates to 2011 EPS and EBITDA multiples of 20.6x/10.4x vs. FTS at 19.2x/10.7x.
- Fortis intends to finance the transaction through its lines of credit, and will look to issue permanent financing (equity) once the deal closes (expected in Q1/13). While this acquisition is fully priced, Fortis expects it to be immediately accretive, driven by 6%-7% rate base growth.
- We are assuming the acquisition will be completed at US\$65/share and that Fortis will issue \$400 million in common equity (in Q1/13). While Fortis paid full value for this acquisition, we view it as a positive given CH Energy's significant growth profile. Our PT goes from \$35 to \$35.50. Maintain SP.

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

12-114504 © 2012

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**


**Fortis Inc.**

**FTS - TSX**                      **2/21/12**                      **\$32.50**  
**12- To 18- Month Price Target:**                      **\$35.50**  
**Pipelines, Utilities & Power**  
**Sector Weighting:**                      **Market Weight**

**Sector Performer**

**Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca**  
**Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca**

*All figures in Canadian millions, except per share data.*

Market Data				
Share Price	\$32.50	Net Debt	5,855	
Shares Outstanding	189	Non Control Int.	208	
Market Capitalization	6,152	Preferred Shares	912	
		Enterprise Value	13,127	

Valuations	2010A	2011A	2012E	2013E
P/E	19.7x	19.2x	18.3x	17.2x
EV/EBITDA	11.2x	10.7x	10.2x	9.0x

**Pipeline And Utilities Sector Average**

P/E	19.7x	19.4x	18.7x	17.8x
EV/EBITDA	12.8x	10.7x	9.9x	9.3x

Other Data	2010A	2011A	2012E	2013E
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24
Dividend Yield	3.4%	3.6%	3.7%	3.8%
Payout Ratio	67.9%	68.6%	67.6%	65.7%
Book Value Per Share	\$18.97	\$20.48	\$21.23	\$22.78
Price / Book Value	1.7x	1.6x	1.5x	1.4x
Cash Per Share	\$0.63	\$0.47	\$0.28	\$0.31
Debt / Total Capital	57.9%	54.3%	55.6%	58.0%
Net Debt/EBITDA	5.1x	4.8x	5.0x	5.4x

Income Statement	2010A	2011A	2012E	2013E
FortisBC Energy	130	139	148	156
FortisAlberta	68	75	86	95
FortisBC Electric	42	48	49	52
Newfoundland Power	35	34	35	36
Other Canadian Electric Utilities	19	22	22	23
CH Energy	0	0	0	39
Regulated Electric Utilities - Caribbean	23	20	21	21
Fortis Generation	20	18	20	20
Fortis Properties	26	23	24	24
Corporate	(78)	(72)	(68)	(86)

Operating Earnings	285	307	338	381
Unusual Items	0	11	0	0

Reported Earnings	285	318	338	381
-------------------	-----	-----	-----	-----

Operating EPS	\$1.65	\$1.69	\$1.78	\$1.89
---------------	--------	--------	--------	--------

Reported EPS	\$1.65	\$1.75	\$1.78	\$1.89
--------------	--------	--------	--------	--------

Shares Outstanding	174	189	192	205
--------------------	-----	-----	-----	-----

EBITDA	1,170	1,228	1,281	1,467
--------	-------	-------	-------	-------

Cash Flow	2010A	2011A	2012E	2013E
-----------	-------	-------	-------	-------

Earnings (incl. pref share dividends)	323	357	367	410
---------------------------------------	-----	-----	-----	-----

Depreciation and Amortization	410	419	426	480
-------------------------------	-----	-----	-----	-----

Total Operating Cash Flow	732	905	794	889
---------------------------	-----	-----	-----	-----

Capital Expenditures	1,024	1,116	1,291	1,153
----------------------	-------	-------	-------	-------

Dividends	231	205	268	292
-----------	-----	-----	-----	-----

Net Long Term Debt Proceeds	194	307	550	1,486
-----------------------------	-----	-----	-----	-------

Balance Sheet	2010A	2011A	2012E	2013E
---------------	-------	-------	-------	-------

Cash & Cash Equivalents	109	89	54	64
-------------------------	-----	----	----	----

Utility Capital Assets / Income Properties	8,762	9,281	10,046	12,119
--	-------	-------	--------	--------

Total Assets	12,903	13,562	14,291	16,375
--------------	--------	--------	--------	--------

Current Liabilities	1,517	1,320	1,320	1,320
---------------------	-------	-------	-------	-------

Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	7,980
--	-------	-------	-------	-------

Future Income Taxes	(3)	4	0	0
---------------------	-----	---	---	---

Non Controlling Interests	162	208	199	190
---------------------------	-----	-----	-----	-----

Preferred Shares	912	912	912	912
------------------	-----	-----	-----	-----

Shareholders' Equity	3,897	4,469	4,657	5,264
----------------------	-------	-------	-------	-------

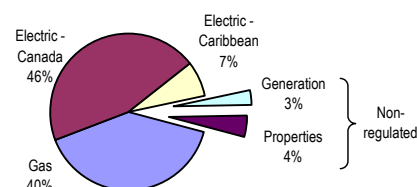
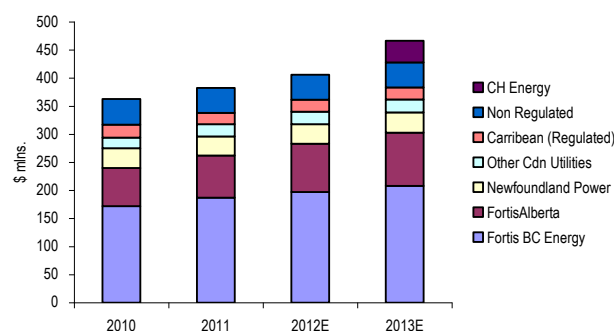
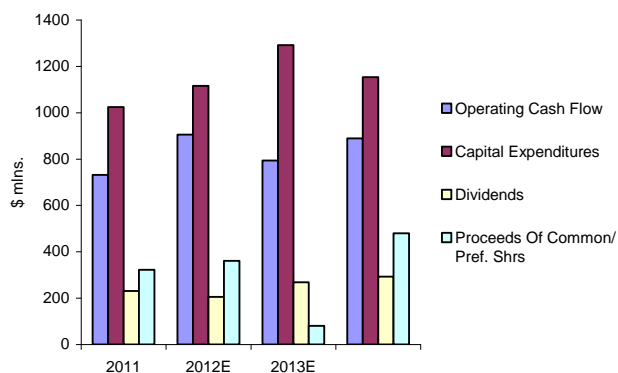
Total Shareholders' Equity And Liabilities	12,903	13,562	14,291	16,375
--	--------	--------	--------	--------

**Company Profile**

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

**Investment Thesis**

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

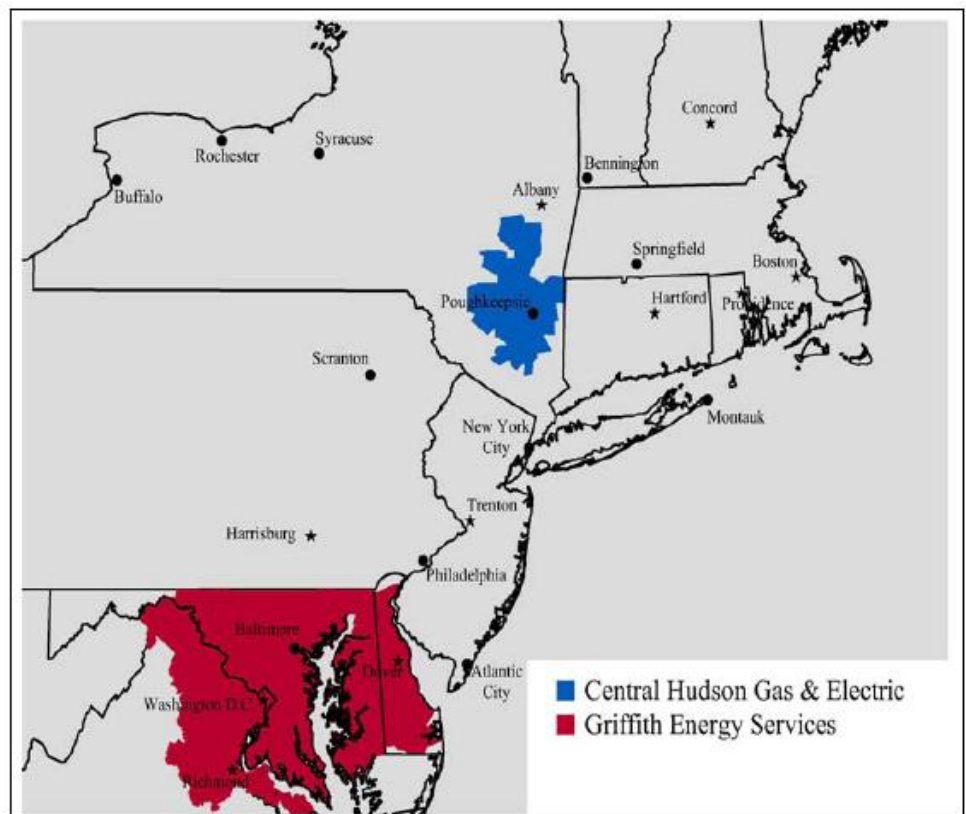
**Assets - Excl Corporate / Eliminations (As At Mar 31, 2011)**

**Segmented Earnings (Exc. Corporate)**

**Major Sources, Uses Of Cash**


Source: Company reports and CIBC World Markets Inc..

## Announces Agreement To Acquire CH Energy Group

Fortis (FTS-SP) announced an agreement to acquire CH Energy Group (CHG-NYSE) for approximately US\$1.5 billion. CH Energy is the parent of Central Hudson Gas & Electric Corp. (Central Hudson), a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 gas customers in eight counties of New York State's Mid-Hudson River Valley (service region from suburbs of metropolitan New York City to Albany). CH Energy Group also owns Central Hudson Enterprises Corp. (CHEC), a non-regulated subsidiary comprised primarily of a fuel delivery business (Griffith Energy Services) serving approximately 56,000 customers in the Mid-Atlantic region. CHEC is a much smaller contributor to earnings relative to the utility, with Central Hudson accounting for approximately 97% of net income in 2011.

### Exhibit 1. CH Energy Service Areas



Source: Company reports.

## Transaction Details

Fortis is purchasing CH Energy for US\$65/share, a 10.5% premium to the closing price on February 17, the last business day before the transaction was announced. The total purchase price of US\$1.5 billion includes the assumption of approximately US\$500 million of debt, and implies a 1.5x EV/rate base multiple (estimated rate base of ~US\$1 billion at closing). The valuation equates to 20.6x 2011 EPS and 10.4x 2011 EV/EBITDA versus 19.2x and 10.7x for Fortis, respectively. The valuation appears 'fully priced', but Fortis expects the deal to

be immediately accretive (we estimate full-year accretion of \$0.03-\$0.05/share, representing ~2% accretion on 2011 EPS totaled \$1.69) once it closes (expected in Q1/13). The accretion mainly reflects strong expected growth over the coming years with Central Hudson expected to invest an average of over US\$100 million in capital expenditures annually through 2016.

Fortis intends to finance the transaction through its lines of credit, with \$1.9 billion of a total of \$2.2 billion currently available. Fortis will look to issue permanent financing (i.e. equity) once the deal is closed, expected within 12 months, pending approvals. CH Energy shareholder vote is expected in June 2012, with FERC and New York State Public Service Commission (PSC) decisions expected to follow in Q3/12 and Q1/13, respectively. As part of the PSC review, Fortis must show how this transaction is a net benefit to customers in the service territory. Fortis will look to maintain its capital structure at ~35% common equity, the remainder debt/preferred shares. Recall that Fortis issued ~\$341 million in equity in mid-2011 to finance the Central Vermont Public Service (CVPS) acquisition which ultimately fell through, so the equity requirement for this acquisition might be partially met through that financing.

CH Energy is up 21% over the past year, as the company has sold off its renewables assets in order to focus on its core transmission and distribution utilities business. Fortis has been looking to expand into the U.S., but has failed to date as it has been outbid. Other companies with utility companies in the region include Consolidated Edison (ED-NYSE), National Grid (NGG-NYSE), and Iberdrola (IBE-MC). While this transaction comes at a steep price, we do not completely rule out the potential for other bidders to join the fray given the other large companies that operate in the region, and Fortis' experience with CVPS. The break fee associated with this transaction is set at US\$19.7 million.

---

## Acquisition Is A Modest Positive To Outlook

While Fortis paid full value for this acquisition, we view it as a positive to the extent that there is significant growth expected at Central Hudson over the next several years (rate base growth of 6%-7% annually), and the allowed ROE and equity thickness (10% ROE and 48% common equity) are strong relative to the rest of its Canadian portfolio of utilities (allowed ROEs of ~9% and equity thickness of ~40%). We are assuming that Fortis completes this acquisition (at US\$65/share) in Q1/13. We are increasing our price target from \$35 to \$35.50, and maintaining our Sector Performer rating.

---

## Revising Estimates

We have built in the CH Energy acquisition, and assumed a closing date at the end of Q1/13. In conjunction with the acquisition, we assume that: a) Fortis issues \$500 million of debt at the corporate level, and b) Fortis issues \$400 million in common equity at the end of Q1/13. As a result of these changes, our 2013 EPS estimate increases from \$1.87 to \$1.89. For 2014, we assume a full-year's contribution from CH Energy, combined with additional rate base growth, resulting in a \$0.04 increase in EPS.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2012E			2013E	
	2011A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	139	148	148	156	156
FortisAlberta	75	86	86	95	95
FortisBC Electric	48	49	49	52	52
Newfoundland Power	34	35	35	36	36
Other Canadian Electric Utilities	22	22	22	23	23
CH Energy			0		39
Regulated Electric Utilities – Caribbean	20	21	21	21	21
Total Regulated Utilities	338	362	362	383	422
<b>Non-regulated Operations</b>					
Fortis Generation	18	20	20	20	20
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	45	45	45	45
Corporate	(72)	(68)	(68)	(68)	(86)
<b>Operating Earnings For Common</b>	<b>307</b>	<b>338</b>	<b>338</b>	<b>360</b>	<b>381</b>
Unusual Items	11	0	0	0	0
Reported Earnings	318	338	338	360	381
Weighted Average Shares Outstanding (mlns.)	182	190	190	193	202
<b>Operating EPS</b>	<b>1.69</b>	<b>1.78</b>	<b>1.78</b>	<b>1.87</b>	<b>1.89</b>
Reported EPS	1.75	1.78	1.78	1.87	1.89
Dividend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	67.6%	67.6%	66.4%	65.7%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are raising our price target from \$35 to \$35.50. Our price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 18.8x our 2013 estimate, a modest premium to the group average given, in our view, Fortis' solid, low-risk, growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), and operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Current	\$0.66E	\$0.34E	\$0.26E	\$0.51E	\$1.78E
2013 Prior	--	--	--	--	\$1.87E
2013 Current	--	--	--	--	\$1.89E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/21/2012:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$49.58, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/21/2012:**

CH Energy Group (CHG-NYSE, US\$66.22, Not Rated)

Consolidated Edison (ED-NYSE, US\$57.86, Not Rated)

Iberdrola (IBE-MC, €4.60, Not Rated)

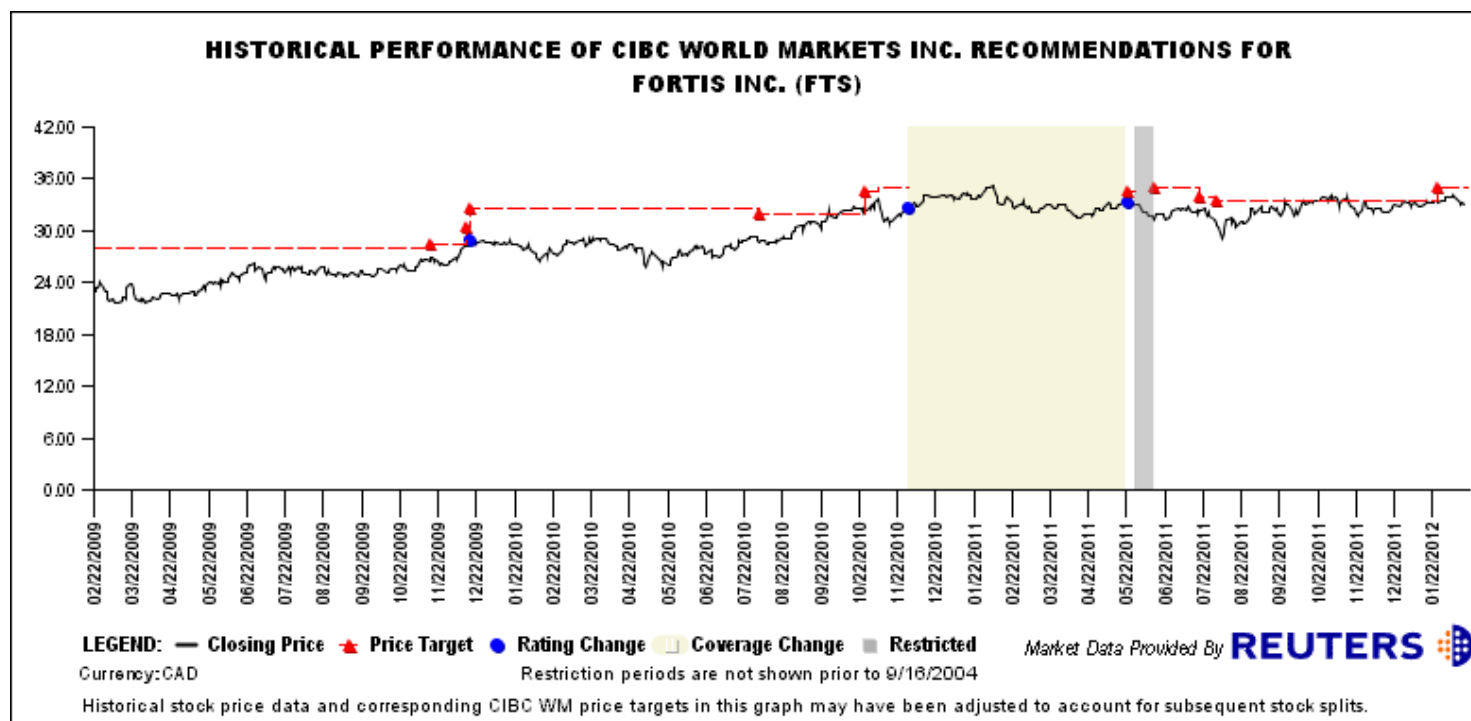
National Grid TransCo (NGG-NYSE, US\$50.85, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 21 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	158	43.8%	Sector Outperformer (Buy)	157	99.4%
Sector Performer (Hold/Neutral)	162	44.9%	Sector Performer (Hold/Neutral)	158	97.5%
Sector Underperformer (Sell)	28	7.8%	Sector Underperformer (Sell)	27	96.4%
Restricted	12	3.3%	Restricted	11	91.7%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 21 Feb 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





# Institutional Equity Research Earnings Update

May 2, 2012

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.50  
FTS-TSX (5/2/12) \$34.37

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$28.24-\$34.39
Shares Outstanding	189.3M
Float	189.3M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,505.3M
Dividend/Div Yield	\$1.20 / 3.5%
Fiscal Year Ends	December
Book Value	\$20.61 per Shr
2012 ROE (E)	8.6%
LT Debt	\$6.3B
Preferred	\$912.00M
Common Equity	\$3.9B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.78E	\$1.78E
2013	\$1.89E	\$1.87E

P/E		
2011		20.3x
2012	19.3x	19.3x
2013	18.2x	18.4x

#### Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

#### Yield

2011	3.4%
2012	3.5%
2013	3.6%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

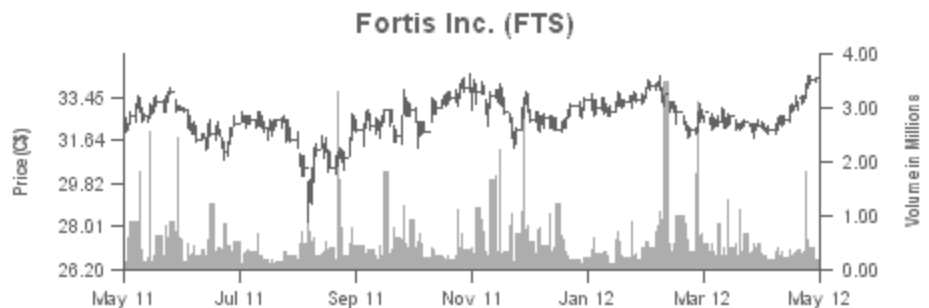
Pipelines, Utilities, & Power

## Fortis Inc.

### Q1 In Line, Ex-Acquisition Charges

- Fortis reported Q1/12 adjusted EPS of \$0.66 versus our estimate of \$0.66 (consensus \$0.67). Our adjusted EPS excludes ~\$4 million in one-time costs related to the pending CH Energy acquisition which impacted earnings by \$0.02/share.
- Operationally, the quarter benefited from ongoing strong rate base growth in its western Canadian utilities, offset by: warmer than normal weather, a lower allowed ROE for FortisAlberta, and the discontinuance of the PBR mechanism for FortisBC Electric.
- Looking forward, we see the benefits of ongoing rate base growth in the western Canadian utilities and (in 2013) the expected inclusion of the CH Energy acquisition. However, we also see modest downside risk to allowed ROEs in the B.C. utilities.
- We have updated our earnings outlook to reflect these factors, with modest changes to our ROE assumptions resulting in no change to our 2012 forecast and a minor (\$0.02) annual EPS impact thereafter. We maintain our SP rating and \$35.50 price target.

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

12-116001 © 2012

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**





## Fortis Inc.

FTS - TSX 5/2/12 \$34.37  
 12- To 18- Month Price Target: \$35.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$34.37	Net Debt	6,186		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	189	Non Control Int.	246						
Market Capitalization	6,506	Preferred Shares	912						
		Enterprise Value	13,850						
Valuations					Investment Thesis				
P/E	20.9x	20.3x	19.3x	18.4x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	11.8x	11.3x	10.7x	9.4x					
Pipeline And Utilities Sector Average									
P/E	19.7x	17.4x	18.8x	18.1x					
EV/EBITDA	13.6x	12.0x	10.2x	9.3x					
Other Data					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24					
Dividend Yield	3.3%	3.4%	3.5%	3.6%					
Payout Ratio	67.9%	68.6%	67.3%	66.5%					
Book Value Per Share	\$18.97	\$20.48	\$21.18	\$22.72					
Price / Book Value	1.8x	1.7x	1.6x	1.5x					
Cash Per Share	\$0.63	\$0.47	\$0.23	\$0.29					
Debt / Total Capital	57.9%	54.3%	55.7%	58.1%					
Net Debt/EBITDA	5.1x	4.8x	5.0x	5.4x					
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	130	139	153	156					
FortisAlberta	68	75	86	95					
FortisBC Electric	42	48	47	47					
Newfoundland Power	35	34	35	36					
Other Canadian Electric Utilities	19	22	22	23					
CH Energy	0	0	0	39					
Regulated Electric Utilities - Caribbean	23	20	20	21					
Fortis Generation	20	18	20	20					
Fortis Properties	26	23	24	24					
Corporate	(78)	(72)	(68)	(86)					
<b>Operating Earnings</b>	<b>285</b>	<b>307</b>	<b>339</b>	<b>375</b>					
Unusual Items	0	11	(4)	0					
Reported Earnings	285	318	335	375					
<b>Operating EPS</b>	<b>\$1.65</b>	<b>\$1.69</b>	<b>\$1.78</b>	<b>\$1.87</b>					
Reported EPS	\$1.65	\$1.75	\$1.76	\$1.87					
Shares Outstanding	174	189	191	204					
EBITDA	1,170	1,228	1,296	1,474					
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	323	357	364	404					
Depreciation and Amortization	410	419	437	490					
Total Operating Cash Flow	732	905	800	894					
Capital Expenditures	1,024	1,116	1,291	1,153					
Dividends	231	205	267	292					
Net Long Term Debt Proceeds	194	307	550	1,486					
Balance Sheet									
Cash & Cash Equivalents	109	89	43	59					
Utility Capital Assets / Income Properties	8,762	9,281	10,035	12,098					
Total Assets	12,903	13,562	14,271	16,349					
Current Liabilities	1,517	1,320	1,320	1,320					
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	7,980					
Future Income Taxes	(3)	4	0	0					
Non Controlling Interests	162	208	199	190					
Preferred Shares	912	912	912	912					
Shareholders' Equity	3,897	4,469	4,637	5,238					
Total Shareholders' Equity And Liabilities	12,903	13,562	14,271	16,349					

Source: Company reports and CIBC World Markets Inc.

---

## Q1 In Line, Ex-Acquisition Charges

Fortis (FTS-SP) reported adjusted Q1/12 EPS of \$0.66 versus our estimate of \$0.66 (consensus \$0.67). Our adjusted EPS excludes the impact of one-time expenses of ~\$4 million (a \$0.02 EPS impact) related to the pending acquisition of CH Energy Group, Inc. (CHG-NYSE). EPS was also down versus \$0.67 (CGAAP) last Q1, reflecting the dilutive impact from the issuance of 10.34 million shares in mid-2011.

Operationally, the quarter was roughly in line with expectations. While ongoing rate base and customer growth (especially at FortisAlberta) benefited results, there were a number of minor headwinds in the quarter, including: (1) the impact of a warmer-than-normal winter on energy consumption; (2) a lower allowed ROE at FortisAlberta, stemming from a late 2011 regulatory decision; (3) the discontinuance as of the end of 2011 of the performance-based rate-setting (PBR) mechanism at FortisBC Electric, which allowed for sharing of cost savings between the utility and its rate payers.

---

## No Material Change To Outlook

We continue to view the key drivers to Fortis' outlook as follows:

- **Rate base/customer growth:** Fortis' western Canadian regulated utilities continue to experience strong rate base growth, driven by customer additions and ongoing capex (i.e., forecast 2012 capex of \$774 million for FortisBC Energy, FortisBC Electric and FortisAlberta – roughly 60% of total forecast 2012 capex of \$1.29 billion). This investment contributes to forecast mid-year rate base growth of: ~10% for FortisBC Energy, ~7% for FortisBC Electric, and ~15% for FortisAlberta.
- **Regulatory proceedings:** Partially offsetting this rate base growth, Fortis is seeing modest downward pressure on its allowed ROEs. FortisAlberta received a decision in late 2011 to lower its 2011 and 2012 allowed ROE from 9.00% to 8.75%; FortisBC Energy will face a Generic Cost of Capital proceeding in 2012 to determine an appropriate allowed ROE, and we see downside risk in 2013 to the current 9.50% (10.00% for Vancouver Island/Whistler/Fort Nelson) rates; FortisBC Electric is maintaining a 9.90% allowed ROE in 2012, but the PBR mechanism – which helped generate an overall achieved ROE of ~11.20% for 2011 – has been discontinued for 2012.
- **Acquisitions:** Fortis announced an agreement to acquire CH Energy Group on February 21. Numerous approvals are required, including shareholders, regulators and others. In April, applications were filed with the New York State Public Service Commission (NYPSC) and the U.S. Federal Energy Regulatory Commission (FERC), and the CH Energy shareholder vote is expected in June. If all required approvals are received, closing is expected by the end of Q1/2013.

Overall, we see no material change to our outlook, with adjustments to our ROE assumptions having no impact to our 2012 EPS forecast, and a modest (\$0.02) impact on 2013 and beyond (although we have not built in any potential positives, like the potential reinstatement of a PBR mechanism in B.C.). Accordingly, we maintain our Sector Performer rating and \$35.50 price target.

## Q1/12 Results

Fortis reported adjusted Q1/12 EPS of \$0.66, versus \$0.67 (CGAAP) in Q1/11, and our \$0.66 expectation (consensus \$0.67). Results were in-line with expectations across most segments, with modestly lower-than-expected FortisBC Electric earnings offset by slightly stronger results in FortisBC Energy and Fortis Generation. The \$0.66 in adjusted EPS excludes \$4 million (\$0.02 in EPS) in one-time acquisition-related expenses associated with the CH Energy transaction. The Y/Y decline reflects the impact of the issuance of 10.34 million shares in June and July 2011.

### Exhibit 1. Q1/12 Results (\$ mlns., except per share)

Segmented Earnings	Q1/12A	Q1/12E	Q1/11A
<b>Regulated Utilities</b>			
FortisBC Energy	82	80	76
FortisAlberta	21	22	21
FortisBC Electric	16	20	19
Newfoundland Power	7	7	7
Other Canadian Electric Utilities	7	6	6
Regulated Electric Utilities – Caribbean	3	4	4
Total Regulated Utilities	136	139	133
<b>Non-regulated Operations</b>			
Fortis Generation	5	3	3
Fortis Properties	1	2	1
Total Non-regulated Operations	6	5	4
Corporate	(17)	(18)	(20)
<b>Operating Earnings For Common</b>	<b>125</b>	<b>126</b>	<b>117</b>
Unusual Items	(4)	0	0
Reported Earnings	121	126	117
Weighted Average Shares Outstanding (mlns.)	189	190	175
<b>Operating EPS</b>	<b>0.66</b>	<b>0.66</b>	<b>0.67</b>
Reported EPS	0.64	0.66	0.67
Dividend Per Share	0.30	0.30	0.29
Payout Ratio	45.4%	45.3%	43.4%

Source: CIBC World Markets Inc.

### Regulated Utilities:

- FortisBC Energy:** FortisBC Energy earnings totaled \$82 million in Q1/12, compared to \$76 million (CGAAP) in Q1/11 and our estimate of \$80 million. The strong performance reflects the seasonality of gas consumption and the timing of certain expenses (revenue recognized on consumption while certain expenses are incurred evenly throughout the year), rate base growth due to continued investment, and higher gas transportation volumes to the forestry and mining sector.

- **FortisAlberta:** FortisAlberta contributed \$21 million to earnings in Q1/12, versus \$21 million (CGAAP) in Q1/11, and our \$22 million estimate. Results were flat Y/Y reflecting rate base growth offset by a \$1 million gain on sale of property during Q1/11, lower-than-expected number of customers and lower energy consumption by residential customers in Q1/12, and a lower allowed ROE (8.75% in Q1/12 versus 9.00% in Q1/11).
- **FortisBC Electric:** FortisBC Electric earnings totaled \$16 million in Q1/12, compared to \$19 million (CGAAP) in Q1/11, and our \$20 million estimate. The underperformance reflects the discontinuance of the performance-based rate-setting (PBR) mechanism (the benefit of lower-than-expected costs were shared equally between FortisBC Electric and customers under PBR in Q1/11), and increased operating expenses in Q1/12.
- **Newfoundland Power:** Newfoundland Power earnings were \$7 million in the quarter, compared to \$7 million (CGAAP) in Q1/11 and our \$7 million estimate. Lower corporate income taxes in the quarter (due to a lower statutory rate), were offset by lower revenue associated with the joint-use poles with Bell Aliant (BA-SP) that were sold in October 2011.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$7 million in the quarter, versus \$6 million (CGAAP) in Q1/11 and our \$6 million estimate. Higher earnings reflected lower corporate income taxes and increased electricity sales at Maritime Electric.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$3 million, versus \$4 million (CGAAP) in Q1/11 and our \$4 million estimate. Lower earnings reflected higher depreciation and finance charges due to increased investments in capital assets, and increased operating expenses associated with insurance and employee-related costs.

### Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million, compared to \$3 million (CGAAP) in Q1/11 and our \$3 million estimate. Stronger-than expected results reflect increased production in Belize due to higher rainfall.
- **Fortis Properties:** Fortis Properties earnings came in at \$1 million in Q1/12, compared to \$1 million (CGAAP) in Q1/11 and our \$2 million estimate. The contribution from a Winnipeg hotel acquired in October 2011 was offset by the gain on sale of the Viking Mall during Q1/11.
- **Corporate:** Corporate costs totaled \$17 million (excluding \$4 million of one-time acquisition related expenses) in Q1/12, down from \$20 million (CGAAP) in Q1/11, as a result of lower finance charges due to higher capitalized interest (financing Waneta Expansion), and lower borrowings.

---

## Revising Estimates

For 2012, we have increased our allowed ROE assumptions back to the 2011 levels for FortisBC Energy and FortisBC Electric, as the results of cost of capital hearings in the province will impact allowed ROEs beginning in 2013.

- **FortisBC Energy:** The 2012 allowed ROE for FortisBC Energy Inc. is 9.50%, versus our previous assumption of 9.00%, and 10.00% for the other FortisBC Energy utilities (Vancouver Island, Whistler, and Fort Nelson), versus our previous assumption of 9.50%. For 2013, we maintain our 50 bps decline assumption for all of the FortisBC Energy utilities (9.00% for FortisBC Energy Inc., and 9.50% for the other FortisBC Energy utilities).

- FortisBC Electric:** The 2012 allowed ROE for FortisBC Electric is 9.90%, versus our previous assumption of 9.40%. With the discontinuation of the performance-based rate (PBR) mechanism, we expect achieved ROE in 2012 (and beyond) to decline. For 2013, we maintain our 50 bps decline assumption for FortisBC Electric to 9.40%.

In 2012, the impact of higher assumed allowed ROEs in B.C. offsets the discontinuation of the PBR at FortisBC Electric, and as result, our 2012 EPS estimate of \$1.78 remains unchanged. For 2013, we have maintained our assumption of a 50 bps decline in allowed ROEs for Fortis B.C. utilities, and combined with the impact of the PBR discontinuation, results in our 2013 EPS estimate declining from \$1.89 to \$1.87.

## Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2012E		2013E		
	2011A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	139	148	153	156	156
FortisAlberta	75	86	86	95	95
FortisBC Electric	48	49	47	52	47
Newfoundland Power	34	35	35	36	36
Other Canadian Electric Utilities	22	22	22	23	23
CH Energy		0	0	39	39
Regulated Electric Utilities – Caribbean	20	21	20	21	21
Total Regulated Utilities	338	362	363	422	417
<b>Non-regulated Operations</b>					
Fortis Generation	18	20	20	20	20
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	45	44	45	44
Corporate	(72)	(68)	(68)	(86)	(86)
<b>Operating Earnings For Common</b>	<b>307</b>	<b>338</b>	<b>339</b>	<b>381</b>	<b>375</b>
Unusual Items	11	0	(4)	0	0
Reported Earnings	318	338	335	381	375
Weighted Average Shares Outstanding (mlns.)	182	190	190	202	201
<b>Operating EPS</b>	<b>1.69</b>	<b>1.78</b>	<b>1.78</b>	<b>1.89</b>	<b>1.87</b>
Reported EPS	1.75	1.78	1.76	1.89	1.87
Div idend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	67.6%	67.3%	65.7%	66.5%

Source: CIBC World Markets Inc.

## Price Target Calculation

Our \$35.50 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 19.0x our 2013 estimate, a modest premium to the group average (18.4x) given, in our view, Fortis' solid, low-risk, growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66E	\$0.34E	\$0.26E	\$0.51E	\$1.78E
2012 Current	\$0.66A	\$0.34E	\$0.26E	\$0.53E	\$1.78E
2013 Prior	--	--	--	--	\$1.89E
2013 Current	--	--	--	--	\$1.87E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/02/2012:**

Bell Aliant Inc. (2a, 2c, 2e, 2g) (BA-TSX, \$26.42, Sector Performer)

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$38.17, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/02/2012:**

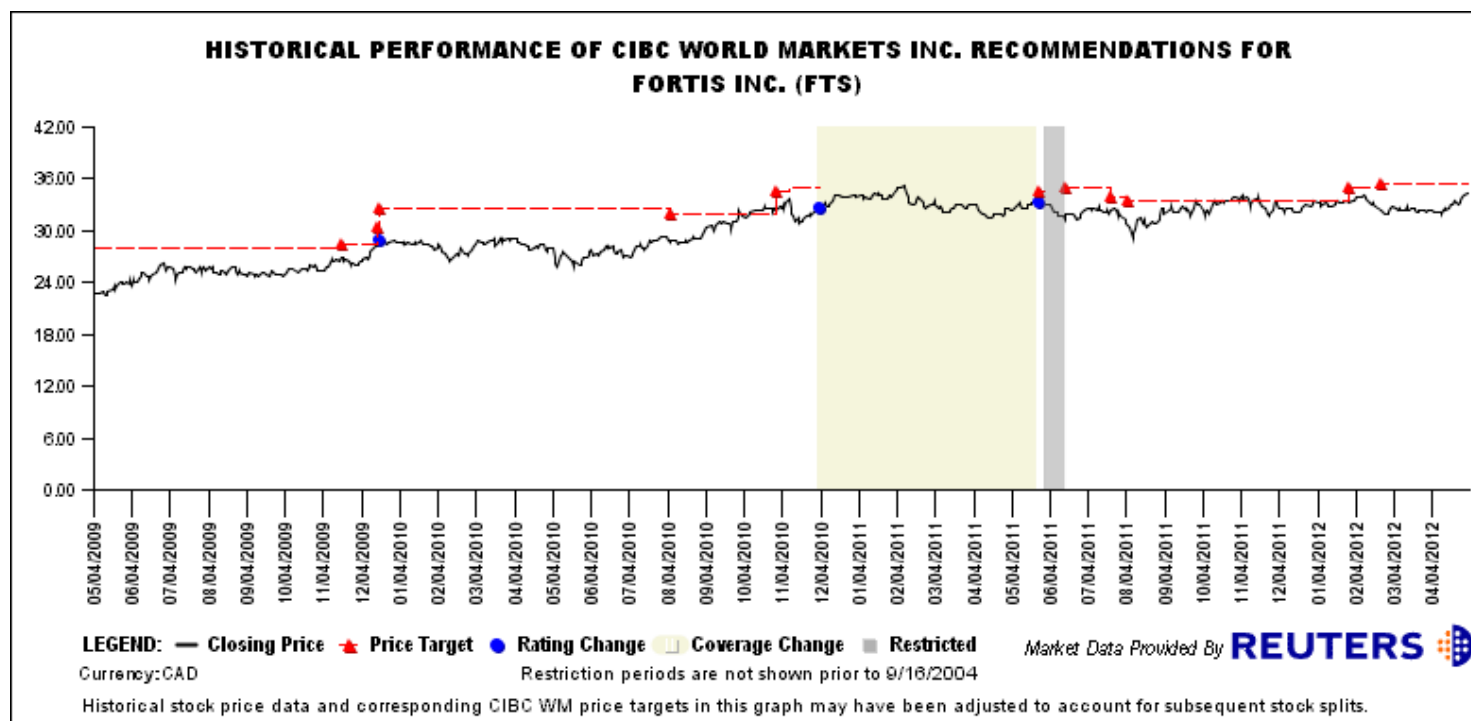
CH Energy Group (CHG-NYSE, US\$65.56, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 02 May 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	153	42.1%	Sector Outperformer (Buy)	151	98.7%
Sector Performer (Hold/Neutral)	166	45.7%	Sector Performer (Hold/Neutral)	164	98.8%
Sector Underperformer (Sell)	25	6.9%	Sector Underperformer (Sell)	23	92.0%
Restricted	18	5.0%	Restricted	17	94.4%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 02 May 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	28.6%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

June 28, 2012

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$34.50  
FTS-TSX (6/28/12) \$32.06

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$28.24-\$34.98  
Shares Outstanding 207.8M  
Float 207.8M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,662.1M  
Dividend/Div Yield \$1.20 / 3.7%  
Fiscal Year Ends December  
Book Value \$21.66 per Shr  
2012 ROE (E) 8.0%  
LT Debt \$6.3B  
Preferred \$912.00M  
Common Equity \$4.5B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.78E	\$1.71E
2013	\$1.87E	\$1.82E

P/E		
2011		19.0x
2012	18.0x	18.7x
2013	17.1x	17.6x

Dividend Per Share	
2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield	
2011	3.6%
2012	3.7%
2013	3.9%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

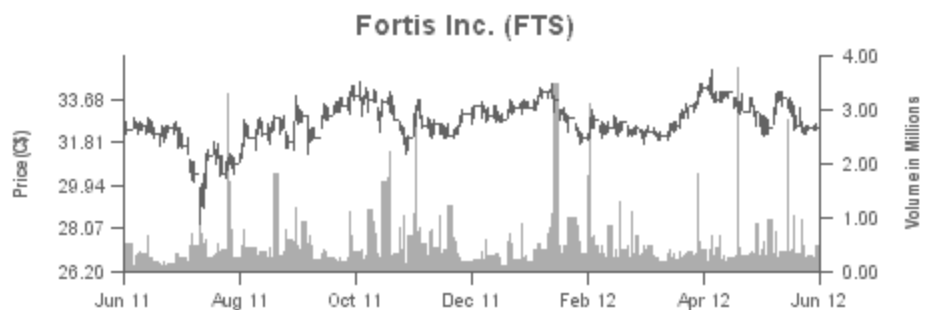
Pipelines, Utilities, & Power

## Fortis Inc.

### CH Energy Shareholder Approval; Closes \$601 Million In Subscription Receipts

- On June 27 Fortis announced the completion of its bought deal for 18.5 million subscription receipts at a purchase price of \$32.50 per subscription receipt. The gross proceeds of \$601 million will be held in an escrow pending the closing of the CH Energy acquisition.
- On June 19 Fortis announced that CH Energy shareholders approved the merger agreement whereby Fortis will acquire CH Energy for an aggregate purchase price of approximately US\$1.5 billion, including the assumption of approximately US\$500 million in debt.
- We had previously assumed that Fortis would issue \$400 million in common equity in conjunction with the closing of the transaction, expected in Q1/13. The larger and earlier equity issue results in our 2012E and 2013E EPS declining from \$1.78 and \$1.87 to \$1.71 and \$1.82, respectively.
- The larger-than-expected equity issue also brings the expected accretion from this transaction in the first full year (2014) to the lower end of our original estimate of \$0.03-\$0.05. We are reducing our price target from \$35.50 to \$34.50. We maintain our SP rating.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

12-117052 © 2012

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**





## Fortis Inc.

FTS - TSX 6/28/12 \$32.06  
 12- To 18- Month Price Target: \$34.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$32.06	Net Debt	6,186		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	208	Non Control Int.	246						
Market Capitalization	6,662	Preferred Shares	912						
		Enterprise Value	14,006						
Valuations					Investment Thesis				
P/E	19.4x	2010A	2011A	2012E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	12.0x	19.0x	18.8x	17.6x					
		12.0x	11.4x	10.8x					
Pipeline And Utilities Sector Average					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
P/E	18.8x	18.0x	18.1x	17.7x					
EV/EBITDA	13.8x	12.3x	10.5x	9.7x					
Other Data									
Dividend Per Share	\$1.12	2010A	2011A	2012E					
Dividend Yield	3.5%	\$1.16	\$1.20	\$1.24					
Payout Ratio	67.9%	3.6%	3.7%	3.9%					
Book Value Per Share	\$18.97	68.6%	70.4%	68.1%					
Price / Book Value	1.7x	\$20.48	\$21.93	\$22.64					
Cash Per Share	\$0.63	1.6x	1.5x	1.4x					
Debt / Total Capital	57.9%	\$0.47	\$2.78	\$0.45					
Net Debt/EBITDA	5.1x	54.3%	53.3%	57.3%					
		4.8x	4.6x	5.3x					
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	130	2010A	2011A	2012E					
FortisAlberta	68	139	153	156					
FortisBC Electric	42	48	47	47					
Newfoundland Power	35	34	36	37					
Other Canadian Electric Utilities	19	22	22	23					
CH Energy	0	0	0	39					
Regulated Electric Utilities - Caribbean	23	20	20	21					
Fortis Generation	20	18	20	20					
Fortis Properties	26	23	24	24					
Corporate	(78)	(72)	(68)	(80)					
Operating Earnings	285	307	340	382					
Unusual Items	0	11	(4)	0					
Reported Earnings	285	318	336	382					
Operating EPS	\$1.65	\$1.69	\$1.71	\$1.82					
Reported EPS	\$1.65	\$1.75	\$1.69	\$1.82					
Shares Outstanding	174	189	209	211					
EBITDA	1,170	1,228	1,298	1,476					
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	323	357	365	411					
Depreciation and Amortization	410	419	437	490					
Total Operating Cash Flow	732	905	802	902					
Capital Expenditures	1,024	1,116	1,291	1,153					
Dividends	231	205	289	300					
Net Long Term Debt Proceeds	194	307	550	1,386					
Balance Sheet									
Cash & Cash Equivalents	109	2010A	2011A	2012E					
Utility Capital Assets / Income Properties	8,762	89	580	95					
Total Assets	12,903	9,281	10,035	12,098					
Current Liabilities	1,517	13,562	14,807	16,385					
Debt (incl. Current and Short Term Borrowings)	6,023	1,320	1,320	1,320					
Future Income Taxes	(3)	5,944	6,494	7,880					
Non Controlling Interests	162	4	0	0					
Preferred Shares	912	208	199	190					
Shareholders' Equity	3,897	912	912	912					
Total Shareholders' Equity And Liabilities	12,903	4,469	5,173	5,374					
		13,562	14,807	16,385					

Source: Company reports and CIBC World Markets Inc.

---

## Price Target Calculation

We are reducing our price target from \$35.50 to \$34.50, based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' (FTS-SP) five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 19.0x our 2013 estimate, a premium to the group average (17.7x) given, in our view, Fortis' solid, low-risk, growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin Group (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66A	\$0.34E	\$0.26E	\$0.53E	\$1.78E
2012 Current	\$0.66A	\$0.33E	\$0.24E	\$0.49E	\$1.71E
2013 Prior	--	--	--	--	\$1.87E
2013 Current	--	--	--	--	\$1.82E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/28/2012:**

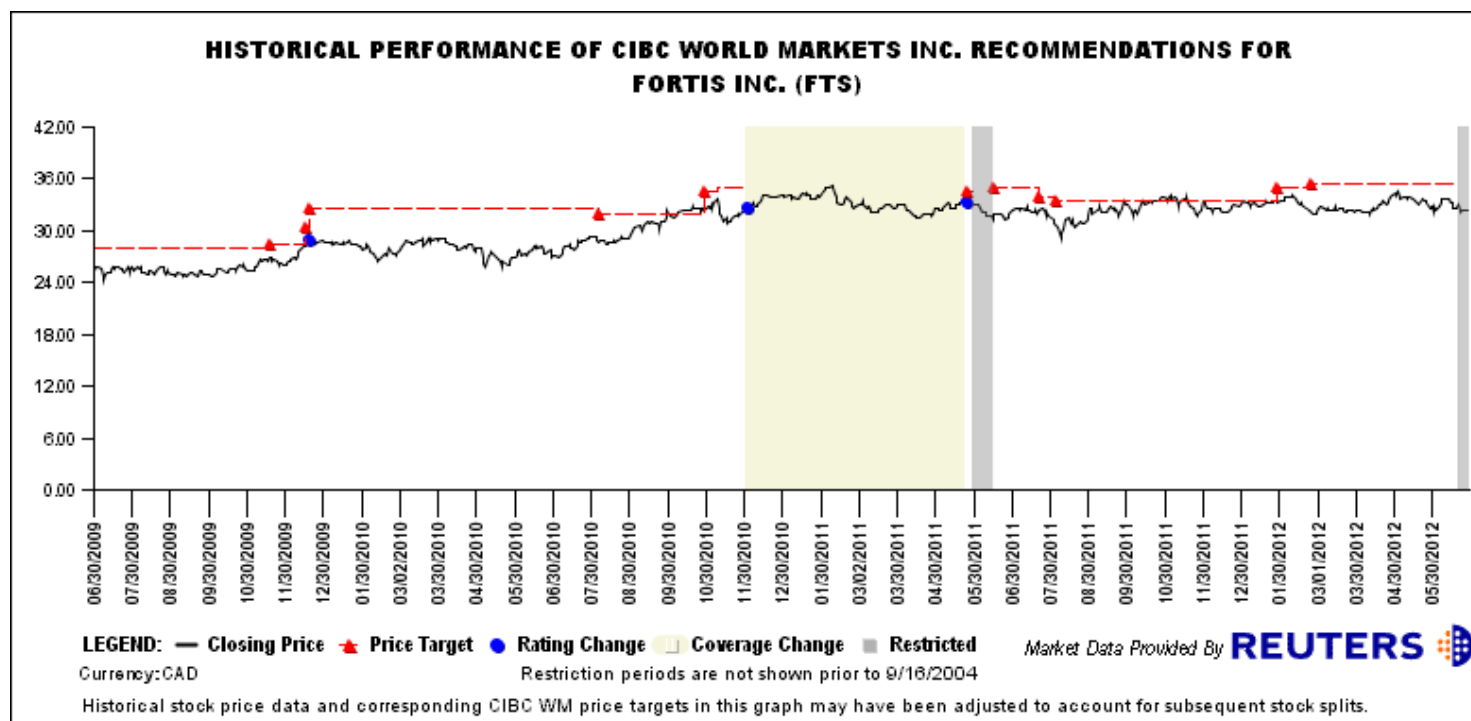
SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$37.44, Sector Outperformer)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	■	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem



## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 28 Jun 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	157	42.1%	Sector Outperformer (Buy)	153	97.5%
Sector Performer (Hold/Neutral)	170	45.6%	Sector Performer (Hold/Neutral)	168	98.8%
Sector Underperformer (Sell)	28	7.5%	Sector Underperformer (Sell)	26	92.9%
Restricted	17	4.6%	Restricted	16	94.1%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 28 Jun 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	28.6%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	14.3%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

July 31, 2012

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$34.50  
FTS-TSX (7/31/12) \$33.54

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$28.24-\$34.98  
Shares Outstanding 190.0M  
Float 190.0M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,371.5M  
Dividend/Div Yield \$1.20 / 3.6%  
Fiscal Year Ends December  
Book Value \$20.68 per Shr  
2012 ROE (E) 8.5%  
LT Debt \$6.4B  
Preferred \$912.00M  
Common Equity \$3.9B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.71E	\$1.76E
2013	\$1.82E	\$1.85E

P/E		
2011		19.8x
2012	19.6x	19.1x
2013	18.4x	18.1x

Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

Yield

2011	3.5%
2012	3.6%
2013	3.7%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

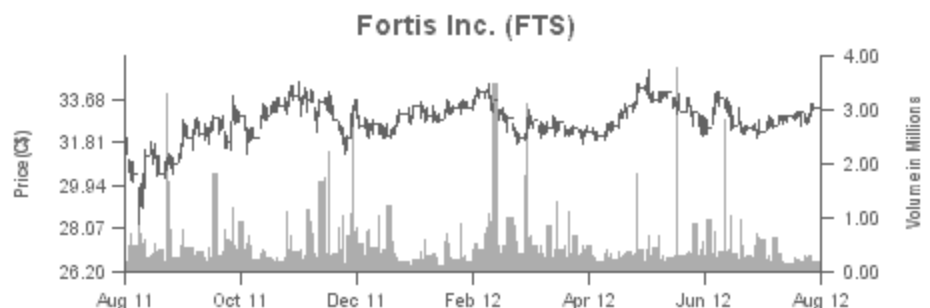
Pipelines, Utilities, & Power

## Fortis Inc.

### Solid Q2 Benefits From Ongoing Growth At FortisAlberta

- Fortis reported headline EPS of \$0.33. Excluding costs related to the pending CH Energy acquisition, EPS were \$0.34 versus our estimate (and consensus) of \$0.33. The company incurred a further \$3 million in one-time costs related to CH Energy (on top of \$4 million in Q1).
- Operationally, Q2 benefited from strength at FortisAlberta (earnings up 37% y/y), driven by ongoing customer additions and rate base growth, and further helped by ~\$4 million (~\$0.02 EPS) in additional revenues/reduced costs related to Q1, but recognized in Q2 due to recent regulatory decisions.
- Fortis continues to work towards closing the US\$1.5 billion CH Energy acquisition by the end of Q1/13. Fortis received CH Energy shareholder approval in June and U.S. FERC/CFIUS regulatory approvals in July. NY State Public Service Commission approvals remain outstanding.
- In Q1/13, we expect the close of the CH Energy acquisition and key regulatory decisions in Alberta and B.C. However, we see little change to the outlook for the balance of 2012 and maintain our Sector Performer rating and \$34.50 price target.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

12-117642 © 2012

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 7/31/12 \$33.54  
 12- To 18- Month Price Target: \$34.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					
Share Price	\$33.54	Net Debt	6,186		
Shares Outstanding	189	Non Control Int.	246		
Market Capitalization	6,348	Preferred Shares	912		
		Enterprise Value	13,692		
Valuations					
P/E	20.3x	2011A	19.8x	2012E	18.1x
EV/EBITDA	11.7x	2011A	11.1x	2012E	9.3x
Pipeline And Utilities Sector Average					
P/E	19.5x	2011A	19.4x	2012E	18.6x
EV/EBITDA	14.2x	2011A	14.2x	2012E	10.9x
Other Data					
Dividend Per Share	\$1.12	2011A	\$1.16	2012E	\$1.24
Dividend Yield	3.3%	2011A	3.5%	2012E	3.7%
Payout Ratio	67.9%	2011A	68.6%	2012E	67.1%
Book Value Per Share	\$18.97	2011A	\$20.48	2012E	\$22.77
Price / Book Value	1.8x	2011A	1.6x	2012E	1.5x
Cash Per Share	\$0.63	2011A	\$0.47	2012E	\$0.47
Debt / Total Capital	57.9%	2011A	54.3%	2012E	57.2%
Net Debt/EBITDA	5.1x	2011A	4.8x	2012E	5.3x
Income Statement					
FortisBC Energy	130	2011A	139	2012E	156
FortisAlberta	68	2011A	75	2012E	95
FortisBC Electric	42	2011A	48	2012E	47
Newfoundland Power	35	2011A	34	2012E	37
Other Canadian Electric Utilities	19	2011A	22	2012E	23
CH Energy	0	2011A	0	2012E	39
Regulated Electric Utilities - Caribbean	23	2011A	20	2012E	21
Fortis Generation	20	2011A	18	2012E	21
Fortis Properties	26	2011A	23	2012E	24
Corporate	(78)	2011A	(72)	2012E	(84)
Operating Earnings	285	2011A	307	2012E	380
Unusual Items	0	2011A	11	2012E	0
Reported Earnings	285	2011A	318	2012E	380
Operating EPS	\$1.65	2011A	\$1.69	2012E	\$1.85
Reported EPS	\$1.65	2011A	\$1.75	2012E	\$1.85
Shares Outstanding	174	2011A	189	2012E	210
EBITDA	1,170	2011A	1,228	2012E	1,471
Cash Flow					
Earnings (incl. pref share dividends)	323	2011A	357	2012E	409
Depreciation and Amortization	410	2011A	419	2012E	490
Total Operating Cash Flow	732	2011A	905	2012E	899
Capital Expenditures	1,024	2011A	1,116	2012E	1,153
Dividends	231	2011A	205	2012E	299
Net Long Term Debt Proceeds	194	2011A	307	2012E	1,386
Balance Sheet					
Cash & Cash Equivalents	109	2011A	89	2012E	98
Utility Capital Assets / Income Properties	8,762	2011A	9,281	2012E	12,098
Total Assets	12,903	2011A	13,562	2012E	16,388
Current Liabilities	1,517	2011A	1,320	2012E	1,320
Debt (incl. Current and Short Term Borrowings)	6,023	2011A	5,944	2012E	7,880
Future Income Taxes	(3)	2011A	4	2012E	0
Non Controlling Interests	162	2011A	208	2012E	190
Preferred Shares	912	2011A	912	2012E	912
Shareholders' Equity	3,897	2011A	4,469	2012E	5,377
Total Shareholders' Equity And Liabilities	12,903	2011A	13,562	2012E	16,388

Company Profile																																																																									
Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.																																																																									
Investment Thesis																																																																									
Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.																																																																									
Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)																																																																									
<table><caption>Asset Breakdown (As At Dec 31, 2011)</caption><thead><tr><th>Asset Category</th><th>Percentage</th></tr></thead><tbody><tr><td>Gas</td><td>39%</td></tr><tr><td>Electric - Canada</td><td>46%</td></tr><tr><td>Electric - Caribbean</td><td>6%</td></tr><tr><td>Generation</td><td>5%</td></tr><tr><td>Properties</td><td>4%</td></tr><tr><td><b>Non-regulated (Generation + Properties)</b></td><td><b>9%</b></td></tr></tbody></table>		Asset Category	Percentage	Gas	39%	Electric - Canada	46%	Electric - Caribbean	6%	Generation	5%	Properties	4%	<b>Non-regulated (Generation + Properties)</b>	<b>9%</b>																																																										
Asset Category	Percentage																																																																								
Gas	39%																																																																								
Electric - Canada	46%																																																																								
Electric - Caribbean	6%																																																																								
Generation	5%																																																																								
Properties	4%																																																																								
<b>Non-regulated (Generation + Properties)</b>	<b>9%</b>																																																																								
Segmented Earnings (Exc. Corporate)																																																																									
<table><caption>Segmented Earnings (Exc. Corporate) - \$ mils.</caption><thead><tr><th>Year</th><th>Fortis BC Energy</th><th>FortisAlberta</th><th>Newfoundland Power</th><th>Other Cdn Utilities</th><th>Caribbean (Regulated)</th><th>Non Regulated</th><th>CH Energy</th></tr></thead><tbody><tr><td>2010</td><td>170</td><td>50</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td></tr><tr><td>2011</td><td>180</td><td>55</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td></tr><tr><td>2012E</td><td>190</td><td>60</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td></tr><tr><td>2013E</td><td>200</td><td>65</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td></tr></tbody></table>		Year	Fortis BC Energy	FortisAlberta	Newfoundland Power	Other Cdn Utilities	Caribbean (Regulated)	Non Regulated	CH Energy	2010	170	50	10	10	10	10	10	2011	180	55	10	10	10	10	10	2012E	190	60	10	10	10	10	10	2013E	200	65	10	10	10	10	10																																
Year	Fortis BC Energy	FortisAlberta	Newfoundland Power	Other Cdn Utilities	Caribbean (Regulated)	Non Regulated	CH Energy																																																																		
2010	170	50	10	10	10	10	10																																																																		
2011	180	55	10	10	10	10	10																																																																		
2012E	190	60	10	10	10	10	10																																																																		
2013E	200	65	10	10	10	10	10																																																																		
Major Sources, Uses Of Cash																																																																									
<table><caption>Major Sources, Uses Of Cash - \$ mils.</caption><thead><tr><th>Year</th><th>Operating Cash Flow</th><th>Capex</th><th>Debt</th><th>Acquisitions</th><th>Dividends</th><th>Asset Sale</th><th>Debt Repay</th></tr></thead><tbody><tr><td>2011A Sources</td><td>732</td><td>1,024</td><td>194</td><td>0</td><td>0</td><td>0</td><td>0</td></tr><tr><td>2011A Uses</td><td>0</td><td>0</td><td>0</td><td>0</td><td>231</td><td>0</td><td>0</td></tr><tr><td>2012E Sources</td><td>899</td><td>1,116</td><td>307</td><td>0</td><td>0</td><td>0</td><td>0</td></tr><tr><td>2012E Uses</td><td>0</td><td>0</td><td>0</td><td>0</td><td>205</td><td>0</td><td>0</td></tr><tr><td>2013E Sources</td><td>899</td><td>1,153</td><td>1,386</td><td>0</td><td>0</td><td>0</td><td>0</td></tr><tr><td>2013E Uses</td><td>0</td><td>0</td><td>0</td><td>0</td><td>299</td><td>0</td><td>0</td></tr><tr><td>2014E Sources</td><td>899</td><td>1,153</td><td>1,386</td><td>0</td><td>0</td><td>0</td><td>0</td></tr><tr><td>2014E Uses</td><td>0</td><td>0</td><td>0</td><td>0</td><td>299</td><td>0</td><td>0</td></tr></tbody></table>		Year	Operating Cash Flow	Capex	Debt	Acquisitions	Dividends	Asset Sale	Debt Repay	2011A Sources	732	1,024	194	0	0	0	0	2011A Uses	0	0	0	0	231	0	0	2012E Sources	899	1,116	307	0	0	0	0	2012E Uses	0	0	0	0	205	0	0	2013E Sources	899	1,153	1,386	0	0	0	0	2013E Uses	0	0	0	0	299	0	0	2014E Sources	899	1,153	1,386	0	0	0	0	2014E Uses	0	0	0	0	299	0	0
Year	Operating Cash Flow	Capex	Debt	Acquisitions	Dividends	Asset Sale	Debt Repay																																																																		
2011A Sources	732	1,024	194	0	0	0	0																																																																		
2011A Uses	0	0	0	0	231	0	0																																																																		
2012E Sources	899	1,116	307	0	0	0	0																																																																		
2012E Uses	0	0	0	0	205	0	0																																																																		
2013E Sources	899	1,153	1,386	0	0	0	0																																																																		
2013E Uses	0	0	0	0	299	0	0																																																																		
2014E Sources	899	1,153	1,386	0	0	0	0																																																																		
2014E Uses	0	0	0	0	299	0	0																																																																		

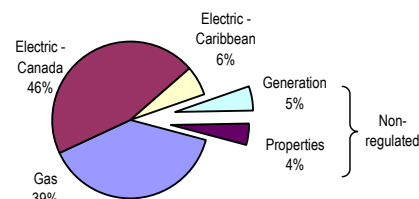
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

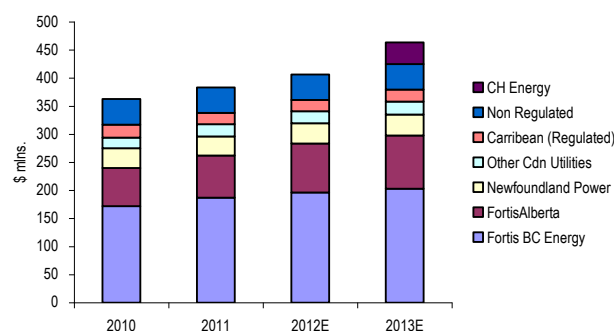
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.

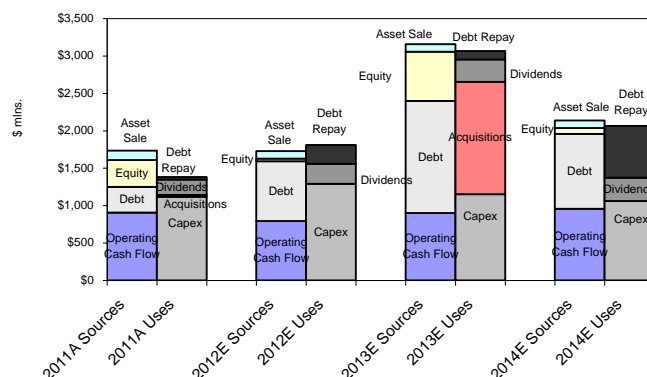
## Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Solid Q2 Benefits From Ongoing Growth At FortisAlberta

Fortis (FTS-SP) reported Q2/12 EPS of \$0.33, in line with CIBC and consensus estimates of \$0.33. Excluding one-time costs related to the pending acquisition of CH Energy, Fortis recorded adjusted EPS of \$0.34, although one-time benefits in the quarter at FortisAlberta from recent regulatory decisions are the main contributor to this upside versus consensus.

Operationally, FortisAlberta remains the key growth driver, with customer growth continuing at ~2%/year and annual capex (budget of \$419 million in 2012) roughly one-third of the company total (of \$1.29 billion). In Q2/12, earnings of \$26 million were up 37% y/y versus \$19 million. We note that this growth is overstated versus a normalized level, as FortisAlberta benefited from recent regulatory rulings which increased quarterly revenues by ~\$1 million and reduced depreciation expense by ~\$3 million; both these amounts were recorded in Q2/12 but were applied retroactively and were related to Q1/12.

Other segments were roughly in line with expectations, with a couple of exceptions: FortisBC Energy (earnings of \$13 million) was below our expectations (\$17 million) and down y/y (versus \$15 million) in a seasonally slow quarter of the year (gas demand peaks in the winter months); and, Newfoundland Power (earnings of \$12 million) modestly beat our estimate (\$11 million) and increased y/y (versus \$10 million) due to the cumulative year to date benefit (recognized in Q2/12) of a higher allowed ROE (8.80% for 2012 versus 8.38% in 2011).

---

## Investment Summary

Looking forward, we expect little change for the balance of 2012. The company continues to progress on its \$1.3 billion capital program, with no material changes to overall schedule or budget including the major Waneta Expansion.

The company is working towards closing the US\$1.5 billion CH Energy (CHG-NYSE) acquisition, a regulated gas and electric utility serving 375,000 customers in New York State. Fortis received CH Energy shareholder approval for the transaction in June, and U.S. Federal Energy Regulatory Commission (FERC) and Committee on Foreign Investment in the United States (CFIUS) approvals in July. The company also closed a \$601 million equity offering (subscription receipts) on June 27 to finance the transaction. The key (although not the only) outstanding regulatory hurdle is receiving New York State Public Service Commission approval. We expect Fortis to receive all required approvals. Fortis continues to expect the transaction to close by the end of Q1/13, and for the acquisition to be immediately accretive to EPS, excluding acquisition-related expenses.

Also by Q1/13 Fortis expects to receive a couple of regulatory decisions. In Alberta the Alberta Utilities Commission (AUC) intends to introduce a performance-based regulation (PBR) formula for 2013 which provides an incentive mechanism for utilities to introduce cost savings and share resulting increased profits with rate payers. Fortis has submitted its comments as to how it would like PBR to be implemented. A decision from the AUC is expected in late 2012 to be introduced for Q1/13. Fortis sees the potential for PBR to increase returns by up to 100 basis points above the current allowed rate of return (8.75% ROE). In BC, FortisBC Energy is involved in a generic cost of capital proceeding to determine an appropriate rate of return for 2013. The BC Utilities Commission (BCUC) is undertaking a more widespread process to determine an

appropriate rate of return benchmark; up to this point, FortisBC Energy has been the benchmark utility and expects to remain so. Fortis sees the potential for some downside risk to the current 9.50% to 10.00% ROE received at FortisBC Energy (the higher level for Whistler and Vancouver Island), although is seeking to maintain the current levels.

Overall, we see little risk to the short-term outlook. Upside in 2013 is expected to be driven by the CH Energy acquisition, although we expect accretion from the transaction initially to be quite modest given the sizable equity offering (\$601 million) to finance the acquisition and a transaction multiple roughly in line with that of Fortis (~1.5x rate base). The company also continues to execute its five year, \$5.5 billion capex program (to which CH Energy is expected to add a further \$0.5 billion). Overall, we are forecasting mid-single digit EPS growth. With Fortis trading at 19.1x 2012E EPS and 18.1x 2013, we see only modest upside at present, and maintain our Sector Performer rating and \$34.50 price target.

---

## Q2/12 Results

Fortis reported Q2/12 adjusted EPS (excluding CH Energy acquisition costs) of \$0.34, versus \$0.33 (Canadian GAAP) in Q2/11, and our \$0.33 expectation (consensus \$0.33). Slightly higher-than-expected earnings were due to strong results at FortisAlberta and in non-regulated operations partially offset by lower-than-expected results in FortisBC Energy.

FortisAlberta reported earnings of \$26 million, up 37% y/y as it benefited from \$1 million in additional net transmission revenues and \$3 million in reduced depreciation expense related to Q1/12 but included in Q2/12 due to recent regulatory decisions. We estimate these amounts generated ~\$0.02 EPS in Q2.

**Exhibit 1. Q2/12 Results (\$ mlns., except per share)**

Segmented Earnings	Q2/12A (USGAAP)	Q2/12E (USGAAP)	Q2/11A (CGAAP)
<b>Regulated Utilities</b>			
FortisBC Energy	13	17	15
FortisAlberta	26	22	19
FortisBC Electric	9	9	9
Newfoundland Power	12	11	11
Other Canadian Electric Utilities	5	6	6
Regulated Electric Utilities – Caribbean	6	6	7
Total Regulated Utilities	71	71	67
<b>Non-regulated Operations</b>			
Fortis Generation	5	3	2
Fortis Properties	8	7	7
Total Non-regulated Operations	13	10	9
Corporate	(19)	(17)	(18)
<b>Operating Earnings For Common</b>	<b>65</b>	<b>64</b>	<b>58</b>
Unusual Items	(3)	0	0
Reported Earnings	62	64	58
Weighted Average Shares Outstanding (mlns.)	190	191	177
<b>Operating EPS</b>	<b>0.34</b>	<b>0.33</b>	<b>0.33</b>
Reported EPS	0.33	0.33	0.33
Dividend Per Share	0.30	0.30	0.29
Pay out Ratio	87.5%	90.0%	88.6%

Source: CIBC World Markets Inc.

**Regulated Utilities:**

- **FortisBC Energy:** FortisBC Energy earnings totaled \$13 million in Q2/12, compared to \$15 million in Q2/11 (CGAAP) and our estimate of \$17 million. The decline in earnings was mainly due to lower-than-expected customer additions and lower capitalized AFUDC due to a lower asset base under construction in 2012.
- **FortisAlberta:** FortisAlberta contributed \$26 million to earnings in Q2/12, versus \$19 million in Q2/11 (CGAAP), and our \$22 million estimate. Stronger-than-expected earnings reflected the cumulative impact of the Alberta Utilities Commission's (AUC) April 2012 distribution revenue requirements decision, which added \$3 million to net transmission revenue (\$1 million related to Q1/12) and reduced depreciation expense (\$3 million related to Q1/12), as well as rate base growth.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$9 million in Q2/12, compared to \$9 million in Q2/11 (CGAAP), and our \$9 million estimate. The impact of rate base growth was offset by lower capitalized AFUDC in 2012, and the discontinuance of the performance-based rate-setting (PBR) mechanism (the benefit of lower-than-expected costs were shared equally between FortisBC Electric and customers under PBR in Q2/11).



- **Newfoundland Power:** Newfoundland Power earnings were \$12 million in the quarter, compared to \$11 million in Q2/11 (CGAAP) and our \$11 million estimate. Increased earnings reflect the cumulative impact of a higher 2012 allowed ROE (8.80% versus 8.38% previously) which was recognized in Q2/12.
- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed earnings of \$5 million in the quarter, versus \$6 million in Q2/11 (CGAAP) and our \$6 million estimate. Slightly lower-than-expected earnings reflects higher operating costs at FortisOntario due to an increase in employee related costs and the timing of expenses.
- **Caribbean Utilities:** Caribbean Utilities earnings contribution totaled \$6 million, versus \$7 million in Q2/11 (CGAAP) and our \$6 million estimate. Lower energy supply costs and higher electricity sales at Fortis Turks and Caicos, were offset by higher depreciation and finance charges (due to increased investment in utility assets) and decreased electricity sales at Caribbean Utilities.

### Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million, compared to \$2 million in Q2/11 (CGAAP) and our \$3 million estimate. Stronger-than-expected results reflect increased production in Belize due to higher rainfall, as well as insurance proceeds related to the loss of earnings during the quarter from repairs to a facility in Upstate New York which sustained electrical damage in May 2011.
- **Fortis Properties:** Fortis Properties earnings came in at \$8 million in Q2/12, compared to \$7 million in Q2/11 (CGAAP) and our \$7 million estimate. The y/y increase reflects the contribution of a Winnipeg hotel acquired in October 2011.
- **Corporate:** Corporate costs totaled \$17 million (excluding \$4 million of one-time acquisition related expenses) in Q1/12, down from \$20 million (CGAAP) in Q1/11, as a result of lower finance charges due to higher capitalized interest (financing Waneta Expansion), and lower borrowings.

---

## Revising Estimates

We have revised our estimates mainly to reflect Q2 results, as well as accounting for the impact to outstanding shares from Fortis' \$601 million issuance of subscription receipts at the end of Q1/13 (when the CH Energy acquisition is expected to close) as opposed to when the subscription receipts were issued (in June 2012), in line with how the company is treating the issuance. As a result of these changes, our 2012 EPS estimate increases from \$1.71 to \$1.76 and our 2013 EPS estimate increases from \$1.82 to \$1.85.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2012E			2013E	
	2011A (CGAAP)	Previous (USGAAP)	Current (USGAAP)	Previous (USGAAP)	Current (USGAAP)
<b>Regulated Utilities</b>					
FortisBC Energy	139	153	150	156	156
FortisAlberta	75	86	87	95	95
FortisBC Electric	48	47	47	47	47
Newfoundland Power	34	36	36	37	37
Other Canadian Electric Utilities	22	22	21	23	23
CH Energy		0	0	39	39
Regulated Electric Utilities – Caribbean	20	20	20	21	21
Total Regulated Utilities	338	364	361	418	418
<b>Non-regulated Operations</b>					
Fortis Generation	18	20	21	20	21
Fortis Properties	23	24	24	24	24
Total Non-regulated Operations	41	44	45	44	45
Corporate	(72)	(68)	(72)	(80)	(84)
<b>Operating Earnings For Common</b>	<b>307</b>	<b>340</b>	<b>334</b>	<b>382</b>	<b>380</b>
Unusual Items	11	(4)	(7)	0	0
Reported Earnings	318	336	327	382	380
Weighted Average Shares Outstanding (mlns.)	182	199	190	210	205
<b>Operating EPS</b>	<b>1.69</b>	<b>1.71</b>	<b>1.76</b>	<b>1.82</b>	<b>1.85</b>
Reported EPS	1.75	1.69	1.72	1.82	1.85
Dividend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	70.4%	68.1%	68.1%	67.1%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are maintaining our \$34.50 price target, based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 18.6x our 2013 estimate, in line with the group average (18.5x) given Fortis' modest low-risk growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66A	\$0.33E	\$0.24E	\$0.49E	\$1.71E
2012 Current	\$0.66A	\$0.34A	\$0.26E	\$0.50E	\$1.76E
2013 Prior	--	--	--	--	\$1.82E
2013 Current	--	--	--	--	\$1.85E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 07/31/2012:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$39.56, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 07/31/2012:**

CH Energy Group (CHG-NYSE, US\$65.03, Not Rated)

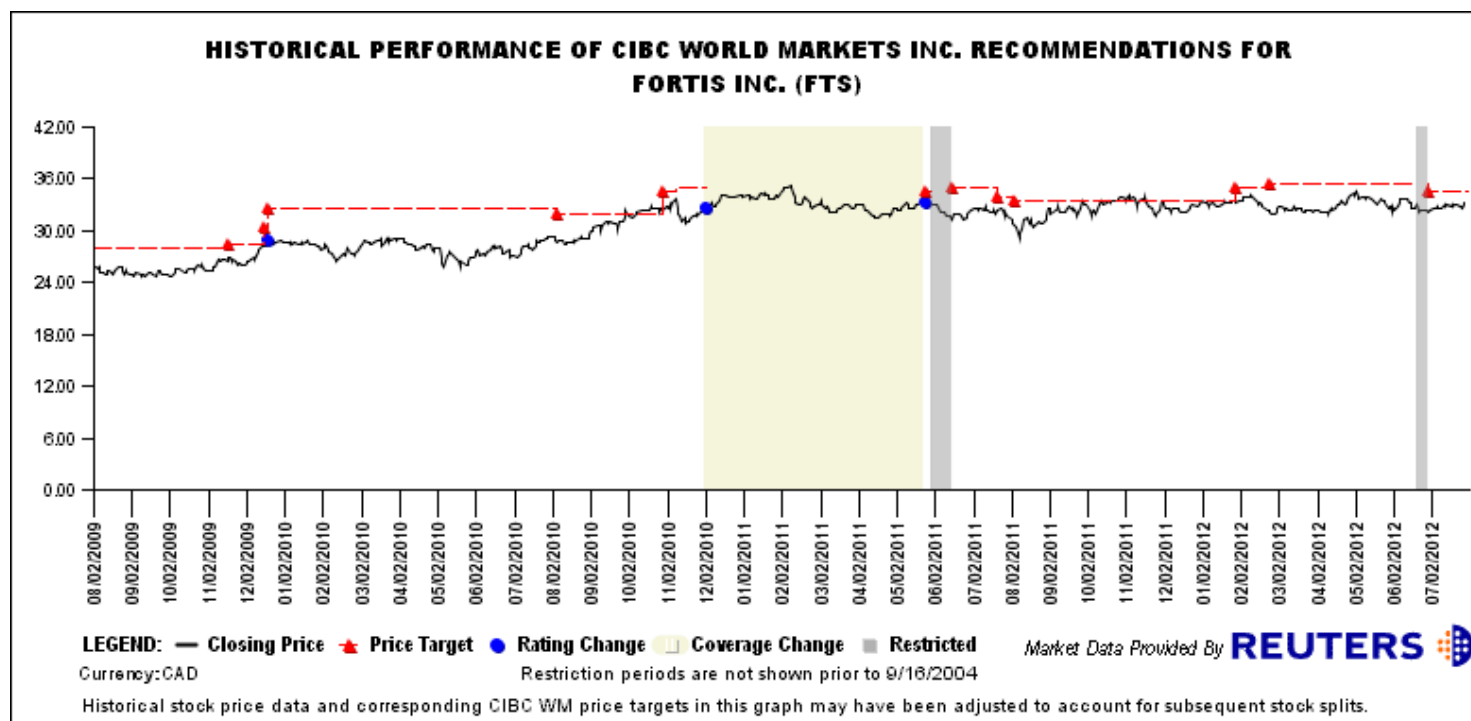
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.



## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 31 Jul 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	145	41.2%	Sector Outperformer (Buy)	143	98.6%
Sector Performer (Hold/Neutral)	162	46.0%	Sector Performer (Hold/Neutral)	160	98.8%
Sector Underperformer (Sell)	28	8.0%	Sector Underperformer (Sell)	26	92.9%
Restricted	16	4.5%	Restricted	15	93.8%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 31 Jul 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	28.6%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	1	14.3%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	14.3%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

November 1, 2012

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$34.50  
FTS-TSX (11/1/12) \$33.90

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$31.32-\$34.98  
Shares Outstanding 190.7M  
Float 190.7M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,463.3M  
Dividend/Div Yield \$1.20 / 3.5%  
Fiscal Year Ends December  
Book Value \$20.63 per Shr  
2012 ROE (E) 8.5%  
LT Debt \$6.5B  
Preferred \$912.00M  
Common Equity \$3.9B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2011		\$1.69A
2012	\$1.76E	\$1.75E
2013		\$1.85E

P/E		
2011		20.1x
2012	19.3x	19.4x
2013		18.3x

#### Dividend Per Share

2011	\$1.16A
2012	\$1.20E
2013	\$1.24E

#### Yield

2011	3.4%
2012	3.5%
2013	3.7%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

Pipelines, Utilities, & Power

## Fortis Inc.

### Q3 Slightly Light, But Focus On Capex, Acquisitions And Regulatory Proceedings

- Fortis reported Q3/2012 EPS of \$0.24 versus CIBC and consensus estimate of \$0.26. The \$0.02 shortfall was primarily due to a foreign exchange loss on the carrying value of Fortis' expropriated electric utility in Belize. Operationally, results were roughly in line.
- Fortis' growth is based on the company's capex (on track for \$1.3 billion in 2012) and acquisitions (CH Energy expected to close in Q1/13, pending receipt of New York State Public Service Commission approval). These investments are expected to deliver mid-single-digit annual EPS growth.
- The other driving factor in Fortis' outlook is regulatory rulings: the company is currently facing regulatory decisions in its two main markets - Alberta, where performance-based regulations could impact returns, and B.C., with an upcoming generic cost of capital decision.
- We see little change in the outlook for Fortis, although note that upcoming regulatory decisions bear watching. With the stock trading at 18.3x 2013 EPS, we believe the current growth outlook is fairly reflected, and maintain our Sector Performer rating and \$34.50 price target.

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

12-119363 © 2012

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 11/1/12 \$33.90  
 12- To 18- Month Price Target: \$34.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$33.90	Net Debt	6,328		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	189	Non Control Int.	288						
Market Capitalization	6,416	Preferred Shares	912						
		Enterprise Value	13,944						
Valuations					Investment Thesis				
P/E	20.6x	20.1x	19.4x	18.3x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$5.5 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2015. The company is also a 51% owner of the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	11.9x	11.4x	10.8x	9.5x					
Pipeline And Utilities Sector Average					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
P/E	19.6x	20.5x	20.3x	19.4x					
EV/EBITDA	14.8x	12.5x	11.3x	9.9x					
Other Data					Segmented Earnings (Exc. Corporate)				
Dividend Per Share	\$1.12	\$1.16	\$1.20	\$1.24					
Dividend Yield	3.3%	3.4%	3.5%	3.7%					
Payout Ratio	67.9%	68.6%	68.5%	67.1%					
Book Value Per Share	\$18.97	\$20.48	\$20.87	\$22.67					
Price / Book Value	1.8x	1.7x	1.6x	1.5x					
Cash Per Share	\$0.63	\$0.47	\$1.01	\$1.35					
Debt / Total Capital	57.9%	54.3%	55.1%	56.5%					
Net Debt/EBITDA	5.1x	4.8x	4.9x	5.2x					
Income Statement					Major Sources, Uses Of Cash				
FortisBC Energy	130	139	150	156					
FortisAlberta	68	75	91	95					
FortisBC Electric	42	48	49	47					
Newfoundland Power	35	34	36	37					
Other Canadian Electric Utilities	19	22	21	23					
CH Energy	0	0	0	39					
Regulated Electric Utilities - Caribbean	23	20	21	21					
Fortis Generation	20	18	18	21					
Fortis Properties	26	23	22	24					
Corporate	(78)	(72)	(76)	(84)					
<b>Operating Earnings</b>	<b>285</b>	<b>307</b>	<b>333</b>	<b>380</b>					
Unusual Items	0	11	(8)	0					
Reported Earnings	285	318	325	380					
<b>Operating EPS</b>	<b>\$1.65</b>	<b>\$1.69</b>	<b>\$1.75</b>	<b>\$1.85</b>					
Reported EPS	\$1.65	\$1.75	\$1.71	\$1.85					
Shares Outstanding	174	189	191	210					
EBITDA	1,170	1,228	1,288	1,471					
Cash Flow									
Earnings (incl. pref share dividends)	323	357	354	409					
Depreciation and Amortization	410	419	439	492					
Total Operating Cash Flow	732	905	793	901					
Capital Expenditures	1,024	1,116	1,291	1,153					
Dividends	231	205	267	299					
Net Long Term Debt Proceeds	194	307	550	1,386					
Balance Sheet									
Cash & Cash Equivalents	109	89	192	285					
Utility Capital Assets / Income Properties	8,762	9,281	10,033	12,094					
Total Assets	12,903	13,562	14,418	16,571					
Current Liabilities	1,517	1,320	1,320	1,320					
Debt (incl. Current and Short Term Borrowings)	6,023	5,944	6,494	7,880					
Future Income Taxes	(3)	4	0	0					
Non Controlling Interests	162	208	199	190					
Preferred Shares	912	912	1,112	1,112					
Shareholders' Equity	3,897	4,469	4,784	5,560					
Total Shareholders' Equity And Liabilities	12,903	13,562	14,418	16,571					

Source: Company reports and CIBC World Markets Inc.

---

## Q3 Slightly Light Due To Non-Operational Impacts

Fortis (FTS-SP) reported Q3/12 EPS of \$0.24, below CIBC and consensus estimate of \$0.26. The primary reason for the shortfall was \$3 million in foreign exchange losses related to the (US\$ denominated) carrying value of Fortis' investment in Belize Electricity.

Recall that the Government of Belize expropriated Fortis' holding in Belize Electricity in June 2011. Fortis is appealing this decision through the Belize courts. The company is carrying its investment at a value of US\$103 million (~\$0.55/share). Fortis believes this value is not impaired at this time, although notes there is "a reasonable possibility that the outcome of the above-noted litigation may be unfavorable" and it may not be able to recover its full investment in Belize Electricity. We note that Fortis no longer records any earnings from Belize Electricity; any write-down will be a non-cash charge. Fortis' hydro generation business in Belize, BECOL, has not yet been impacted by the government's expropriation of Belize Electricity, but also note that BECOL is owed US\$10 million in overdue payments from Belize Electricity, representing over 40% of annual electrical sales to Belize Electricity.

Other than the items noted above, Fortis' other operations were roughly in line with expectations, although we note FortisBC Energy (timing of revenue recognition and increased expenses) was slightly below forecast (lower gas consumption given warmer temperatures) and FortisAlberta was slightly ahead (strong rate base growth).

---

## Growth Driven By Capex and Acquisitions

Generally, Fortis' growth is driven by strong investment in capex and acquisitions.

2012 capex is forecast to be ~\$1.25 billion versus year-end 2011 total assets of \$13.6 billion and rate base of \$8.7 billion. Capex in FortisAlberta represents about one-third of the total, with investment in the Alberta and B.C. utilities representing about 60% of the total. Management is maintaining a forecast of \$5.5 billion in capex for the five years through 2016, with a further \$0.5 billion in capex from 2013-2016 through the acquisition of CH Energy (CHG-NYSE).

The acquisition of CH Energy has one major remaining regulatory approval outstanding – the New York State Public Service Commission (NYSPSC). Fortis must show a net benefit to the state on the acquisition and is currently in negotiations on this front. The company still expects an end of Q1/13 closing. The acquisition is expected to be modestly accretive to Fortis earnings, net of acquisition-related costs (we expect ~\$0.04 EPS accretion for the full-year 2014).

Based on these investments, we continue to expect mid-single-digit EPS growth for Fortis.

---

## Major Regulatory Decisions Worth Watching

The other major driver of Fortis' earnings is regulatory decisions which impact the company's allowable capex and rates of return. The major upcoming decisions relate to Fortis' main operations in B.C. and Alberta:

- **Alberta PBR And Generic Cost Of Capital:** In September, the Alberta Utility Commission (AUC) issued a decision outlining a performance-based regulation (PBR) framework to come into effect on January 1, 2013. This PBR framework lays out a formula for setting utility rates based on changes to inflation (the "I factor") minus an efficiency adjustment (the "X factor"). Fortis is appealing this mechanism since it believes the PBR does not deliver a suitable return for a utility which is investing significant amounts in growth capital, as the formula does not include an appropriate capital spending adjustment. A decision is expected in early 2013 on Fortis' appeal, although the company must comply with the PBR mechanism as of January 1, 2013 (with any changes to the mechanism applied retroactively).

Separately, Alberta is undertaking a Generic Cost of Capital (GCOC) review to cover a five-year period starting in 2013. Fortis is arguing for a higher ROE than is currently allowed (8.75%) given higher risks associated with using a PBR mechanism (potential inflexibility to fully recover costs) and the five-year timeframe for the GCOC (versus a more typical two- to three-year timeframe, with a longer period not allowing flexibility to cover significant changes in the macroeconomic environment, such as materially higher interest rates). A decision on the GCOC is expected after the final PBR ruling.

- **B.C. Gas Utility Benchmarking And Generic Cost Of Capital:** The B.C. Utility Commission (BCUC) is undertaking a benchmarking study to determine an appropriate capital structure, returns, and adjustment mechanism for a reference "low-risk" utility (and appropriate risk premiums for other utilities versus the reference utility). Historically, Fortis (through FortisBC Energy), as the dominant gas distribution utility in the province, has been that benchmark utility, and the company argues that it should remain so. Once BCUC has completed this benchmarking, the regulator will then undertake a GCOC review. Fortis expects a decision by mid-2013, with the new rates set retroactively to January 1, 2013. The company sees potential downward pressure on allowable returns, given a current allowed ROE of 9.5% (10.0% for the Vancouver Island and Whistler regions) versus, for instance, an allowed 8.75% return for FortisAlberta.

---

## No Substantial Change In Outlook

Overall, we see little change in our outlook for 2012. In 2013, the key issues to watch include: successful and timely closing of the CH Energy acquisition, and the outcomes of major regulatory decisions in Alberta and B.C. In the interim, we believe that Fortis remains fairly valued, trading at 18.3x 2013 earnings, and we maintain our Sector Performer rating and \$34.50 price target.

---

## Q3/12 Results

Fortis reported adjusted Q3/12 results (excluding CH Energy acquisition costs) of \$0.24, versus \$0.25 in Q3/11 and our \$0.26 estimate. Lower-than-expected earnings were the result of \$3 million in foreign exchange losses related to the (US\$ denominated) carrying value of Fortis' investment in Belize Electricity. Beyond that, modestly better-than-expected results for FortisAlberta and FortisBC Electric were offset by lower results from FortisBC Energy non-regulated operations (Fortis Generation and Fortis Properties).



**Exhibit 1. Q3/12 Results (\$ mlns., except per share)**

Segmented Earnings	Q3/12A (USGAAP)	Q3/12E (USGAAP)	Q3/11A (CGAAP)
<b>Regulated Utilities</b>			
FortisBC Energy	(6)	(1)	(3)
FortisAlberta	26	20	19
FortisBC Electric	13	10	10
Newfoundland Power	9	8	8
Other Canadian Electric Utilities	6	6	6
Regulated Electric Utilities – Caribbean	7	6	6
Total Regulated Utilities	55	49	46
<b>Non-regulated Operations</b>			
Fortis Generation	5	8	8
Fortis Properties	8	10	9
Total Non-regulated Operations	13	18	17
Corporate	(23)	(18)	(16)
<b>Operating Earnings For Common</b>	<b>46</b>	<b>49</b>	<b>47</b>
Unusual Items	(1)	0	11
Reported Earnings	45	49	58
Weighted Average Shares Outstanding (mlns.)	190	190	187
<b>Operating EPS</b>	<b>0.24</b>	<b>0.26</b>	<b>0.25</b>
Reported EPS	0.24	0.26	0.31
Dividend Per Share	0.30	0.30	0.29
Payout Ratio	125.4%	116.6%	115.1%

Source: CIBC World Markets Inc.

**Regulated Utilities:**

- **FortisBC Energy:** FortisBC Energy losses totaled (\$6) million in Q3/12, compared to (\$3) million in Q3/11, and our (\$1) million estimate. Lower-than-expected results reflected the timing of revenue recognition, increased expenses, lower capitalized allowance for funds used during construction (AFUDC), and lower customer additions. Q3 is seasonally the weakest quarter for FortisBC Energy as quarterly earnings follow the seasonal consumption patterns of natural gas, with earnings highest in Q1/Q4.
- **FortisAlberta:** FortisAlberta contributed \$26 million to earnings in Q3/12, up from \$19 million in Q3/11 and above our \$20 million estimate. Earnings were above our expectations reflecting higher transmission revenue, rate base growth, and the timing of operating expenses.
- **FortisBC Electric:** FortisBC Electric contributed \$13 million to earnings in Q3/12, up from \$10 million in Q3/11 and above our \$10 million estimate. Strong results reflected rate base growth, higher pole attachment revenue, and lower-than-expected finance charges.
- **Newfoundland Power:** Newfoundland Power earned \$9 million in the quarter, up from \$8 million in Q3/11 and above our \$8 million estimate. During the quarter, Newfoundland Power recorded a \$2.5 million favorable income tax adjustment.

- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed \$6 million to earnings in the quarter, in line with the \$6 million reported last year and our estimate. Lower operating expenses at FortisOntario in the quarter were offset by higher depreciation and finance charges at Maritime Electric.
- **Caribbean Utilities:** Caribbean Utilities contributed \$7 million to earnings in the quarter, up from \$6 million in Q3/11 and our \$6 million estimate, due to lower finance charges at its Caribbean Utilities subsidiary, and higher electricity sales at Fortis Turks and Caicos. In August 2012, Fortis Turks and Caicos acquired Turks and Caicos Utilities Limited (TCU) for \$13 million. TCU serves more than 2,000 customers on Grand Turk and Salt Cay with a diesel-fired generating capacity of 9 MW.

### Non-Regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$5 million in Q3/12, down from \$8 million in Q3/11 and below our \$8 million estimate as a result of lower production in Belize due to lower rainfall.
- **Fortis Properties:** Fortis Properties reported Q3/12 earnings of \$8 million, compared to \$9 million in Q3/11 and our \$10 million estimate. Results were lower-than-expected due to lower occupancy at hotels in Atlantic and central Canada. In October 2012, Fortis Properties acquired the 126-room StationPark All Suite Hotel in London, Ontario for \$13 million.
- **Corporate:** Corporate expenses totaled \$23 million in Q3/12, compared to \$16 million in Q3/11 and our \$18 million estimate. Corporate expenses were higher than expected mainly reflecting FX losses associated with the translation of the US\$-denominated long-term other asset representing the book value of Fortis' expropriated investment in Belize Electricity.

---

## Revising Estimates

We have made minor changes to our model mainly to reflect Q3 results. Our 2012 EPS estimate declines from \$1.76 to \$1.75. Our 2013 EPS estimate remains unchanged at \$1.85.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2012E			2013E	
	2011A (CGAAP)	Previous (USGAAP)	Current (USGAAP)	Previous (USGAAP)	Current (USGAAP)
<b>Regulated Utilities</b>					
FortisBC Energy	139	150	150	156	156
FortisAlberta	75	87	91	95	95
FortisBC Electric	48	47	49	47	47
Newfoundland Power	34	36	36	37	37
Other Canadian Electric Utilities	22	21	21	23	23
CH Energy		0	0	39	39
Regulated Electric Utilities – Caribbean	20	20	21	21	21
Total Regulated Utilities	338	361	368	418	418
<b>Non-regulated Operations</b>					
Fortis Generation	18	21	18	21	21
Fortis Properties	23	24	22	24	24
Total Non-regulated Operations	41	45	40	45	45
Corporate	(72)	(72)	(76)	(84)	(84)
<b>Operating Earnings For Common</b>	<b>307</b>	<b>334</b>	<b>333</b>	<b>380</b>	<b>380</b>
Unusual Items	11	(7)	(8)	0	0
Reported Earnings	318	327	325	380	380
Weighted Average Shares Outstanding (mlns.)	182	190	190	205	206
<b>Operating EPS</b>	<b>1.69</b>	<b>1.76</b>	<b>1.75</b>	<b>1.85</b>	<b>1.85</b>
Reported EPS	1.75	1.72	1.71	1.85	1.85
Dividend Per Share	1.16	1.20	1.20	1.24	1.24
Pay out Ratio	68.6%	68.1%	68.5%	67.1%	67.1%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are maintaining our \$34.50 price target, based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$5.5 billion capital spending program. Our price target equates to a P/E multiple of 18.6x our 2013 estimate, modestly below the group average (19.4x) given Fortis' modest low-risk growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – both positive (such as increasing allowed ROEs in Canada over the past few years) and negative (such as adverse rulings/actions in Belize).
- **Acquisition Risks:** Fortis has an announced intention to acquire distribution utilities. Acquisition risks include: deal risk (failure to close a transaction), operation, and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2011 Current	\$0.67A	\$0.33A	\$0.25A	\$0.46A	\$1.69A
2012 Prior	\$0.66A	\$0.34A	\$0.26E	\$0.50E	\$1.76E
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.51E	\$1.75E
2013 Current	--	--	--	--	\$1.85E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 11/01/2012:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$40.28, Sector Performer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 11/01/2012:**

CH Energy Group (CHG-NYSE, US\$64.83, Not Rated)

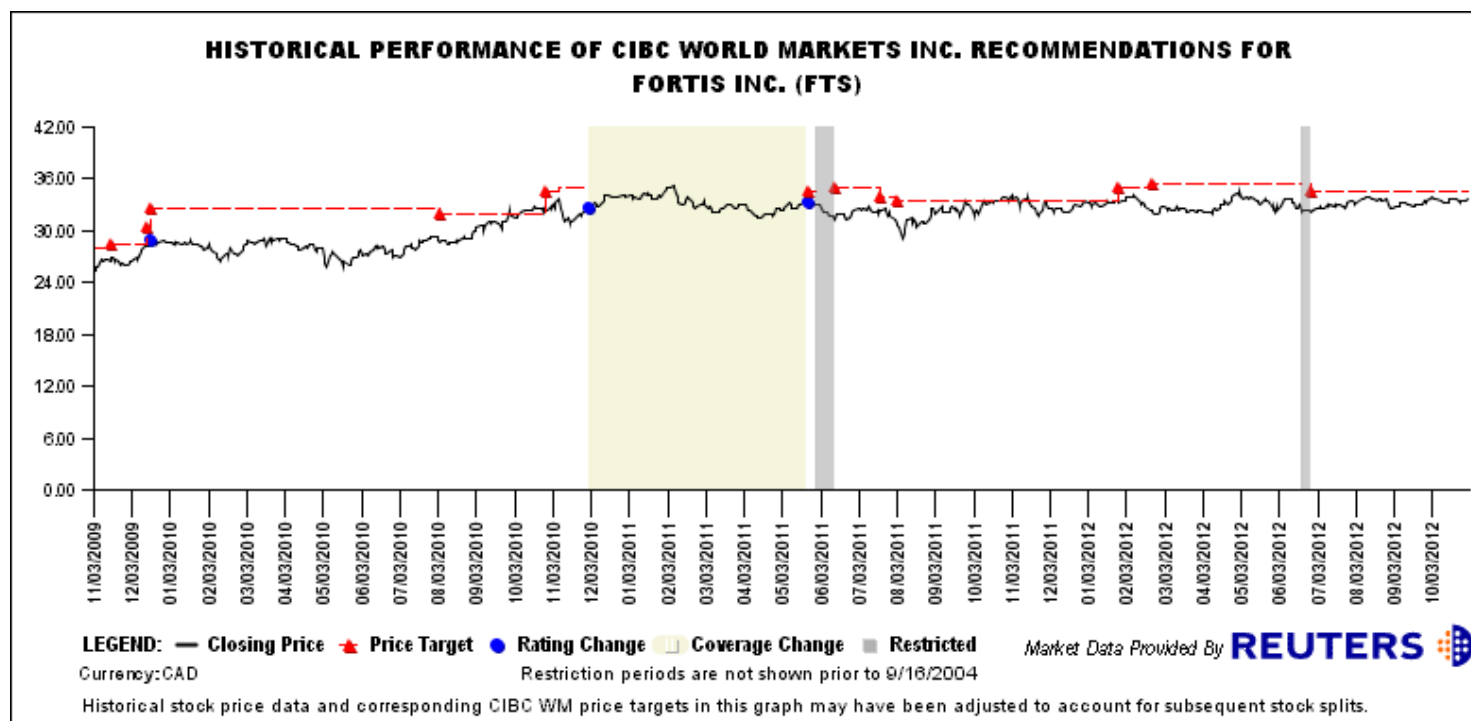
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**



## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/16/2009	▲	26.55	SP	28.50	Petro Panarites, CFA
12/15/2009	▲	28.30	SP	30.50	Petro Panarites, CFA
12/17/2009	▲ ●	28.84	SO	32.50	Petro Panarites, CFA
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 01 Nov 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	154	41.8%	Sector Outperformer (Buy)	153	99.4%
Sector Performer (Hold/Neutral)	170	46.2%	Sector Performer (Hold/Neutral)	167	98.2%
Sector Underperformer (Sell)	33	9.0%	Sector Underperformer (Sell)	31	93.9%
Restricted	10	2.7%	Restricted	10	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 01 Nov 2012)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2012 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

February 7, 2013

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.50  
FTS-TSX (2/7/13) \$34.24

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$31.70-\$34.98
Shares Outstanding	191.6M
Float	191.6M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,560.4M
Dividend/Div Yield	\$1.24 / 3.6%
Fiscal Year Ends	December
Book Value	\$20.84 per Shr
2013 ROE (E)	8.2%
LT Debt	\$6.5B
Preferred	\$1,108.00M
Common Equity	\$4.0B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2012	\$1.75E	\$1.70A
2013	\$1.85E	\$1.77E
2014	\$1.93E	\$1.89E

P/E		
2012	19.6x	20.1x
2013	18.5x	19.3x
2014	NM	18.1x

Dividend Per Share

2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield

2011	3.5%
2012	3.6%
2013	3.7%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

Pipelines, Utilities, & Power

## Fortis Inc.

### Q4 Results Light; Significant Regulatory Decisions Coming In 2013

- Fortis reported Q4/12 EPS of \$0.46 versus our \$0.51 estimate (consensus \$0.50). The variance from our estimate mainly reflected lower-than-expected FortisBC Energy earnings and increased Corporate expenses, partially offset by stronger FortisAlberta earnings.
- Fortis is in the midst of major regulatory decisions in its two main markets. In B.C., we see downside risk to current allowed ROEs from the ongoing GCOC proceeding. In Alberta, a PBR implemented on January 1 poses downside risk in not providing adequate returns on capex spent.
- On January 28, a Settlement Agreement was reached on Fortis' proposed US\$1.5 billion acquisition of CH Energy. The parties of the Settlement Agreement recommended that the NYSPSC approve the transaction. If approved, the acquisition is expected to close at the end of April 2013.
- We have reduced our estimates to reflect lower expected earnings at FortisBC Energy and the later closing date of the CH Energy acquisition. Capex growth remains strong, with a 6% rate base/hydro investment CAGR through 2017. Reducing price target to \$35.50 (from \$36), maintaining SP.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

13-121133 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 2/7/13 \$34.24  
 12- To 18- Month Price Target: \$35.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$34.24	Net Debt	6,317		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	192	Non Control Int.	310						
Market Capitalization	6,560	Preferred Shares	912						
		Enterprise Value	14,099						
Valuations					Investment Thesis				
P/E	20.3x	20.2x	19.3x	18.1x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	11.5x	10.9x	9.9x	9.1x					
Pipeline And Utilities Sector Average					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
P/E	20.1x	19.5x	19.6x	18.8x					
EV/EBITDA	14.6x	12.5x	11.3x	9.8x					
Other Data					Segmented Earnings (Exc. Corporate)				
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28					
Dividend Yield	3.4%	3.5%	3.6%	3.7%					
Payout Ratio	68.6%	70.7%	70.0%	67.7%					
Book Value Per Share	\$20.48	\$20.84	\$22.62	\$23.35					
Price / Book Value	1.7x	1.6x	1.5x	1.5x					
Cash Per Share	\$0.47	\$0.80	\$0.25	\$0.56					
Debt / Total Capital	54.3%	54.5%	56.4%	56.5%					
Net Debt/EBITDA	4.8x	4.9x	5.6x	5.2x					
Income Statement					Major Sources, Uses Of Cash				
FortisBC Energy	139	138	141	145					
FortisAlberta	75	96	100	109					
FortisBC Electric	48	50	48	51					
Newfoundland Power	34	37	38	39					
Other Canadian Electric Utilities	22	24	24	24					
CH Energy	0	0	31	55					
Regulated Electric Utilities - Caribbean	20	19	21	21					
Fortis Generation	18	17	19	19					
Fortis Properties	23	22	24	24					
Corporate	(72)	(81)	(84)	(88)					
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>363</b>	<b>399</b>					
Unusual Items	11	(8)	0	0					
Reported Earnings	318	315	363	399					
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.77</b>	<b>\$1.89</b>					
Reported EPS	\$1.75	\$1.66	\$1.77	\$1.89					
Shares Outstanding	189	192	210	212					
EBITDA	1,228	1,299	1,422	1,553					
Cash Flow									
Earnings (incl. pref share dividends)	357	371	412	448					
Depreciation and Amortization	419	470	486	523					
Total Operating Cash Flow	905	976	899	971					
Capital Expenditures	1,116	1,088	1,425	1,062					
Dividends	205	225	319	330					
Net Long Term Debt Proceeds	307	36	1,486	308					
Balance Sheet									
Cash & Cash Equivalents	89	154	52	120					
Utility Capital Assets / Income Properties	9,281	10,249	12,588	13,027					
Total Assets	13,562	14,950	17,187	17,693					
Current Liabilities	1,320	1,308	1,308	1,308					
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,957	8,265					
Future Income Taxes	4	17	0	0					
Non Controlling Interests	208	310	301	292					
Preferred Shares	912	1,108	1,108	1,108					
Shareholders' Equity	4,469	5,100	5,860	6,067					
Total Shareholders' Equity And Liabilities	13,562	14,950	17,187	17,693					

Source: Company reports and CIBC World Markets Inc.



---

## Q4 Results Light

Fortis (FTS-SP) reported Q4/12 EPS of \$0.46, below consensus of \$0.50 (CIBC \$0.51), although up slightly over (USGAAP restated) \$0.44 in Q4/11. The shortfall versus expectations was primarily related to the company's FortisBC Energy operations which had higher-than-expected costs in the quarter; the company had delayed certain spending until later in the year after certain regulatory decisions had been received. Other operations were roughly in line with expectations.

Looking forward to 2013, the company is expected to have the benefit of the CH Energy (CHG-NYSE) acquisition, now expected to close in Q2/13 (likely by the end of April) after reaching an agreement with the New York State Public Service Commission – the key remaining regulatory hurdle outstanding. However, 2013 results are likely to be impacted by lower allowed returns in B.C. upon completion of the current cost of capital hearings later in the year.

While the pace of capex spending remains strong at ~6% CAGR through 2017 (including CH Energy), we expect EPS growth to be below this rate in 2013 given the pressure on returns in B.C., and we maintain our Sector Performer rating.

---

## 2013 A Year Of Significant Regulatory Decisions

Fortis is in the middle of major regulatory decisions in both B.C. and Alberta.

- In B.C., the utilities commission is in the middle of a generic cost of capital proceeding to determine appropriate capital structures and allowed ROEs for all provincial utilities. We see downside risk to current allowed ROEs at FortisBC Energy (9.5%) and Electric (9.9%), which are above, for instance, the current allowed ROE at FortisAlberta of 8.75%.
- In Alberta, the utilities commission (AUC) has implemented a new performance-based rate-setting (PBR) mechanism that adjusts customer rates annually based on inflation, productivity, and capital expenditure adjustments. FortisAlberta is concerned that the mechanism does not fully capture and adequately compensate the utility for the strong growth and capital expenditures in the province and is awaiting decisions on applications related to rate increases. Concurrently, the AUC is undergoing a generic cost of capital (GCOC) proceeding to determine appropriate ROEs and capital structures and methodologies of arriving at these. Given the additional risk to the utility from the PBR mechanism (imposing limits on rate increases), FortisAlberta does not expect downside risk to the current 8.75% allowed ROE.

**Exhibit 1. Recent And Upcoming Major Regulatory Decisions**

Entity	Date	Comment
FortisBC Energy	December 2012	BC Utilities Commission (BCUC) held public hearings for the first phase of a Generic Cost of Capital (GCOC) proceeding, and designated FortisBC Energy as the "benchmark" utility for the province.
	Mid-2013	A decision is expected on the appropriate allowed ROE and capital structure for the benchmark utility (i.e., FortisBC Energy).
FortisBC Energy / FortisBC Electric	January 1, 2013	Pending the outcome of the benchmarking exercise, existing capital structures (40% equity) and allowed ROEs (9.5% FortisBC Energy, 9.9% FortisBC Electric) will be maintained and set as interim 2013 rates.
	Q3/2013	The BCUC will set capital structures and allowed ROEs for other B.C. utilities relative to those set for the benchmark utility (i.e., FortisBC Energy).
FortisAlberta	January 1, 2013	A performance-based rate-setting (PBR) mechanism came into effect, following the September 2012 decision from the Alberta Utilities Commission (AUC). The PBR sets annual customer rates based on inflation, productivity, and capital expenditure adjustments. FortisAlberta has sought leave to appeal to the Alberta Court of Appeal the treatment of certain capital expenditures under the PBR mechanism.
	Q3/2013	As per the PBR mechanism, FortisAlberta is requesting a 1.7% increase in customer distribution rates for 2013; while there has been a moratorium on rate increases in Alberta, these have now been lifted as the Government of Alberta responded to a recommendation from the Retail Market Review Committee requesting the AUC remove electricity rate increase limitations in place since February 2012.  FortisAlberta is seeking higher rate increases than allowed by the PBR formula (i.e., 1.7%) and has submitted Review and Variance and Capital Tracker Applications to the AUC to this effect; AUC decisions are expected by Q3/2013.
	October 2012	The AUC initiated a GCOC proceeding to determine the allowed ROE for 2013, whether a formulaic ROE automatic adjustment mechanism is re-established, and what impact the PBR mechanism has on allowed ROE or capital structure. Given the higher risk to the utility as presented by the PBR mechanism (i.e., in limiting rate increases), FortisAlberta does not expect downside risk to allowed returns.

Source: Company reports and CIBC World Markets Inc.

**CH Energy Acquisition Expected To Close By End Of April**

On January 28, Fortis and CH Energy announced that they, along with other signatory parties (the Staff of the New York State Department of Public Service, Multiple Intervenors, and the Utility Intervention Unit of the New York Department of State), have reached a Settlement Agreement. The agreement indicates that the acquisition is in the public interest and, therefore, the parties recommend approval by the New York State Public Service Commission (NYSPSC). As part of the Settlement Agreement, Fortis will moderate future customer rate increases by providing \$35 million to cover expenses related to storms (Superstorm Sandy, the October 2011 snowstorm, and Tropical Storm Irene) that normally would be recovered in customer rates. The Settlement Agreement also requires that customer delivery rates be frozen until July 1, 2014, and that a \$5 million Customer Benefit Fund be established for economic development and low-income assistance programs for communities and residents of the Mid-Hudson Valley. In addition, customers will save \$9.25 million over five years from the elimination of costs the utility now incurs as a public company. Central Hudson, the main subsidiary of CH Energy, is a regulated gas and electric utility serving 375,000 customers in New York State. The US\$1.5 billion acquisition received CH Energy shareholder approval in June 2012, and all other necessary regulatory approvals (except NYSPSC) in 2012. Subject to NYSPSC approval, the acquisition is expected to close in Q2/13 (likely by the end of April) versus the prior expectation of Q1/13.

---

## Capex Growth

Fortis incurred \$1.13 billion in capital expenditures in 2012, \$161 million below expectations due to delayed timing of: (1) payments on the Waneta Expansion project in B.C.; (2) receipt of regulatory approvals at FortisBC Energy and FortisBC Electric; and, (3) construction of Fortis Properties' office building in St. John's, Newfoundland. The company expects some of this deferred spending to be included in 2013, and forecasts 2013 capex of \$1.35 billion, with the Waneta Expansion to represent \$227 million of this. Capex from CH Energy would be incremental to this (~\$75 million for 2013).

Fortis is forecasting five-year (2013-2017) capex of \$6 billion, including expenditures at CH Energy of roughly \$125 million/year. This compares to previous expectations of five-year (2012-2016) capex of \$5.5 billion, excluding CH Energy contributions. The current capex forecast equates to a ~6% CAGR on combined Fortis/CH Energy rate base (and including non-regulated hydro-generation assets). Combined regulated rate base is forecast to be at ~\$10 billion by mid-year.

---

## Reducing 2013 Estimates, Maintaining Sector Performer Rating

Capex growth remains strong (although missed the target in 2012) with a 6% CAGR on rate base and hydro investment through 2017. However, we expect EPS growth in 2013 to be below this level due to the inclusion of CH Energy's results for only an estimated eight months (and missing the seasonally strongest Q1 period) as well as the impact of expected lower allowed returns on the B.C. utilities. We are lowering our 2013 estimates to reflect the latest timing of the later-than-expected close of the CH Energy acquisition, and lower returns on the B.C. utilities. We maintain our Sector Performer rating, with a slightly reduced price target (\$35.50 versus prior \$36.00).

---

## Q4/12 Results

Fortis reported Q4/12 EPS of \$0.46, versus \$0.46 (CGAAP)/\$0.44 (USGAAP) in Q4/11 and below our \$0.51 estimate (consensus \$0.50). The variance from our estimate mainly reflected lower-than-expected FortisBC Energy earnings and increased Corporate expenses, partially offset by stronger FortisAlberta earnings.

**Exhibit 2. Q4/12 Results (\$ mlns., except per share)**

Segmented Earnings	Q4/12A (USGAAP)	Q4/12E (USGAAP)	Q4/11A (CGAAP)
<b>Regulated Utilities</b>			
FortisBC Energy	49	58	51
FortisAlberta	23	20	17
FortisBC Electric	12	11	11
Newfoundland Power	9	8	8
Other Canadian Electric Utilities	6	5	4
Regulated Electric Utilities – Caribbean	3	4	3
Total Regulated Utilities	102	106	94
<b>Non-regulated Operations</b>			
Fortis Generation	2	3	5
Fortis Properties	5	5	5
Total Non-regulated Operations	7	8	10
Corporate	(22)	(18)	(18)
<b>Operating Earnings For Common</b>	<b>87</b>	<b>97</b>	<b>86</b>
Unusual Items	0	0	0
Reported Earnings	87	97	86
Weighted Average Shares Outstanding (mlns.)	191	191	188
<b>Operating EPS</b>	<b>0.46</b>	<b>0.51</b>	<b>0.46</b>
Reported EPS	0.46	0.51	0.46
Dividend Per Share	0.30	0.30	0.29
Pay out Ratio	65.9%	59.0%	63.4%

Source: CIBC World Markets Inc.

**Regulated Utilities:**

- **FortisBC Energy:** FortisBC Energy earnings totaled \$49 million, compared to \$51 million (CGAAP) in Q4/11 and below our \$58 million estimate. The variance reflects higher-than-expected operating and maintenance expenses as work is now proceeding on projects delayed earlier in the year while awaiting regulatory approval. The y/y decline also reflected lower AFUDC (allowance for funds used during construction) due to lower assets under construction, and lower customer additions.
- **FortisAlberta:** FortisAlberta contributed \$23 million to earnings in the quarter, up from \$17 million (CGAAP) in Q4/11 and above our \$20 million estimate. The strong performance was due to \$2 million on net transmission revenue recognized in the quarter as a result of a decision received in April 2012 and strong rate base growth.
- **FortisBC Electric:** FortisBC Electric earnings totaled \$12 million, versus \$11 million (CGAAP) in Q4/11, and our \$11 million estimate. Strong results reflected rate base growth, higher pole attachment revenue, and lower finance charges.
- **Newfoundland Power:** Newfoundland Power earnings totaled \$9 million, up from \$8 million (CGAAP) in Q4/11, and our \$8 million estimate. The y/y increase reflects the increase in allowed ROE from 8.38% in 2011 to 8.80% in 2012.

- **Other Canadian Electric Utilities:** Other Canadian Electric Utilities contributed \$6 million to earnings in Q4/12, versus \$4 million (CGAAP) in Q4/11 and our \$5 million estimate. The y/y growth was driven by lower income taxes at Maritime Electric and lower operating expenses at both Maritime Electric and FortisOntario.
- **Caribbean Utilities:** Caribbean Utilities earnings totaled \$3 million in the quarter, compared to \$3 million (CGAAP) in Q4/11 and our \$4 million estimate. Increased electricity sales at Fortis Turks & Caicos were offset by higher depreciation expenses.

### Non-regulated Businesses:

- **Fortis Generation:** Fortis Generation earnings totaled \$2 million in Q4/12, versus \$5 million (CGAAP) in Q4/11 and our \$3 million estimate. Weak results were due to lower production in Belize and Upstate New York as a result of lower rainfall.
- **Fortis Properties:** Fortis Properties reported earnings of \$5 million in the quarter, in line with \$5 million (CGAAP) reported in Q4/11 and our \$5 million estimate. Higher hospitality revenue from a recently acquired hotel and from increased average room rates in Western and Central Canada was offset by lower occupancy in Central and Atlantic Canada and increased depreciation due to capital additions and improvements.
- **Corporate:** Corporate expenses totaled \$22 million in the quarter, up from \$18 million (CGAAP) in Q4/11, and above our \$18 million estimate. Higher-than-expected expenses were due to a \$3 million non-recurring write-down recognized in the quarter related to Fortis' 30% ownership in CustomerWorks L.P. (a non-regulated shared-services business providing billing and customer care services to utilities, municipalities, and certain energy companies).

---

## Revising Estimates

We have made a few revisions to our model, including:

- **FortisBC Energy:** We are reducing our estimates reflecting lower assumed earnings above the allowed ROE. Our allowed ROE assumptions for FortisBC Energy reflect a 50 bps decline in 2013 versus 2012 (9.00% in 2013 versus 9.50% in 2012 for FortisBC Energy Inc., and 9.50% in 2013 versus 10.00% in 2012 for the other FortisBC Energy utilities).
- **FortisAlberta:** We are modestly increasing our estimates for FortisAlberta to reflect the continuing strong rate base growth at the utility.
- **CH Energy:** We are reducing our 2013 estimate for CH Energy as a result of the expectation for closing the acquisition in Q2/13 (we are assuming end of April) versus end of Q1/13 previously. In addition, our revised estimate reflects the seasonality of the business, with Fortis missing earnings from Q1, seasonally the strongest quarter for CH Energy.

As a result of these changes, our 2013 and 2014 EPS estimates decline from \$1.85 and \$1.93 to \$1.77 and \$1.89, respectively.

**Exhibit 3. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2013E		2014E		
	2012A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	138	156	141	160	145
FortisAlberta	96	95	100	103	109
FortisBC Electric	50	47	48	50	51
New foundland Power	37	37	38	38	39
Other Canadian Electric Utilities	24	23	24	23	24
CH Energy	0	39	31	55	55
Regulated Electric Utilities – Caribbean	19	21	21	21	21
Total Regulated Utilities	364	418	404	451	444
<b>Non-regulated Operations</b>					
Fortis Generation	17	21	19	21	19
Fortis Properties	22	24	24	24	24
Total Non-regulated Operations	39	45	43	45	43
Corporate	(81)	(84)	(84)	(88)	(88)
<b>Operating Earnings For Common</b>	<b>323</b>	<b>380</b>	<b>363</b>	<b>408</b>	<b>399</b>
Unusual Items	(8)	0	0	0	0
Reported Earnings	315	380	363	408	399
Weighted Average Shares Outstanding (mlns.)	190	205	205	211	211
<b>Operating EPS</b>	<b>1.70</b>	<b>1.85</b>	<b>1.77</b>	<b>1.93</b>	<b>1.89</b>
Reported EPS	1.66	1.85	1.77	1.93	1.89
Div idend Per Share	1.20	1.24	1.24	1.28	1.28
Pay out Ratio	70.7%	67.0%	69.9%	66.4%	67.6%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are reducing our price target from \$36.00 to \$35.50. Our target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 18.8x our 2014 estimate, modestly below the group average (19.3x) given Fortis' modest low-risk growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Fortis is in the midst of acquiring CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), and operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).



## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Prior	\$0.66A	\$0.34A	\$0.24A	\$0.51E	\$1.75E
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Prior	--	--	--	--	\$1.85E
2013 Current	\$0.66E	\$0.35E	\$0.23E	\$0.55E	\$1.77E
2014 Prior	--	--	--	--	\$1.93E
2014 Current	--	--	--	--	\$1.89E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/07/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$47.49, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/07/2013:**

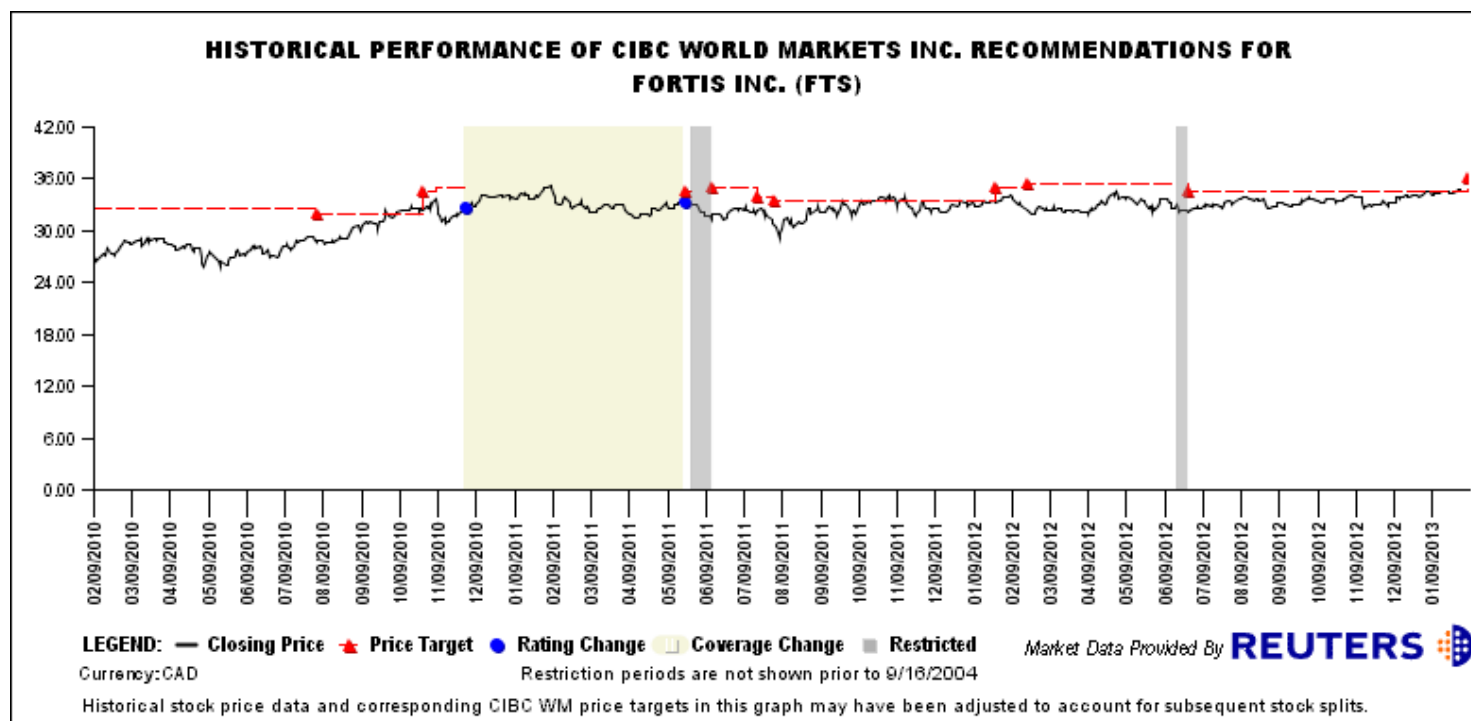
CH Energy Group (CHG-NYSE, US\$65.12, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 07 Feb 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	151	40.9%	Sector Outperformer (Buy)	147	97.4%
Sector Performer (Hold/Neutral)	181	49.1%	Sector Performer (Hold/Neutral)	177	97.8%
Sector Underperformer (Sell)	25	6.8%	Sector Underperformer (Sell)	24	96.0%
Restricted	11	3.0%	Restricted	11	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 07 Feb 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	57.1%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change



## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

May 6, 2013

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.50  
FTS-TSX (5/6/13) \$35.00

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$32.03-\$35.13  
Shares Outstanding 191.6M  
Float 191.6M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,706.0M  
Dividend/Div Yield \$1.24 / 3.5%  
Fiscal Year Ends December  
Book Value \$20.88 per Shr  
2013 ROE (E) 8.2%  
LT Debt \$6.5B  
Preferred \$1,108.00M  
Common Equity \$4.0B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013	\$1.77E	\$1.77E
2014	\$1.89E	\$1.88E

P/E		
2012		20.6x
2013	19.8x	19.8x
2014	18.5x	18.6x

Dividend Per Share	
2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield	
2012	3.4%
2013	3.5%
2014	3.7%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

Pipelines, Utilities, & Power

## Fortis Inc.

### Negative NY Recommendation On CH Energy Acquisition

- On Friday, administrative law judges from the New York State Public Service Commission (NYSPSC) issued a negative written opinion on Fortis' acquisition of CH Energy, concluding that the benefits of the acquisition would be outweighed by detriments.
- The ruling appears to be influenced by public comments opposed to the acquisition expressing unsubstantiated concerns over foreign ownership of the utility and the potential impact that would have on service quality, community involvement and rates.
- Fortis intends to engage in further discussions with NYSPSC, with responses to this opinion due by May 17 and a final decision from the commission in June. One possibility is that Fortis will need to increase the financial incentives for the transaction, currently totaling ~US\$49 million.
- The CH Energy acquisition would be only modestly accretive (~\$0.03 EPS for its first full year in 2014), and has limited ST impact on Fortis' valuation. However, a denial would further bring into question Fortis' ability to acquire in the U.S. Maintain SP and \$35.50 PT, although noting downside risk.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

13-122861 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



# Fortis Inc.

FTS - TSX 5/6/13 \$35.00  
 12- To 18- Month Price Target: \$35.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

# Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data				
Share Price	\$35.00	Net Debt	6,317	
Shares Outstanding	192	Non Control Int.	310	
Market Capitalization	6,706	Preferred Shares	1,108	
		Enterprise Value	14,441	

Valuations	2011A	2012A	2013E	2014E
P/E	20.7x	20.6x	19.8x	18.6x
EV/EBITDA	11.8x	11.1x	10.2x	9.5x

## Pipeline And Utilities Sector Average

P/E	22.5x	24.9x	23.1x	21.2x
EV/EBITDA	14.8x	12.9x	11.4x	10.5x

Other Data	2011A	2012A	2013E	2014E
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28
Dividend Yield	3.3%	3.4%	3.5%	3.7%
Payout Ratio	68.6%	70.7%	70.1%	68.2%
Book Value Per Share	\$20.48	\$20.84	\$22.42	\$23.14
Price / Book Value	1.7x	1.7x	1.6x	1.5x
Cash Per Share	\$0.47	\$0.80	\$1.96	\$2.41
Debt / Total Capital	54.3%	54.5%	56.4%	56.6%
Net Debt/EBITDA	4.8x	4.9x	5.4x	5.1x

Income Statement	2011A	2012A	2013E	2014E
FortisBC Energy	139	138	141	145
FortisAlberta	75	96	100	109
FortisBC Electric	48	50	48	51
Newfoundland Power	34	37	38	39
Other Canadian Electric Utilities	22	24	24	24
CH Energy	0	0	23	46
Regulated Electric Utilities - Caribbean	20	19	21	21
Fortis Generation	18	17	19	19
Fortis Properties	23	22	24	24
Corporate	(72)	(81)	(78)	(78)

<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>361</b>	<b>400</b>
Unusual Items	11	(8)	0	0
Reported Earnings	318	315	361	400

<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.77</b>	<b>\$1.88</b>
Reported EPS	\$1.75	\$1.66	\$1.77	\$1.88
Shares Outstanding	189	192	212	214
EBITDA	1,228	1,299	1,409	1,528

Cash Flow	2011A	2012A	2013E	2014E
Earnings (incl. pref share dividends)	357	371	410	449
Depreciation and Amortization	419	470	536	567
Total Operating Cash Flow	905	976	946	1,016
Capital Expenditures	1,116	1,088	1,425	1,062
Dividends	205	225	321	332
Net Long Term Debt Proceeds	307	36	1,503	298

Balance Sheet	2011A	2012A	2013E	2014E
Cash & Cash Equivalents	89	154	415	515
Utility Capital Assets / Income Properties	9,281	10,249	12,288	12,732
Total Assets	13,562	14,950	17,200	17,694
Current Liabilities	1,320	1,308	1,308	1,308
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,974	8,272
Future Income Taxes	4	17	0	0
Non Controlling Interests	208	310	301	292
Preferred Shares	912	1,108	1,108	1,108
Shareholders' Equity	4,469	5,100	5,856	6,061
Total Shareholders' Equity And Liabilities	13,562	14,950	17,200	17,694

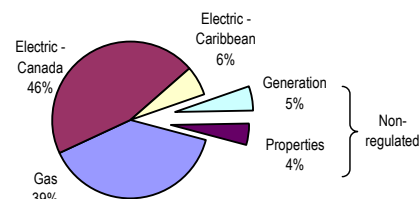
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

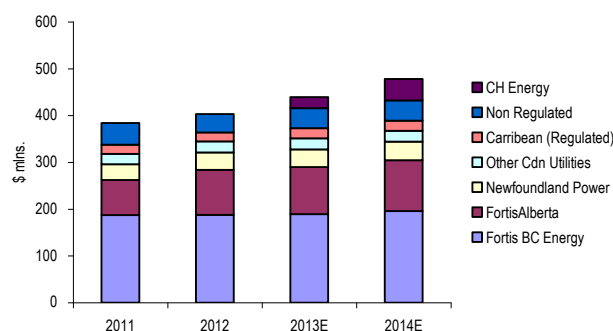
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

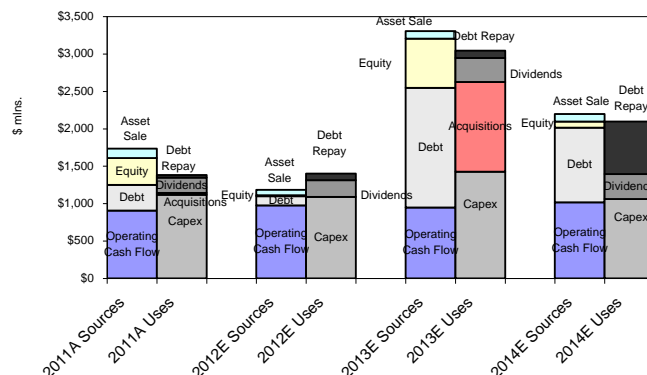
## Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Negative Recommendation On CH Energy Acquisition

On May 3, the administrative law judges assigned to Fortis' (FTS-SP) proposal to the New York State Public Service Commission (NYSPSC) regarding the acquisition of CH Energy (CHG-NYSE) issued their Recommendation Decision. The Recommendation Decision asserts that without modification of the Settlement Agreement, the benefits of the acquisition are outweighed by the detriments remaining after mitigation. The Recommendation Decision is an advisory opinion that will be considered by NYSPSC in determining whether to approve the acquisition. Fortis stated that it intends to engage in further discussions to obtain NYSPSC approval, "although there can be no assurance that such approval will be granted." Submissions responding to the Recommendation Decision are due by May 17, with responses to such submission due by May 24. Fortis expects the NYSPSC to issue its final decision in June. Note that the Recommendation Decision is just a recommendation. The NYSPSC can choose to ignore, in whole or in part, the recommendations from the administrative law judges.

Central Hudson is a regulated gas and electric utility serving 375,000 customers in New York State. The US\$1.5 billion acquisition received CH Energy shareholder approval in June 2012, and all other necessary regulatory approvals (except NYSPSC) in 2012. A Settlement Agreement, which outlined the benefits Fortis is to provide, was reached in January 2013 (further details below).

### Recommendation Decision Appears To Heavily Weight Public Opinion

In the Recommendation Decision, the administrative law judges stated that it was "*relatively easy*" to conclude that the benefits of the acquisition are outweighed by the detriments remaining after mitigation. Highlights from the Recommendation Decision include:

- The rationale behind the decision is that the proposed transaction has generated "*an extraordinarily intense degree of public opposition to a change of Central Hudson's (the main subsidiary of CH Energy) ownership among customers, their elected officials, and labour representatives and other public organizations in the service territory.*"
- The decision cited a few commentators who made it clear they would rather forego the monetized benefits offered in the proposal than see the Fortis acquisition go forward. The decision went on to say, "*the themes evoked most frequently in the comments derived from the perception that the transaction would replace a well-regarded, highly capable and locally engaged utility with a foreign entity of unproven quality having no inherent ties to the service territory and financial objectives that may conflict with the interest of ratepayers.*"
- The decision also criticized the petitioners (Fortis and CH Energy) for doing little to defuse public opposition, and that this passivity lends credence to public objections that Fortis will not appreciate the importance of maintaining customer satisfaction.

Note that these claims appear unsubstantiated and do not specifically note Fortis has any intention or track record of doing any of these things.

## **Settlement Agreement Reached Back In January 2013**

On January 28, 2013, Fortis and CH Energy announced that they, along with other signatory parties (the Staff of the New York State Department of Public Service, Multiple Intervenors and the Utility Intervention Unit of the New York Department of State), had reached a Settlement Agreement. The agreement indicates that the acquisition is in the public interest and, therefore, the parties recommend approval by the NYSPSC. As part of the Settlement Agreement, Fortis will moderate future customer rate increases by providing US\$35 million to cover expenses related to storms (Superstorm Sandy, the October 2011 snowstorm and Tropical Storm Irene) that normally would be recovered in customer rates. The Settlement Agreement also requires that customer delivery rates be frozen until July 1, 2014, and that a US\$5 million Customer Benefit Fund be established for economic development and low-income assistance programs for communities and residents of the Mid-Hudson Valley. In addition, customers will save US\$9.25 million over five years from the elimination of costs the utility now incurs as a public company.

## **Bigger Picture – Difficulty Closing U.S. Acquisitions Could Hamper Growth Profile**

Fortis expects to spend \$6 billion in capital over the next five years. Included in that estimate is \$1.5 billion for the acquisition of CH Energy and an additional \$125 million/year over the timeframe in CH Energy capex. Therefore, roughly 35% of Fortis' capital plan is tied up in CH Energy. This implies that Fortis' expected 6% CAGR rate base growth would fall to ~4% in the case of a rejection of the CH Energy acquisition.

Furthermore, this situation illustrates the difficulty Fortis may have in growing longer term. This is the second consecutive U.S. acquisition attempt that has run into difficulty for Fortis. In July 2011, Fortis declined to match a rival offer for Central Vermont Public Service (CVPS) after putting in a US\$700 million offer in May 2011. Ultimately, the rival offer was deemed superior, and Fortis declined to match given its original offer already richly valued CVPS (1.4x rate base). Fortis' CH Energy offer is priced at 1.5x rate base, suggesting little room to move higher (CH Energy shareholders have already approved the transaction, but Fortis can increase its benefits package to ratepayers). While Fortis' B.C. and Alberta utilities are growing strongly, acquisition opportunities in Canada are limited. With rich valuations, and regulatory hurdles, the acquisition market in the U.S. is also looking challenging.

## **Risk Weighting Acquisition; Slight Reduction To 2014 EPS Estimate**

Overall, we still believe this acquisition will be completed, although we recognize that the risk of its rejection has increased. As a result, we have decided to risk weight the CH Energy acquisition to 80% (i.e., we assume an 80% probability the acquisition is completed, versus 100% previously). As a result, our 2014 EPS estimate (first full year of CH Energy earnings) declines slightly, from \$1.89 to \$1.88. Ultimately, we expect that Fortis will have to sweeten its benefits package (US\$49.25 million currently represents ~3% of the total purchase price) to complete the transaction, which we believe it will. We maintain our Sector Performer rating and \$35.50 price target.

---

## Price Target Calculation

Our \$35.50 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 18.9x our 2014 estimate, below the group average (21.2x) given Fortis' modest, low-risk growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Fortis is in the midst of acquiring CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the U.S. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Prior	\$0.66E	\$0.35E	\$0.23E	\$0.55E	\$1.77E
2013 Current	\$0.66E	\$0.34E	\$0.23E	\$0.55E	\$1.77E
2014 Prior	--	--	--	--	\$1.89E
2014 Current	--	--	--	--	\$1.88E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/06/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$40.32, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/06/2013:**

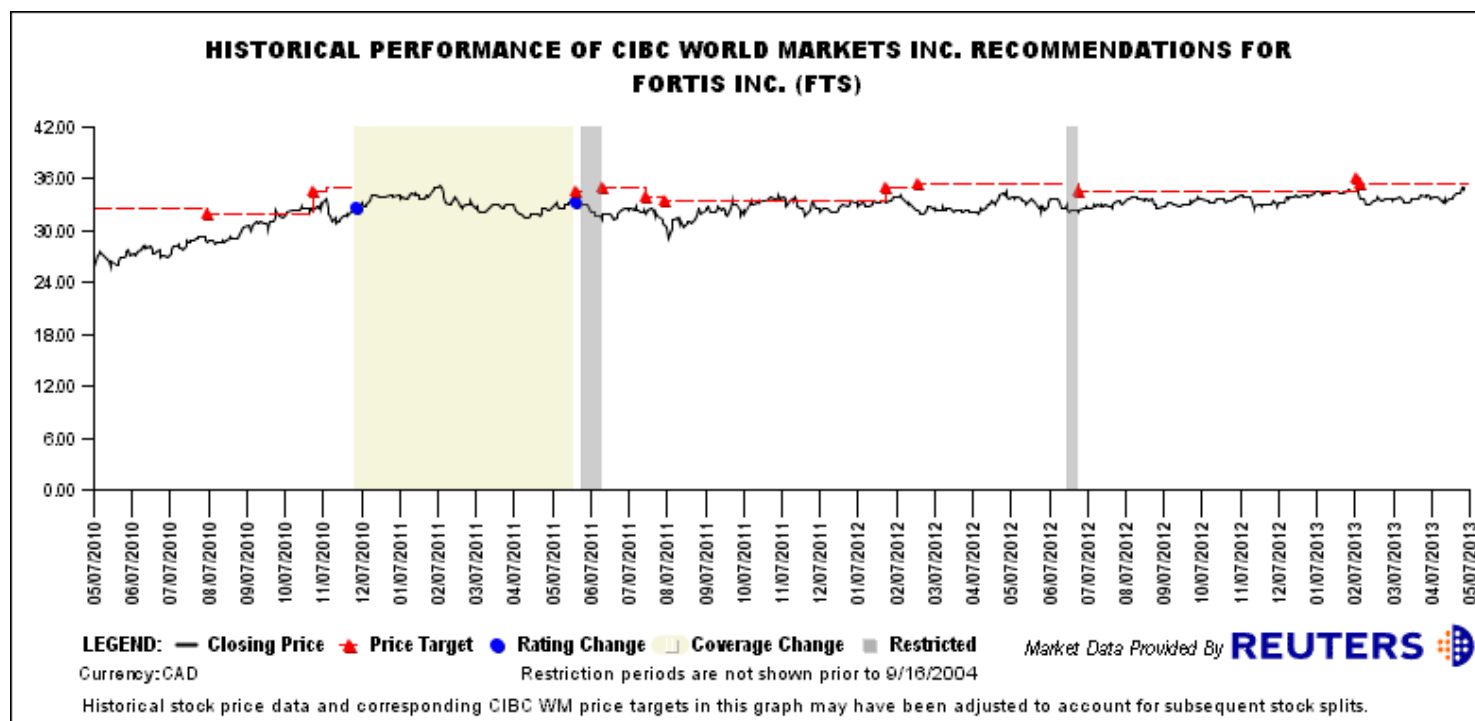
CH Energy Group (CHG-NYSE, US\$64.42, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 06 May 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	157	40.6%	Sector Outperformer (Buy)	155	98.7%
Sector Performer (Hold/Neutral)	193	49.9%	Sector Performer (Hold/Neutral)	192	99.5%
Sector Underperformer (Sell)	30	7.8%	Sector Underperformer (Sell)	28	93.3%
Restricted	6	1.6%	Restricted	6	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 06 May 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





# Institutional Equity Research Earnings Update

May 7, 2013

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.50  
FTS-TSX (5/7/13) \$34.98

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$32.03-\$35.14  
Shares Outstanding 192.5M  
Float 192.5M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,732.8M  
Dividend/Div Yield \$1.24 / 3.5%  
Fiscal Year Ends December  
Book Value \$21.37 per Shr  
2013 ROE (E) 8.2%  
LT Debt \$6.5B  
Preferred \$1,108.00M  
Common Equity \$4.1B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013	\$1.77E	\$1.77E
2014		\$1.88E

P/E		
2012		20.6x
2013	19.8x	19.8x
2014		18.6x

Dividend Per Share	
2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield	
2012	3.4%
2013	3.5%
2014	3.7%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

Pipelines, Utilities, & Power

## Fortis Inc.

### Solid Q1; Focus On CH Energy

- Fortis reported Q1/13 EPS of \$0.79, which included a \$0.12 one-time gain on settlement of claims for a hydroelectric asset in Newfoundland. Excluding this gain, adjusted EPS were \$0.67, roughly in line with consensus (\$0.65) and our (\$0.66) expectations.
- Regulated utilities results were solid in all regions, offset by weak results in non-regulated operations, both generation (low hydro generation in Belize) and properties (hotel occupancy down). Corporate expenses benefited from a \$2MM FX gain/lower costs related to the pending CH Energy acquisition.
- Several major regulatory issues remain outstanding in: 1) BC - generic cost of capital proceedings under way; and, 2) Alberta - ongoing appeals on the recently introduced PBR mechanism, and an upcoming generic cost of capital proceeding. The outcomes of these issues could impact future ROEs.
- The key short-term focus remains the CH Energy acquisition, with a negative recommendation issued Friday to the NY State commission. Fortis continues to work to close the deal (final decision in June), although risks clearly remain. Maintain Sector Performer rating, \$35.50 price target.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

13-122889 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 5/7/13 \$34.98  
 12- To 18- Month Price Target: \$35.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data				
Share Price	\$34.98	Net Debt	6,376	
Shares Outstanding	192	Non Control Int.	333	
Market Capitalization	6,702	Preferred Shares	1,108	
		Enterprise Value	14,519	
Valuations				
P/E	20.7x	20.6x	19.7x	18.6x
EV/EBITDA	11.8x	11.2x	10.4x	9.6x
Pipeline And Utilities Sector Average				
P/E	22.5x	24.9x	23.1x	21.2x
EV/EBITDA	14.8x	12.9x	11.4x	10.5x
Other Data				
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28
Dividend Yield	3.3%	3.4%	3.5%	3.7%
Payout Ratio	68.6%	70.7%	69.9%	68.2%
Book Value Per Share	\$20.48	\$20.84	\$22.44	\$23.17
Price / Book Value	1.7x	1.7x	1.6x	1.5x
Cash Per Share	\$0.47	\$0.80	\$2.05	\$2.52
Debt / Total Capital	54.3%	54.5%	56.4%	56.5%
Net Debt/EBITDA	4.8x	4.9x	5.4x	5.1x
Income Statement				
FortisBC Energy	139	138	141	145
FortisAlberta	75	96	103	109
FortisBC Electric	48	50	48	51
Newfoundland Power	34	37	38	39
Other Canadian Electric Utilities	22	24	24	24
CH Energy	0	0	23	46
Regulated Electric Utilities - Caribbean	20	19	21	21
Fortis Generation	18	17	16	19
Fortis Properties	23	22	24	24
Corporate	(72)	(81)	(76)	(78)
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>362</b>	<b>400</b>
Unusual Items	11	(8)	22	0
Reported Earnings	318	315	384	400
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.77</b>	<b>\$1.88</b>
Reported EPS	\$1.75	\$1.66	\$1.88	\$1.88
Shares Outstanding	189	192	212	214
EBITDA	1,228	1,299	1,393	1,510
Cash Flow				
Earnings (incl. pref share dividends)	357	371	433	449
Depreciation and Amortization	419	470	542	573
Total Operating Cash Flow	905	976	976	1,022
Capital Expenditures	1,116	1,088	1,425	1,062
Dividends	205	225	321	332
Net Long Term Debt Proceeds	307	36	1,503	298
Balance Sheet				
Cash & Cash Equivalents	89	154	434	540
Utility Capital Assets / Income Properties	9,281	10,249	12,282	12,720
Total Assets	13,562	14,950	17,213	17,707
Current Liabilities	1,320	1,308	1,308	1,308
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,974	8,272
Future Income Taxes	4	17	0	0
Non Controlling Interests	208	310	301	292
Preferred Shares	912	1,108	1,108	1,108
Shareholders' Equity	4,469	5,100	5,869	6,074
Total Shareholders' Equity And Liabilities	13,562	14,950	17,213	17,707

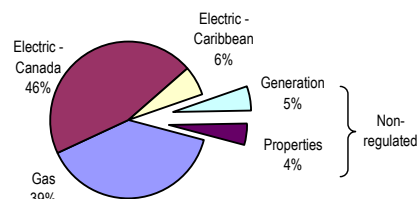
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

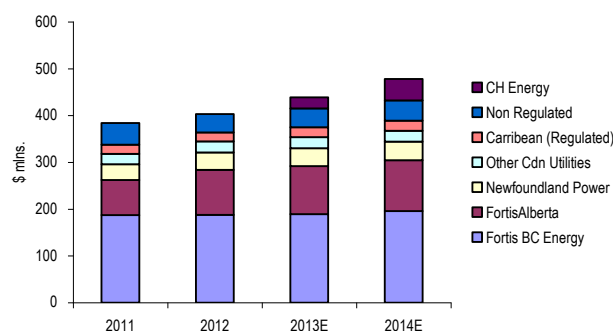
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

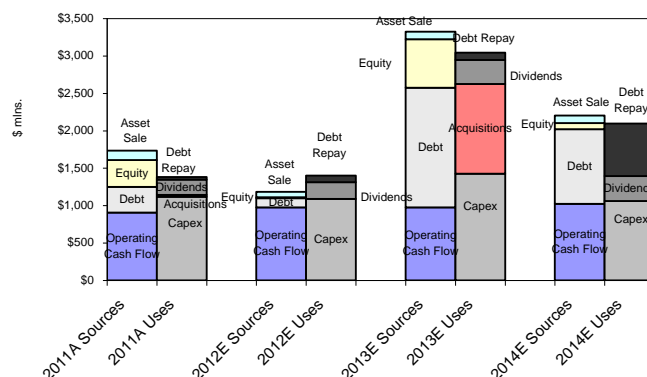
## Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Q1 In Line, Ex-Gain

Fortis (FTS-SP) reported Q1 EPS of \$0.79. This included a one-time after-tax gain of \$22 million, or \$0.12 EPS; excluding this gain, adjusted EPS of \$0.67 were roughly in line with consensus (\$0.65) and our (\$0.66) estimates.

The one-time gain resulted from the settlement of claims related to a hydroelectric generation facility and water rights in Newfoundland. These assets were jointly owned with Abitibi (RFP-TSX), and were expropriated by the government of Newfoundland and Labrador after Abitibi abandoned its pulp and paper operations in the province, with Fortis' ownership also being expropriated in the process. The government has now settled with Fortis in regards to these assets.

In terms of the business operations in the quarter, all regulated utilities performed roughly as expected, with the B.C. and Alberta utilities benefiting from customer additions and rate base growth. FortisAlberta also benefited from lower depreciation costs and higher net transmission revenue.

Excluding the one-time gain noted above, the non-regulated businesses were weak in the quarter – generation due to low rainfall in Belize impacting hydro generation, and properties due to lower hotel occupancy rates in Ontario given the weaker economy.

---

## Major Regulatory Issues Still Under Way

There are a number of regulatory processes under way in B.C. and Alberta that could impact Fortis as we move through the balance of 2013 and into 2014:

- **FortisBC Energy – amalgamation of utilities:** In April 2012, Fortis applied to the B.C. Utilities Commission (BCUC) for approval to amalgamate and set common rates across its three separate gas utilities (FortisBC Energy, FortisBC Energy Vancouver Island, and FortisBC Energy Whistler). The BCUC denied this request – which would have the effect of raising rates in the lower Mainland to the benefit of Vancouver Island residents – with Fortis filing a leave to appeal with the B.C. Court of Appeal in March, and an Application for Reconsideration with the BCUC in April. Regardless of the outcome, we see little impact on FortisBC Energy's results.
- **FortisBC Energy – generic cost of capital (GCOC):** The BCUC has a GCOC proceeding under way, with a decision from the first phase to determine the "benchmark" capital structure and ROE (FortisBC Energy is the benchmark utility) expected in June and the second phase (to establish rates and capital structure for all other utilities including FortisBC Electric) to wrap up by the end of the year/early 2014. We continue to see downside risk for FortisBC Energy and FortisBC Electric, which have allowed ROEs of 9.5% (10% for Whistler/Vancouver Island) and 9.9%, respectively, above other comparable utilities (e.g., FortisAlberta at 8.75%).
- **FortisAlberta – Capital Tracker under PBR:** FortisAlberta is seeking clarification on the treatment of capital expenditures under the recently introduced Performance Based Rate-setting (PBR) mechanism, with the company concerned that the PBR formula does not adequately compensate Fortis for its current high level of capex in Alberta. The Alberta Utilities Commission (AUC) has approved, on an interim basis, 60% of the revenue requirement related to 2013 capex, with the outstanding amounts to be determined based on the outcome of a hearing currently under way (decision in Q4/13). The risk to FortisAlberta is that the PBR might not adequately capture high levels of capex spending, which would impact future capex investment and growth for FortisAlberta.

- **FortisAlberta – GCOC:** A GCOC proceeding for Alberta utilities' capital structure and allowed returns will commence before the end of Q2/13, with a hearing scheduled for early 2014. We foresee limited downside risk given FortisAlberta's current 8.75% allowed ROE is in line with, or even below, that of comparable utilities; FortisAlberta would argue that the PBR mechanism has introduced higher regulatory risks than previous, and would suggest that the allowed ROE should move commensurately higher.

---

## Short-term Focus On CH Energy

On May 3, the administrative law judges assigned to Fortis' proposal to the New York State Public Service Commission (NYSPSC) regarding the acquisition of CH Energy (CHG-NYSE) issued their Recommendation Decision. The Recommendation Decision asserts that without modification of the Settlement Agreement the benefits of the acquisition are outweighed by the detriments remaining after mitigation. The Recommendation Decision is an advisory opinion that will be considered by NYSPSC in determining whether to approve the acquisition. Fortis stated that it intends to engage in further discussions to obtain NYSPSC approval, "although there can be no assurance that such approval will be granted." Submissions responding to the Recommendation Decision are due by May 17, with responses to such submissions due by May 24. Fortis expects the NYSPSC to issue its final decision in June. Note that the Recommendation Decision is just a recommendation. The NYSPSC can choose to ignore, in whole or in part, the recommendations from the administrative law judges. For more information on the Recommendation Decision, please see our May 6 report, *Negative NY Recommendation On CH Energy Acquisition*.

Central Hudson is a regulated gas and electric utility serving 375,000 customers in New York State. The US\$1.5 billion acquisition received CH Energy shareholder approval in June 2012, and all other necessary regulatory approvals (except NYSPSC) in 2012. A Settlement Agreement, which outlined the benefits Fortis is to provide, was reached in January 2013.

Overall, we still believe this acquisition will be completed, although we recognize that the risk of its rejection has increased. As a result, we have decided to risk weight the CH Energy acquisition to 80% (i.e., we assume an 80% probability the acquisition is completed, versus 100% previously).

---

## Little Change To Outlook

Overall, we see Q1 results as in line with expectations. There are a number of regulatory proceedings worth watching over the balance of 2013 and into 2014 that could impact Fortis' results, but the key short-term focus remains the pending CH Energy acquisition, with a decision expected in June. In the interim, we maintain our Sector Performer rating and \$35.50 price target.

---

## Q1/13 Results

Fortis reported Q1/13 adjusted EPS of \$0.67 versus our estimate of \$0.66 (consensus \$0.65) and \$0.66 reported in Q1/12. Adjusted EPS exclude \$22 million in after-tax earnings (\$0.12/share) related to a settlement Fortis reached with the Newfoundland and Labrador government regarding the 2008 expropriation of non-regulated hydro generation assets and water rights, then owned by Exploits River Hydro Partnership in which Fortis holds an indirect 51% interest.

**Exhibit 1. Q1/13 Results (\$ mlns., except per share)**

Segmented Earnings	Q1/13A	Q1/13E	Q1/12A
<b>Regulated Utilities</b>			
FortisBC Energy	\$85	\$84	\$82
FortisAlberta	26	23	21
FortisBC Electric	18	17	16
Newfoundland Power	7	7	7
Other Canadian Electric Utilities	6	7	7
Regulated Electric Utilities – Caribbean	3	3	3
Total Regulated Utilities	145	141	136
<b>Non-regulated Operations</b>			
Fortis Generation	2	5	5
Fortis Properties	0	1	1
Total Non-regulated Operations	2	5	6
Corporate	(18)	(20)	(17)
<b>Operating Earnings For Common</b>	<b>129</b>	<b>126</b>	<b>125</b>
Unusual Items	22	0	(4)
Reported Earnings	151	126	121
Weighted Average Shares Outstanding (mlns.)	192	192	189
<b>Operating EPS</b>	<b>0.67</b>	<b>0.66</b>	<b>0.66</b>
Reported EPS	0.79	0.66	0.64
Dividend Per Share	0.31	0.31	0.30
Pay out Ratio	46.1%	47.1%	45.4%

Source: CIBC World Markets Inc.

**Regulated Utilities**

Earnings from regulated utilities totaled \$145 million in Q1/13, up from \$136 million in Q1/12 and modestly above our \$141 million estimate. Higher-than-expected earnings at FortisAlberta were the result of lower depreciation expenses and higher net transmission revenue recognized in the quarter associated with the finalization of 2012 transmission volume variances (\$2 million benefit). Rate base growth drove Y/Y earnings increases at Fortis' B.C. utilities (FortisBC Energy and FortisBC Electric).

**Non-regulated Operations**

Non-regulated operations earnings totaled \$2 million in Q1/13, down from \$6 million in Q1/12 and below our \$5 million estimate. The main driver of the shortfall was lower earnings at Fortis Generation due to lower rainfall leading to reduced production in Belize. Fortis Properties' results were slightly below expectations, reflecting lower occupancy levels in hotel operations in Ontario. Corporate expenses were lower than expected due to a foreign exchange gain of \$2 million.

## Revising Estimates

We have made minor adjustments to our 2013 assumptions to reflect higher expected earnings at FortisAlberta and lower Corporate expenses offset by lower expectations for Fortis Generation. These changes offset and, as a result, our 2013 EPS estimate remains at \$1.77. Our 2014 EPS estimate remains unchanged at \$1.88.

### Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2012	2013E		2014E	
		Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	\$138	\$141	\$141	\$145	\$145
FortisAlberta	96	100	103	109	109
FortisBC Electric	50	48	48	51	51
Newfoundland Power	37	38	38	39	39
Other Canadian Electric Utilities	24	24	24	24	24
CH Energy	0	23	23	46	46
Regulated Electric Utilities – Caribbean	19	21	21	21	21
Total Regulated Utilities	364	396	398	435	435
<b>Non-regulated Operations</b>					
Fortis Generation	17	19	16	19	19
Fortis Properties	22	24	24	24	24
Total Non-regulated Operations	39	43	40	43	43
Corporate	(81)	(78)	(76)	(78)	(78)
<b>Operating Earnings For Common</b>	<b>323</b>	<b>361</b>	<b>362</b>	<b>400</b>	<b>400</b>
Unusual Items	(8)	0	22	0	0
Reported Earnings	315	361	384	400	400
Weighted Average Shares Outstanding (mlns.)	190	204	204	213	213
<b>Operating EPS</b>	<b>1.70</b>	<b>1.77</b>	<b>1.77</b>	<b>1.88</b>	<b>1.88</b>
Reported EPS	1.66	1.77	1.88	1.88	1.88
Dividend Per Share	1.20	1.24	1.24	1.28	1.28
Pay out Ratio	70.7%	70.1%	69.9%	68.2%	68.2%

Source: CIBC World Markets Inc.

## Price Target Calculation

Our \$35.50 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 18.9x our 2014 estimate, below the group average (21.2x) given Fortis' modest low-risk growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Fortis is in the midst of acquiring CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the U.S. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin Group (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).



## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Prior	\$0.66E	\$0.34E	\$0.23E	\$0.55E	\$1.77E
2013 Current	\$0.67A	\$0.34E	\$0.25E	\$0.53E	\$1.77E
2014 Current	--	--	--	--	\$1.88E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/07/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$40.34, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/07/2013:**

CH Energy Group (CHG-NYSE, US\$64.37, Not Rated)

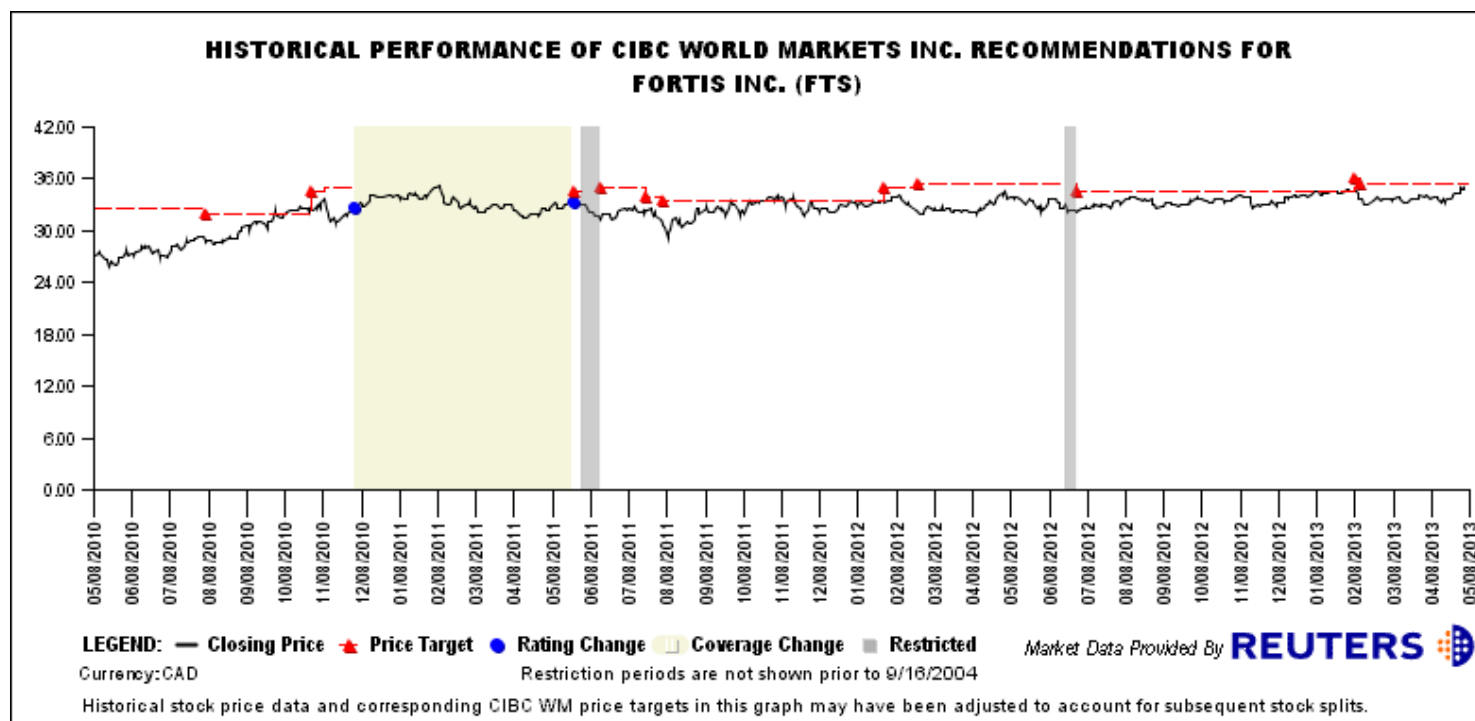
Resolute Forest Products (RFP-TSX, \$15.69, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 07 May 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	156	40.3%	Sector Outperformer (Buy)	154	98.7%
Sector Performer (Hold/Neutral)	194	50.1%	Sector Performer (Hold/Neutral)	193	99.5%
Sector Underperformer (Sell)	30	7.8%	Sector Underperformer (Sell)	28	93.3%
Restricted	6	1.6%	Restricted	6	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 07 May 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change



## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

May 13, 2013

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (5/13/13) \$34.14

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$32.03-\$35.14  
Shares Outstanding 192.5M  
Float 192.5M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,571.1M  
Dividend/Div Yield \$1.24 / 3.6%  
Fiscal Year Ends December  
Book Value \$21.30 per Shr  
2013 ROE (E) 8.0%  
LT Debt \$6.5B  
Preferred \$1,108.00M  
Common Equity \$4.1B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013	\$1.77E	\$1.73E
2014	\$1.88E	\$1.84E

P/E	
2012	20.1x
2013	19.3x
2014	18.2x

#### Dividend Per Share

2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

#### Yield

2012	3.5%
2013	3.6%
2014	3.7%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

Pipelines, Utilities, & Power

## Fortis Inc.

### Negative Decision From BCUC

- The BC Utilities Commission (BCUC) released the first phase of its Generic Cost of Capital (GCOC) decision, which sets the ROE and equity thickness for BC's "benchmark" utility, FortisBC Energy Inc. The ruling set an 8.75% ROE/38.5% equity thickness, down from the current 9.5%/40%.
- We had expected a 50 bps reduction in ROE (from 9.5% to 9.0%) and no change to capital structure. The impact of the ruling is to reduce our EPS forecast by ~\$0.04. The decision is effective January 1, 2013, through December 31, 2015.
- The BCUC will now complete phase 2 of its GCOC process, setting returns and capital structure for other BC utilities relative to FortisBC Energy. We have reduced our return and capital structure forecast for FortisBC Electric from current 9.9%/40% to 9.15%/38.5%, another \$0.01 EPS impact.
- We have updated our financial model for these changes and the recent announcement of the redemption of \$125 million in preferred shares (~\$0.01 EPS benefit from reduced pref share dividends costs). We have reduced our price target from \$35.50 to \$35 and maintain our SP rating.

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

13-123094 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



# Fortis Inc.

FTS - TSX 5/13/13 \$34.14  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

# Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$34.14	Net Debt	6,376		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces and the Caribbean, and non-regulated power generation and real estate assets.				
Shares Outstanding	192	Non Control Int.	333						
Market Capitalization	6,541	Preferred Shares	1,108						
		Enterprise Value	14,358						
Valuations					Investment Thesis				
P/E	20.2x	20.1x	19.7x	18.5x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its five-year, \$6 billion capital program, which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.				
EV/EBITDA	11.7x	11.1x	10.4x	9.6x					
Pipeline And Utilities Sector Average					Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)				
P/E	22.5x	24.9x	23.1x	21.2x					
EV/EBITDA	14.8x	12.9x	11.4x	10.5x					
Other Data					Segmented Earnings (Exc. Corporate)				
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28					
Dividend Yield	3.4%	3.5%	3.6%	3.7%					
Payout Ratio	68.6%	70.7%	71.6%	69.5%					
Book Value Per Share	\$20.48	\$20.84	\$22.40	\$23.09					
Price / Book Value	1.7x	1.6x	1.5x	1.5x					
Cash Per Share	\$0.47	\$0.80	\$1.41	\$1.86					
Debt / Total Capital	54.3%	54.5%	56.9%	57.1%					
Net Debt/EBITDA	4.8x	4.9x	5.6x	5.3x					
Income Statement					Major Sources, Uses Of Cash				
FortisBC Energy	139	138	133	136					
FortisAlberta	75	96	103	109					
FortisBC Electric	48	50	45	48					
Newfoundland Power	34	37	38	39					
Other Canadian Electric Utilities	22	24	24	24					
CH Energy	0	0	23	46					
Regulated Electric Utilities - Caribbean	20	19	21	21					
Fortis Generation	18	17	16	19					
Fortis Properties	23	22	24	24					
Corporate	(72)	(81)	(73)	(73)					
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>354</b>	<b>393</b>					
Unusual Items	11	(8)	22	0					
Reported Earnings	318	315	376	393					
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.73</b>	<b>\$1.84</b>					
Reported EPS	\$1.75	\$1.66	\$1.84	\$1.84					
Shares Outstanding	189	192	212	214					
EBITDA	1,228	1,299	1,378	1,495					
Cash Flow									
Earnings (incl. pref share dividends)	357	371	422	437					
Depreciation and Amortization	419	470	542	573					
Total Operating Cash Flow	905	976	964	1,010					
Capital Expenditures	1,116	1,088	1,425	1,062					
Dividends	205	225	318	327					
Net Long Term Debt Proceeds	307	36	1,503	298					
Balance Sheet									
Cash & Cash Equivalents	89	154	299	398					
Utility Capital Assets / Income Properties	9,281	10,249	12,282	12,720					
Total Assets	13,562	14,950	17,078	17,565					
Current Liabilities	1,320	1,308	1,308	1,308					
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,974	8,272					
Future Income Taxes	4	17	0	0					
Non Controlling Interests	208	310	301	292					
Preferred Shares	912	1,108	982	982					
Shareholders' Equity	4,469	5,100	5,734	5,932					
Total Shareholders' Equity And Liabilities	13,562	14,950	17,078	17,565					

Source: Company reports and CIBC World Markets Inc.

---

## BCUC Issues Decision On Cost Of Capital

On May 10, the British Columbia Utilities Commission (BCUC) issued a decision on phase 1 of its Generic Cost of Capital (GOCC) review for BC utilities. The return on equity (ROE) and common equity ratio for FortisBC Energy Inc. have been set at 8.75% and 38.5%, respectively, effective January 1, 2013, through the end of 2015. The allowed ROE and common equity ratio are down from 9.5% and 40%, respectively, in 2012.

Effective January 2014, the BCUC is also introducing an automatic adjustment mechanism (AAM) to set the ROE on an annual basis for FortisBC Energy Inc., to give consideration to market changes over the period between ROE proceedings (i.e., until the end of 2015). The AAM will be a two-variable model considering changes to utility bond spreads and the long-term (30-year) Government of Canada (GoC) bond yields. The AAM will only take effect, however, when actual long-term GoC bond yields exceed 3.8%. With long-term GoC yields currently hovering around 2.5%, and the expectation of a gradual rise (from our CIBC World Markets Inc. Economics team) to 3.25% by March 2015, we do not anticipate the AAM having an impact on FortisBC Energy's allowed ROE (we expect it to remain at 8.75% through 2015).

The BCUC maintained FortisBC Energy Inc. as the benchmark for calculating ROEs for other BC utilities. The ROEs for the other BC utilities are also impacted by this decision, with their ROEs reflecting the new (lower) benchmark ROE, and the risk premiums associated with the individual utility. The impact to Fortis' utilities allowed ROEs is as follows:

- **FortisBC Energy (Vancouver Island):** Down from 10% in 2012 to 9.25% in 2013–2015.
- **FortisBC Energy (Whistler):** Down from 10% in 2012 to 9.25% in 2013–2015.
- **FortisBC Electric:** Down from 9.9% in 2012 to 9.15% in 2013–2015.

Phase 2 of the BCUC's generic cost of capital review will determine an appropriate individual risk premium and capital structure for FortisBC Electric, FortisBC Energy (Vancouver Island), and FortisBC (Whistler), suggesting the allowed ROEs/capital structures listed above could be altered again. A decision on phase 2 is expected in late 2013/early 2014.

---

## Moderately Worse Decision Than Expected

We had been expecting a decline in allowed ROEs at Fortis' BC utilities as they sat higher than comparable utilities, including FortisAlberta (8.75%). We had built a 50 bps decline across the board with no change in capital structure. The decision to reduce allowed ROEs by 75 bps and the common equity structure from 40% to 38.5% is moderately worse than we had anticipated. We have incorporated this decision, as well as the recent buyback of Series C preferred shares, into our forecast. We are reducing our EPS estimates by \$0.04 for each of 2013 and 2014, and taking our price target from \$35.50 to \$35.00. While the BCUC decision is a modest negative for the stock, we believe the key issue remains closing the US\$1.5 billion CH Energy (CHG-NYSE) acquisition, with New York State's Public Service Commission expected to issue a decision in June 2013. We maintain our Sector Performer rating.

---

## Price Target Calculation

Our \$35 price target (down from \$35.50) is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 19.0x our 2014 estimate, below the group average (21.2x) given Fortis' modest low-risk growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and BC.
- **Acquisition Risks:** Fortis is in the midst of acquiring CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the U.S. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Prior	\$0.67A	\$0.34E	\$0.25E	\$0.53E	\$1.77E
2013 Current	\$0.67A	\$0.30E	\$0.26E	\$0.52E	\$1.73E
2014 Prior	--	--	--	--	\$1.88E
2014 Current	--	--	--	--	\$1.84E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.



## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/13/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$41.34, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/13/2013:**

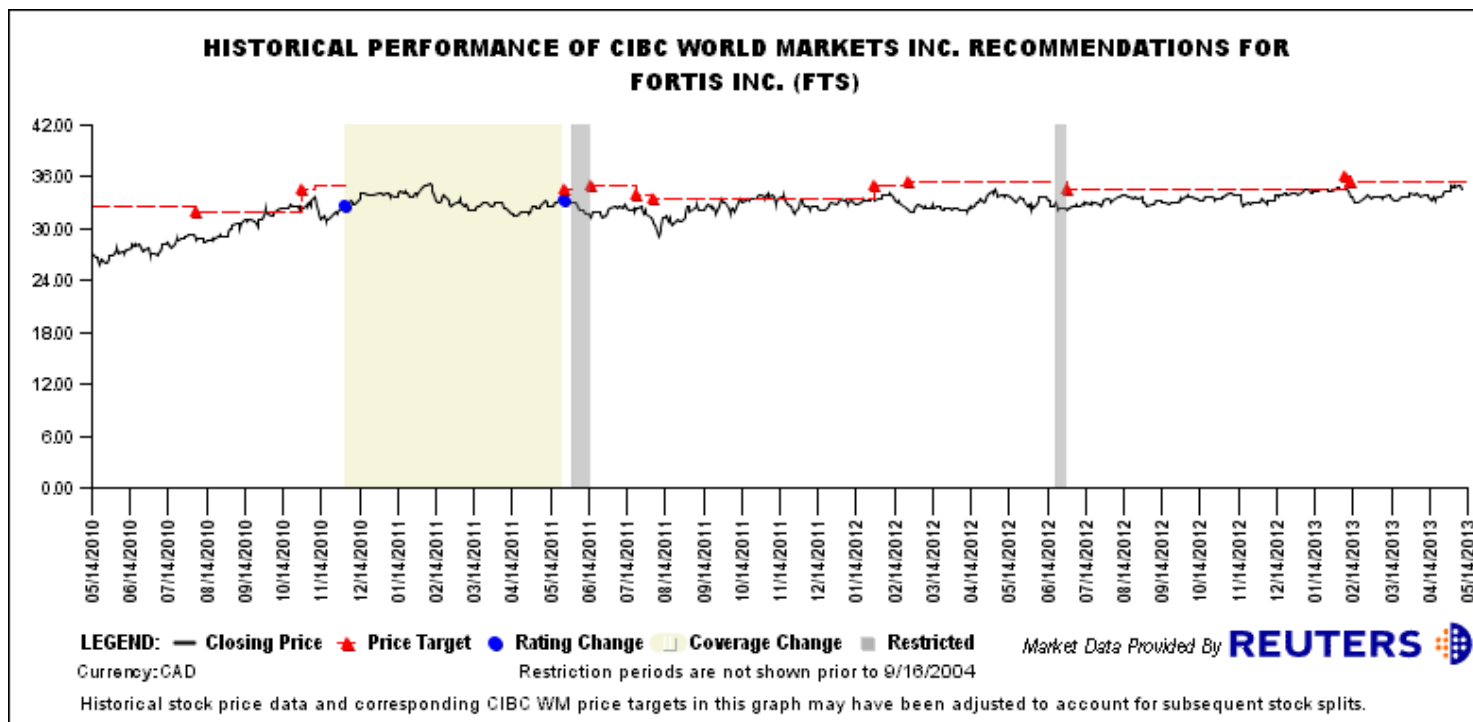
CH Energy Group (CHG-NYSE, US\$64.17, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 13 May 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	158	40.8%	Sector Outperformer (Buy)	156	98.7%
Sector Performer (Hold/Neutral)	191	49.4%	Sector Performer (Hold/Neutral)	190	99.5%
Sector Underperformer (Sell)	31	8.0%	Sector Underperformer (Sell)	29	93.5%
Restricted	6	1.6%	Restricted	6	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 13 May 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

June 13, 2013

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (6/13/13) \$32.22

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$31.74-\$35.14  
Shares Outstanding 192.5M  
Float 192.5M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,201.6M  
Dividend/Div Yield \$1.24 / 3.9%  
Fiscal Year Ends December  
Book Value \$21.30 per Shr  
2013 ROE (E) 8.0%  
LT Debt \$6.5B  
Preferred \$1,108.00M  
Common Equity \$4.1B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013		\$1.73E
2014	\$1.84E	\$1.85E

P/E	
2012	19.0x
2013	18.6x
2014	17.5x

Dividend Per Share

2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield

2012	3.8%
2013	3.9%
2014	4.0%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

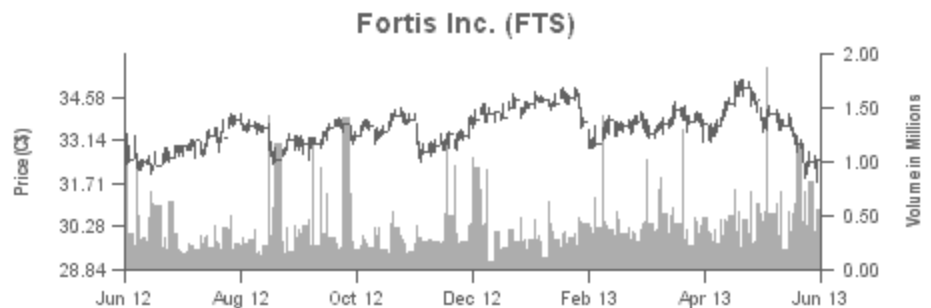
Pipelines, Utilities, & Power

## Fortis Inc.

### NYSPSC Approves CH Energy Acquisition

- The New York State Public Service Commission (NYSPSC) today approved Fortis' US\$1.5 billion acquisition of CH Energy. NYSPSC approval was the final requirement for the transaction, as CH Energy shareholder approval and all other regulatory approvals were received in 2012.
- CH Energy is the parent of Central Hudson Gas & Electric Corp. (Central Hudson), a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 gas customers in eight counties of New York State's Mid-Hudson River Valley.
- The US\$1.5 billion purchase price includes the assumption of US\$500 million in CH Energy debt. Fortis issued ~\$600 million in subscription receipts (exchangeable to common shares) that are held in escrow pending the closing of the acquisition (which we expect shortly).
- Following a very lengthy process, NYSPSC approval is a positive development. We have modestly increased our estimates to reflect the increased probability of completing this acquisition, from 80% to 100%. We maintain our SP rating and \$35 price target.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

13-123600 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**




**Fortis Inc.**

FTS - TSX 6/13/13 \$32.22  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

**Sector Performer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

**Market Data**

Share Price	\$32.22	Net Debt	6,376
Shares Outstanding	192	Non Control Int.	333
Market Capitalization	6,202	Preferred Shares	1,108
		Enterprise Value	14,019

Valuations	2011A	2012A	2013E	2014E
P/E	19.1x	19.0x	18.6x	17.4x
EV/EBITDA	11.4x	10.8x	10.2x	9.2x

**Pipeline And Utilities Sector Average**

P/E	22.0x	23.7x	21.8x	20.2x
EV/EBITDA	14.7x	12.9x	11.3x	10.3x

Other Data	2011A	2012A	2013E	2014E
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28
Dividend Yield	3.6%	3.7%	3.8%	4.0%
Payout Ratio	68.6%	70.7%	71.8%	69.2%
Book Value Per Share	\$20.48	\$20.84	\$22.40	\$23.09
Price / Book Value	1.6x	1.5x	1.4x	1.4x
Cash Per Share	\$0.47	\$0.80	-\$0.01	\$0.35
Debt / Total Capital	54.3%	54.5%	56.9%	57.1%
Net Debt/EBITDA	4.8x	4.9x	5.8x	5.4x

**Income Statement**

	2011A	2012A	2013E	2014E
FortisBC Energy	139	138	133	136
FortisAlberta	75	96	103	109
FortisBC Electric	48	50	45	48
Newfoundland Power	34	37	38	39
Other Canadian Electric Utilities	22	24	24	24
CH Energy	0	0	24	57
Regulated Electric Utilities - Caribbean	20	19	21	21
Fortis Generation	18	17	16	19
Fortis Properties	23	22	24	24
Corporate	(72)	(81)	(75)	(83)
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>353</b>	<b>395</b>
Unusual Items	11	(8)	22	0
Reported Earnings	318	315	375	395
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.73</b>	<b>\$1.85</b>
Reported EPS	\$1.75	\$1.66	\$1.83	\$1.85
Shares Outstanding	189	192	212	214
EBITDA	1,228	1,299	1,380	1,520

**Cash Flow**

	2011A	2012A	2013E	2014E
Earnings (incl. pref share dividends)	357	371	421	439
Depreciation and Amortization	419	470	542	574
Total Operating Cash Flow	905	976	963	1,012
Capital Expenditures	1,116	1,088	1,425	1,087
Dividends	205	225	318	327
Net Long Term Debt Proceeds	307	36	1,503	298

**Balance Sheet**

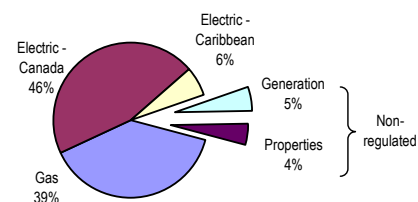
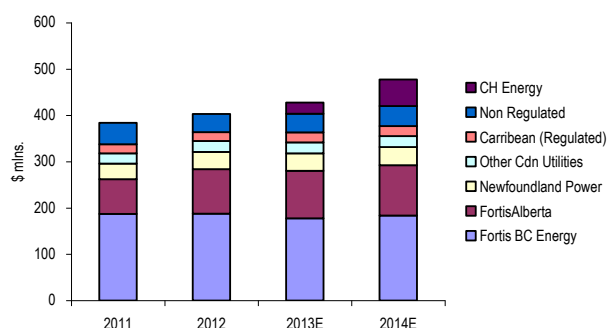
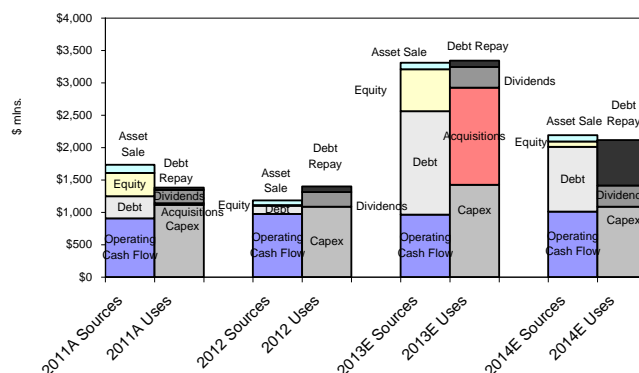
	2011A	2012A	2013E	2014E
Cash & Cash Equivalents	89	154	(2)	74
Utility Capital Assets / Income Properties	9,281	10,249	12,582	13,045
Total Assets	13,562	14,950	17,077	17,566
Current Liabilities	1,320	1,308	1,308	1,308
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,974	8,272
Future Income Taxes	4	17	0	0
Non Controlling Interests	208	310	301	292
Preferred Shares	912	1,108	982	982
Shareholders' Equity	4,469	5,100	5,733	5,933
Total Shareholders' Equity And Liabilities	13,562	14,950	17,077	17,566

**Company Profile**

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, and non-regulated power generation and real estate assets.

**Investment Thesis**

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

**Assets - Excl Corporate / Eliminations (As At Dec 31, 2011)**

**Segmented Earnings (Exc. Corporate)**

**Major Sources, Uses Of Cash**


Source: Company reports and CIBC World Markets Inc.

---

## Price Target Calculation

Our \$35 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 18.9x our 2014 estimate, below the group average (20.2x) given Fortis' modest low-risk growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Fortis is in the midst of acquiring CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Current	\$0.67A	\$0.30E	\$0.26E	\$0.52E	\$1.73E
2014 Prior	--	--	--	--	\$1.84E
2014 Current	--	--	--	--	\$1.85E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/13/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$44.13, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 06/13/2013:**

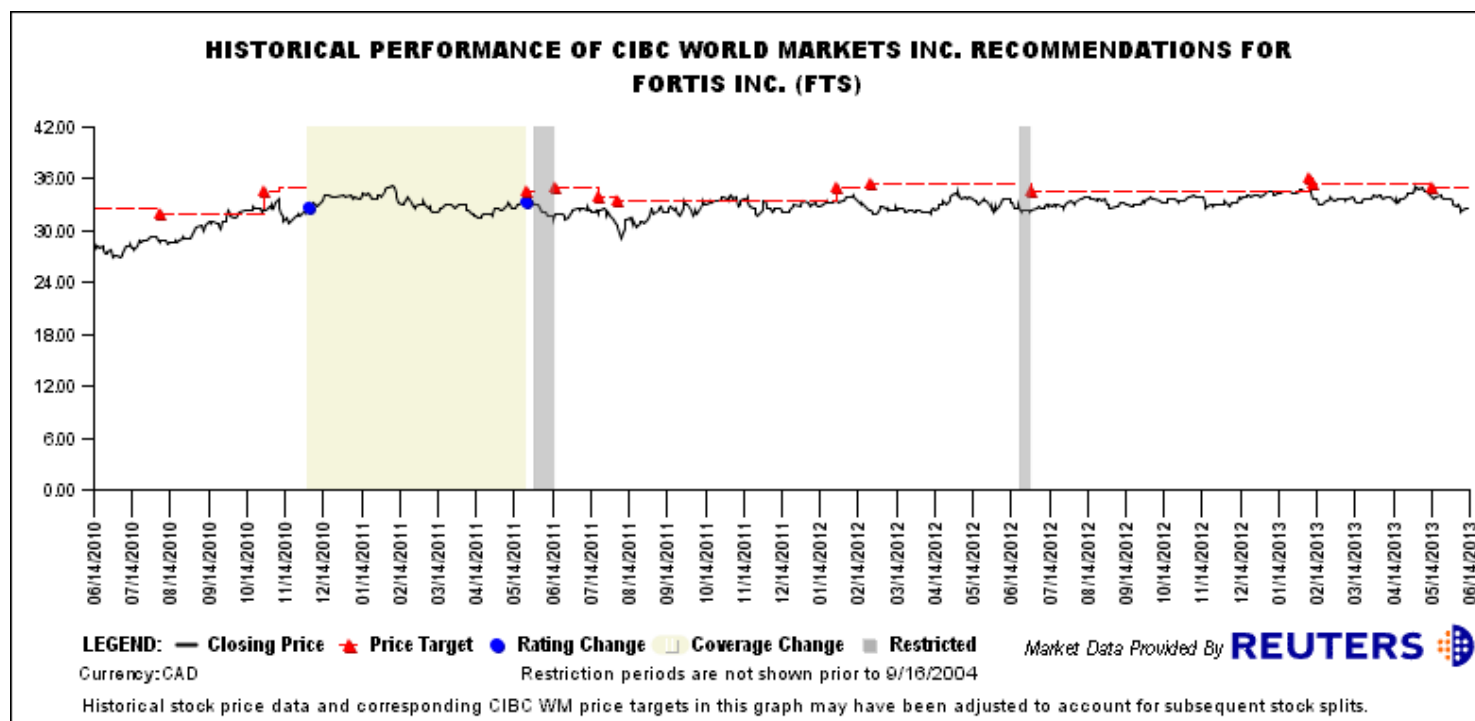
CH Energy Group (CHG-NYSE, US\$65.01, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem



## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 13 Jun 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	158	41.3%	Sector Outperformer (Buy)	153	96.8%
Sector Performer (Hold/Neutral)	186	48.6%	Sector Performer (Hold/Neutral)	180	96.8%
Sector Underperformer (Sell)	30	7.8%	Sector Underperformer (Sell)	27	90.0%
Restricted	8	2.1%	Restricted	8	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 13 Jun 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	4	57.1%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

August 1, 2013

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$34.50  
FTS-TSX (8/1/13) \$32.01

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$30.70-\$35.14  
Shares Outstanding 211.7M  
Float 211.7M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,776.5M  
Dividend/Div Yield \$1.24 / 3.9%  
Fiscal Year Ends December  
Book Value \$22.20 per Shr  
2013 ROE (E) 8.0%  
LT Debt \$7.7B  
Preferred \$1,108.00M  
Common Equity \$4.7B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013	\$1.73E	\$1.73E
2014	\$1.85E	\$1.82E

P/E		
2012		18.8x
2013	18.5x	18.5x
2014	17.3x	17.6x

Dividend Per Share

2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield

2012	3.7%
2013	3.9%
2014	4.0%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

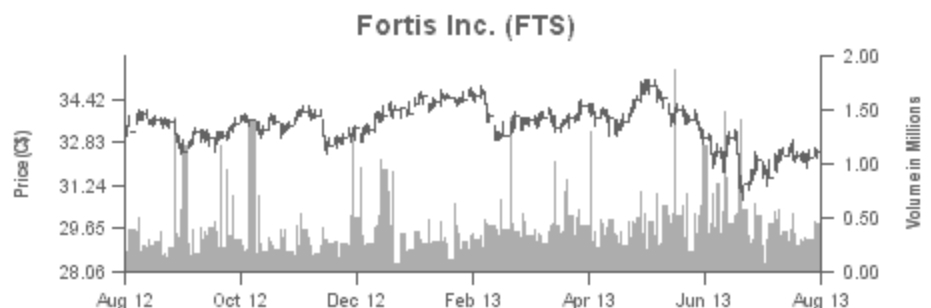
Pipelines, Utilities, & Power

## Fortis Inc.

### In-line Q2, But Headwinds From BCUC Decision, Delayed Accretion From CH Energy

- Fortis reported adjusted EPS of \$0.32, slightly above consensus \$0.31 (CIBC \$0.30). These earnings exclude \$32M (\$0.17 EPS) in expenses related to the CH Energy acquisition and a recovery of \$25M (\$0.13 EPS) from higher deductions related to Part VI.1 tax on pref share dividends.
- Y/Y results (versus \$0.34 EPS) were impacted by a BCUC regulatory decision in the quarter, reducing allowed ROEs for Fortis' B.C. utilities by 75 bps (and for FortisBC Energy, equity thickness by 1.5%). Q2 results included the impact of this decision, applied retroactively to Q1/13.
- The CH Energy acquisition closed on June 27. To obtain NY regulatory approvals, Fortis committed to ~\$50M in benefits to ratepayers, a 3-year rate freeze, the retention of all jobs. The acquisition is now expected to be accretive in 2015 vs. initial expectation of 'immediately' following close.
- Despite a high capital spending program, short-term results for Fortis are expected to be impacted by the recent regulatory rulings in B.C. and the delayed accretion from CH Energy. We have reduced our price target from \$35 to \$34.50 and maintain our Sector Performer rating.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.


13-12449 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

	<b>Fortis Inc.</b> FTS - TSX 8/1/13 12- To 18- Month Price Target: Pipelines, Utilities & Power Sector Weighting: Market Weight	<b>\$32.01</b> <b>\$34.50</b>	<b>Sector Performer</b> Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca
--	---	----------------------------------	---

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data

Share Price	\$32.01	Net Debt	7,452
Shares Outstanding	212	Non Control Int.	356
Market Capitalization	6,777	Preferred Shares	1,108
		Enterprise Value	15,693

Valuations

	2011A	2012A	2013E	2014E
P/E	18.9x	18.9x	18.5x	17.6x
EV/EBITDA	12.8x	12.1x	11.4x	10.4x

Pipeline And Utilities Sector Average

P/E	23.8x	26.0x	25.8x	21.6x
EV/EBITDA	14.8x	14.2x	12.0x	10.7x

Other Data

	2011A	2012A	2013E	2014E
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28
Dividend Yield	3.6%	3.7%	3.9%	4.0%
Payout Ratio	68.6%	70.7%	71.8%	70.3%
Book Value Per Share	\$20.48	\$20.84	\$22.18	\$22.85
Price / Book Value	1.6x	1.5x	1.4x	1.4x
Cash Per Share	\$0.47	\$0.80	\$1.03	\$1.35
Debt / Total Capital	54.3%	54.5%	56.0%	56.2%
Net Debt/EBITDA	4.8x	4.9x	5.7x	5.3x

Income Statement

	2011A	2012A	2013E	2014E
FortisBC Energy	139	138	133	136
FortisAlberta	75	96	103	109
FortisBC Electric	48	50	45	48
Newfoundland Power	34	37	38	39
Other Canadian Electric Utilities	22	24	24	24
CH Energy	0	0	21	50
Regulated Electric Utilities - Caribbean	20	19	21	21
Fortis Generation	18	17	14	19
Fortis Properties	23	22	24	24
Corporate	(72)	(81)	(73)	(81)
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>350</b>	<b>390</b>
Unusual Items	11	(8)	15	0
Reported Earnings	318	315	365	390
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.73</b>	<b>\$1.82</b>
Reported EPS	\$1.75	\$1.66	\$1.80	\$1.82
Shares Outstanding	189	192	213	215
EBITDA	1,228	1,299	1,372	1,508
<b>Cash Flow</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Earnings (incl. pref share dividends)	357	371	411	434
Depreciation and Amortization	419	470	542	574
Total Operating Cash Flow	905	976	953	1,007
Capital Expenditures	1,116	1,088	1,425	1,087
Dividends	205	225	319	328
Net Long Term Debt Proceeds	307	36	1,503	298
<b>Balance Sheet</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Cash & Cash Equivalents	89	154	219	290
Utility Capital Assets / Income Properties	9,281	10,249	12,582	13,045
Total Assets	13,562	14,950	17,298	17,781
Current Liabilities	1,320	1,308	1,308	1,308
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,974	8,272
Future Income Taxes	4	17	0	0
Non Controlling Interests	208	310	301	292
Preferred Shares	912	1,108	1,232	1,232
Shareholders' Equity	4,469	5,100	5,954	6,148
Total Shareholders' Equity And Liabilities	13,562	14,950	17,298	17,781

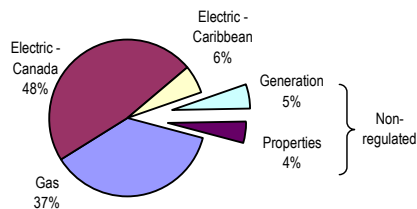
Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.

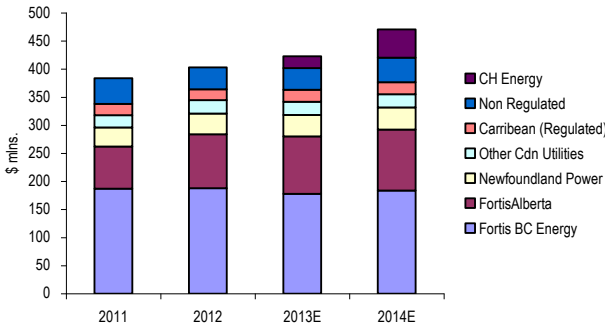
Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

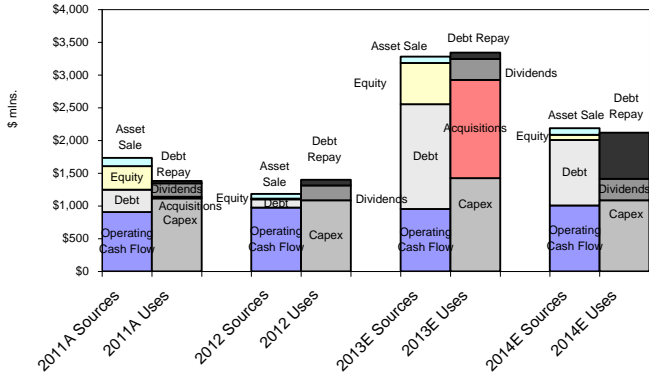
Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)



Segmented Earnings (Exc. Corporate)



Major Sources, Uses Of Cash



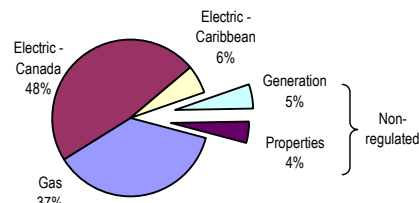
#### Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.

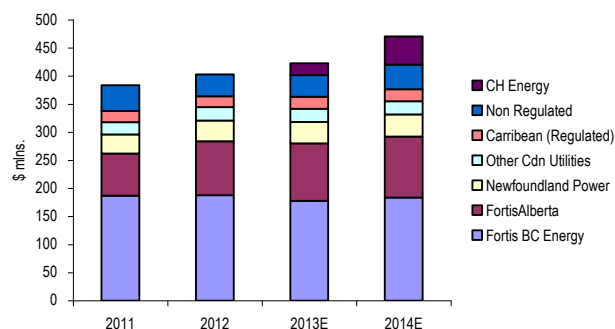
#### Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

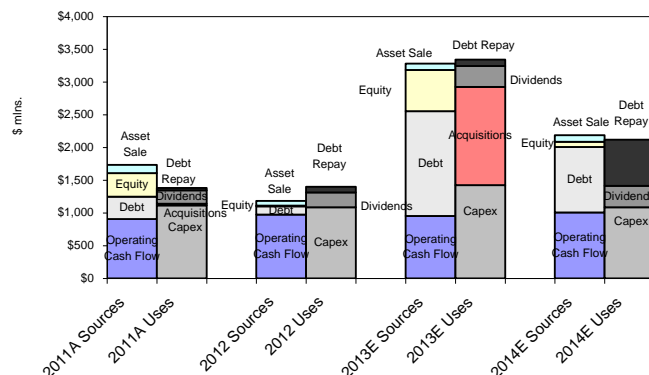
#### Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)



#### Segmented Earnings (Exc. Corporate)



#### Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Roughly In Line Q2

Fortis (FTS-SP) reported Q2/13 adjusted EPS of \$0.32, slightly ahead of consensus \$0.31 (CIBC \$0.30). These results exclude two items:

- (1) \$32 million (\$0.17/share) after-tax in acquisition related expenses, and customer and community benefits offered to obtain regulatory approval of the CH Energy acquisition. The transaction was completed on June 27.
- (2) \$25 million (\$0.13/share) from an income tax recovery due to higher deductions from implementation of a new tax (Part VI.1) implemented in June 2013 on preferred share dividends. The tax recovery is a result of the enactment of the tax change; future earnings are not expected to be materially impacted by the tax.

---

## Regulatory Headwinds

### Negative BCUC Decision

Earnings were down y/y versus \$0.34 EPS, largely due to a May 2013 decision from the BC Utilities Commission (BCUC) on Generic Cost of Capital (GCOC) for BC utilities. The decision reduces allowed ROE for FortisBC Energy, the benchmark utility in B.C., by 75 bps as well as reducing its equity thickness from 40% to 38.5%. The decision also sets a 75 bps reduction in allowed ROE for all other B.C. utilities on an interim basis (although no change in equity thickness), pending the outcome of the second phase of the GCOC hearings with a decision expected in H1/14, which would finalize both allowed ROE and capital structure for these other utilities.

Fortis recognized the impact of this decision in Q2/13, further exacerbated since the decision was effective as of January 1, 2013 and the Q2 results reflect the retroactive application of the decision to Q1/13. Earnings were down y/y: for FortisBC Energy, \$6 million versus \$14 million; for FortisBC Electric, \$8 million versus \$9 million.

In June and July 2013, Fortis' B.C. utilities filed applications for a multi-year performance-based ratemaking (PBR) plan for 2014-18. The PBR plan determines rate increases through a formula linked to inflation, productivity and operating (and to a lesser extent, capital) costs. The review process for the PBR applications will continue through the year. The PBR reduces uncertainty in the rate-setting process, but we do not expect any major change to Fortis' earnings in B.C. as a result of its implementation.

### Alberta Still A Work In Progress

The Alberta Utilities Commission (AUC) issued a PBR mechanism in September 2012 for all Alberta distribution utilities. As in B.C., the PBR uses a formula incorporating inflation and productivity improvements to determine customer rates, but differently, places greater constraints on the ability to earn on capital expenditures. As such, Fortis has sought further clarification on the treatment of capital expenditures through Review and Variance and Capital Tracker applications. Fortis' Review and Variance application was denied, and a decision on the Capital Tracker application is expected in H2/13. The outcome of this application determines Fortis' ability to earn fully on its capital expenditures.

Separately, the AUC initiated a GCOC proceeding in October 2012; the process was temporarily halted, while other regulatory issues were resolved, but restarted in April. A hearing is now scheduled for early 2014. While the outcome

of this process is unknown, we see limited downside risk given FortisAlberta's allowed ROE of 8.75% is in line with other utilities across the country (with, for instance FortisBC Energy now earning at that level).

---

## CH Energy Transaction Closed, But Gratification Delayed

Fortis closed the CH Energy acquisition on June 27 after a lengthy regulatory review process. Approval by the New York State Public Service Commission (NYSPSC), the final step, required Fortis to commit to further benefits (on top of ~\$50 million in financial benefits previously outlined) for ratepayers (a further 1-year rate freeze to June 30, 2015 versus prior July 1, 2014) and employees (no layoffs for four years to all unionized and non-unionized employees, and the addition of 35 new jobs), and a commitment to \$215 million in capital expenditures through July 1, 2015.

Some of the costs (US\$35 million in expenditures usually recovered in rates, such as storm-restoration expenses, and US\$5 million for establishment of a fund for low-income customers) were recognized in Q2.

On announcement of the transaction in February 2012, Fortis originally expected the transaction to be immediately accretive to earnings on closing (at that time, expected within 12 months). With the benefits Fortis announced to sweeten the deal, the company has now revised its expectations for accretion to commence in 2015.

---

## Lots Of Spending, Limited Short-term Benefit

Fortis is in the midst of a 5-year capital program (2012-16) totaling \$6 billion (including amounts related to CH Energy). This capex drives ~5% annual rate base CAGR over the period. However, in the short-term (2013-14), Fortis faces headwinds from negative regulatory decisions, as well as lack of accretion from CH Energy. We have modestly reduced our estimates to reflect lower earnings from CH Energy (our 2014 EPS estimate declines \$0.03), and reduced our price target accordingly from \$35 to \$34.50. As such, we see little catalyst for the stock, and maintain our Sector Performer rating.

---

## Q2/13 Results

Fortis reported Q2/13 adjusted EPS of \$0.32 versus consensus at \$0.31 (CIBC \$0.30) and \$0.34 in Q2/12. Regulated Utilities earnings were lower than expected, reflecting lower results at FortisBC Energy as a result of the BCUC's May cost of capital decision reducing the allowed ROE (from 9.5% to 8.75%) and equity thickness (from 40% to 38.5%) for 2013-2015 versus 2012. Q2 results also reflected the impact of the decision on Q1 results, as the ruling is retroactive to January 1, 2013. Corporate expenses were below expectations due to a \$5 million income tax recovery associated with the release of income tax provisions and lower finance charges due to higher capitalized interest associated financing the construction of the Waneta Expansion.

Adjusted EPS excludes \$32 million (\$0.17/share) in acquisition-related expenses and customer and community benefits offered to obtain regulatory approval for the CH Energy acquisition, and a \$25 million (\$0.13/share) income tax recovery due to the enactment of higher tax deductions associated with Fortis' preference share dividends.



**Exhibit 1. Q2/13 Results (\$ mlns., except per share)**

Segmented Earnings	Q2/13A	Q2/13E	Q2/12A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	6	9	13	Impact of BCUC decision reducing allowed ROE and equity thickness
FortisAlberta	25	26	26	
FortisBC Electric	8	6	9	
Newfoundland Power	11	13	12	
Other Canadian Electric Utilities	5	5	5	
Regulated Electric Utilities – Caribbean	6	6	6	
Total Regulated Utilities	61	65	71	
<b>Non-regulated Operations</b>				
Fortis Generation	3	5	5	Lower production in Belize due to lower rainfall
Fortis Properties	9	9	8	
Total Non-regulated Operations	12	14	13	
Corporate	(12)	(20)	(19)	Income tax recovery; lower finance charges
<b>Operating Earnings For Common</b>	<b>61</b>	<b>59</b>	<b>65</b>	
Unusual Items	(7)	0	(3)	
Reported Earnings	54	59	62	
Weighted Average Shares Outstanding (mlns.)	193	195	190	
<b>Operating EPS</b>	<b>0.32</b>	<b>0.30</b>	<b>0.34</b>	
Reported EPS	0.28	0.30	0.33	
Dividend Per Share	0.31	0.31	0.30	
Pay out Ratio	98.3%	104.3%	87.5%	

Source: CIBC World Markets Inc.

**Revising Estimates**

We have revised our estimates to reflect Q2 results as well as lower mid-term expectations for CH Energy given the company now only expects the acquisition to be accretive beginning in 2015. These impacts offset in 2013, resulting in our EPS estimate remaining unchanged at \$1.73. Our 2014 EPS estimate declines from \$1.85 to \$1.82.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2013E			2014E	
	2012A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	138	133	133	136	136
FortisAlberta	96	103	103	109	109
FortisBC Electric	50	45	45	48	48
Newfoundland Power	37	38	38	39	39
Other Canadian Electric Utilities	24	24	24	24	24
CH Energy	0	24	21	57	50
Regulated Electric Utilities – Caribbean	19	21	21	21	21
Total Regulated Utilities	364	387	384	434	427
<b>Non-regulated Operations</b>					
Fortis Generation	17	16	14	19	19
Fortis Properties	22	24	24	24	24
Total Non-regulated Operations	39	40	39	43	43
Corporate	(81)	(75)	(73)	(83)	(81)
<b>Operating Earnings For Common</b>	<b>323</b>	<b>353</b>	<b>350</b>	<b>395</b>	<b>390</b>
Unusual Items	(8)	22	15	0	0
Reported Earnings	315	375	365	395	390
Weighted Average Shares Outstanding (mlns.)	190	204	202	213	214
<b>Operating EPS</b>	<b>1.70</b>	<b>1.73</b>	<b>1.73</b>	<b>1.85</b>	<b>1.82</b>
Reported EPS	1.66	1.83	1.80	1.85	1.82
Dividend Per Share	1.20	1.24	1.24	1.28	1.28
Payout Ratio	70.7%	71.8%	71.8%	69.2%	70.3%

Source: CIBC World Markets Inc.

**Price Target Calculation**

We are reducing our price target from \$35 to \$34.50 reflecting our reduced estimates. Our \$34.50 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 19.0x our 2014 estimate, below the pipelines and utilities group average (21.6x) given Fortis' modest low-risk growth outlook.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Fortis is in the midst of acquiring CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Prior	\$0.67A	\$0.30E	\$0.26E	\$0.52E	\$1.73E
2013 Current	\$0.67A	\$0.32A	\$0.26E	\$0.49E	\$1.73E
2014 Prior	--	--	--	--	\$1.85E
2014 Current	--	--	--	--	\$1.82E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 08/01/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$43.00, Sector Outperformer)

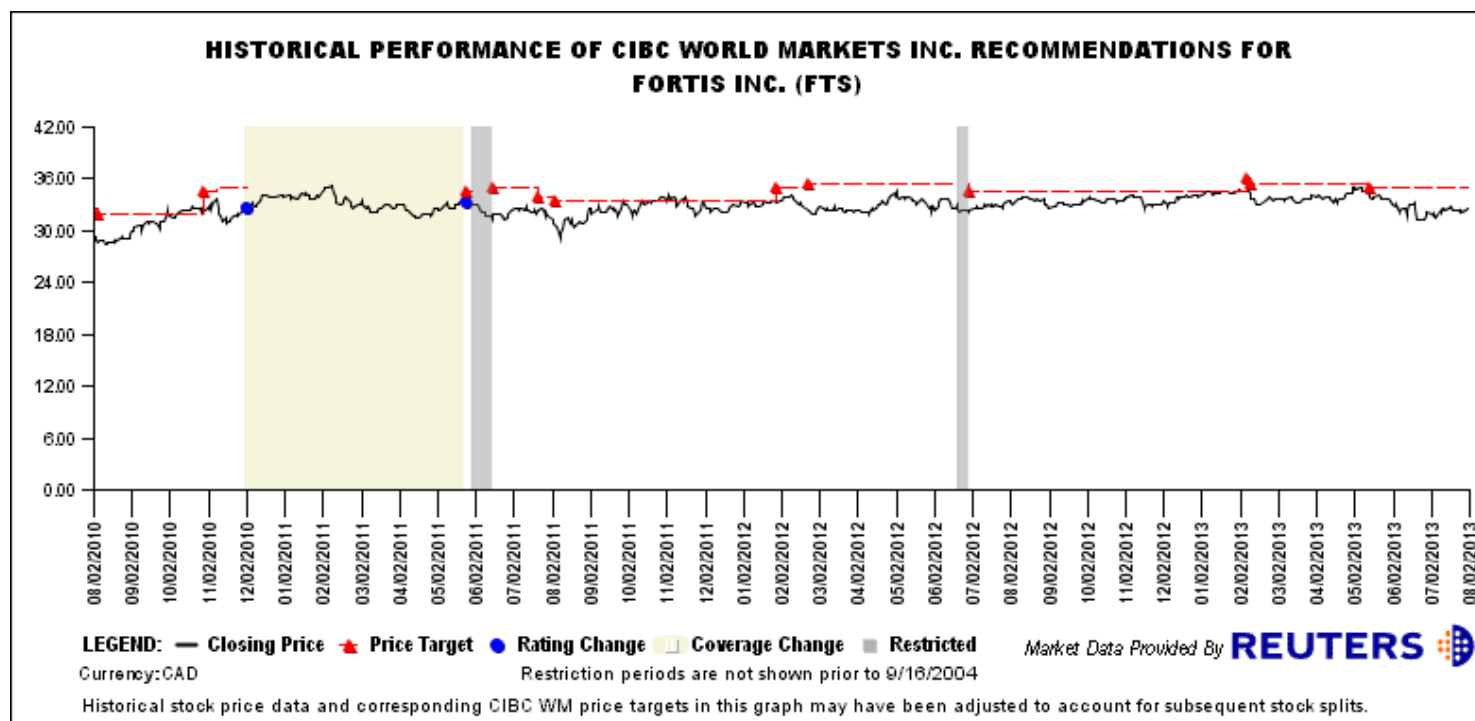
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.



## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
08/05/2010	▲	28.61	SO	32.00	Petro Panarites, CFA
10/27/2010	▲	32.50	SO	34.50	Petro Panarites, CFA
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 01 Aug 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	128	38.3%	Sector Outperformer (Buy)	124	96.9%
Sector Performer (Hold/Neutral)	169	50.6%	Sector Performer (Hold/Neutral)	158	93.5%
Sector Underperformer (Sell)	30	9.0%	Sector Underperformer (Sell)	28	93.3%
Restricted	6	1.8%	Restricted	6	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 01 Aug 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	42.9%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	3	42.9%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	1	14.3%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL.UN, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

November 1, 2013

**Stock Rating:**  
**Sector Performer**

**Sector Weighting:**  
**Market Weight**

12-18 mo. Price Target \$34.50  
FTS-TSX (11/1/13) \$32.49

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$29.78-\$35.14
Shares Outstanding	212.4M
Float	212.4M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,900.9M
Dividend/Div Yield	\$1.24 / 3.8%
Fiscal Year Ends	December
Book Value	\$22.07 per Shr
2013 ROE (E)	7.9%
LT Debt	\$7.7B
Preferred	\$1,229.00M
Common Equity	\$4.7B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013	\$1.73E	\$1.69E
2014	\$1.82E	\$1.80E

P/E		
2012		19.1x
2013	18.8x	19.2x
2014	17.9x	18.1x

Dividend Per Share	
2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield	
2012	3.7%
2013	3.8%
2014	3.9%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

**Paul Lechem**  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

**Oswaldo Matias, CFA**  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

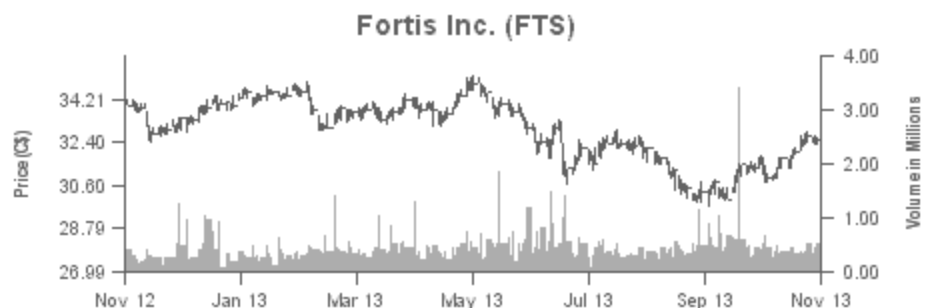
Pipelines, Utilities, & Power

## Fortis Inc.

### Q3 Below Expectations On Seasonal Weakness

- Fortis reported Q3/13 EPS of \$0.23, below CIBC and consensus estimates of \$0.26, with the variance reflecting higher operating and maintenance costs at FortisBC Energy. Q3 is seasonally weak as winter gas demand results in the majority of FortisBC Energy's earnings being recorded in Q1/Q4.
- CH Energy, acquired in late Q2/13, contributed ~\$9.5 million in earnings in the quarter. On a per share basis, however, CH Energy's contribution was negligible given the associated common share offering and financing costs. Meaningful accretion from the acquisition is not expected until mid-2015.
- Fortis is awaiting several regulatory decisions. In Alberta, Fortis has filed a Capital Tracker application with regards to the PBR mechanism issued in September 2012. The outcome of the application determines Fortis' ability to earn fully on its capital expenditures. A decision is expected in Q4/13.
- Our outlook for Fortis remains unchanged. Rate base is expected to grow at a 6% CAGR from 2013-2017. However, short-term results are more challenged given recent negative regulatory decisions and the lack of accretion from CH Energy until mid-2015. Maintain SP and \$34.50 PT.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

13-126030 © 2013

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 11/1/13 \$32.49  
 12- To 18- Month Price Target: \$34.50  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data				
Share Price	\$32.49	Net Debt	7,503	
Shares Outstanding	212	Non Control Int.	355	
Market Capitalization	6,901	Preferred Shares	1,229	
		Enterprise Value	15,988	
Valuations				
P/E	19.2x	2011A	2012A	2013E
EV/EBITDA	13.0x	2011A	2012A	2013E
		2014E		
Pipeline And Utilities Sector Average				
P/E	24.7x	25.3x	24.3x	22.3x
EV/EBITDA	15.1x	14.2x	12.2x	10.9x
Other Data				
Dividend Per Share	\$1.16	\$1.20	\$1.24	\$1.28
Dividend Yield	3.6%	3.7%	3.8%	3.9%
Payout Ratio	68.6%	70.7%	73.3%	71.3%
Book Value Per Share	\$20.48	\$20.84	\$22.05	\$22.69
Price / Book Value	1.6x	1.6x	1.5x	1.4x
Cash Per Share	\$0.47	\$0.80	\$0.65	\$0.98
Debt / Total Capital	54.3%	54.5%	54.6%	54.8%
Net Debt/EBITDA	4.8x	4.9x	5.3x	5.3x
Income Statement				
FortisBC Energy	139	138	123	132
FortisAlberta	75	96	103	109
FortisBC Electric	48	50	48	51
Newfoundland Power	34	37	36	37
Other Canadian Electric Utilities	22	24	24	24
CH Energy	0	0	23	43
Regulated Electric Utilities - Caribbean	20	19	20	21
Fortis Generation	18	17	17	20
Non-Utility	23	22	22	29
Corporate	(72)	(81)	(73)	(81)
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>343</b>	<b>385</b>
Unusual Items	11	(8)	15	0
Reported Earnings	318	315	358	385
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.69</b>	<b>\$1.80</b>
Reported EPS	\$1.75	\$1.66	\$1.77	\$1.80
Shares Outstanding	189	192	213	215
EBITDA	1,228	1,299	1,372	1,423
Cash Flow				
Earnings (incl. pref share dividends)	357	371	404	429
Depreciation and Amortization	419	470	548	580
Total Operating Cash Flow	905	976	952	1,009
Capital Expenditures	1,116	1,088	1,425	1,087
Dividends	205	225	319	329
Net Long Term Debt Proceeds	307	36	1,003	298
Balance Sheet				
Cash & Cash Equivalents	89	154	139	211
Utility Capital Assets / Income Properties	9,281	10,249	12,131	12,587
Total Assets	13,562	14,950	16,767	17,245
Current Liabilities	1,320	1,308	1,308	1,308
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,474	7,772
Future Income Taxes	4	17	0	0
Non Controlling Interests	208	310	301	292
Preferred Shares	912	1,108	1,225	1,225
Shareholders' Equity	4,469	5,100	5,923	6,112
Total Shareholders' Equity And Liabilities	13,562	14,950	16,767	17,245

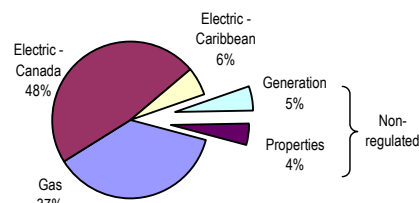
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.

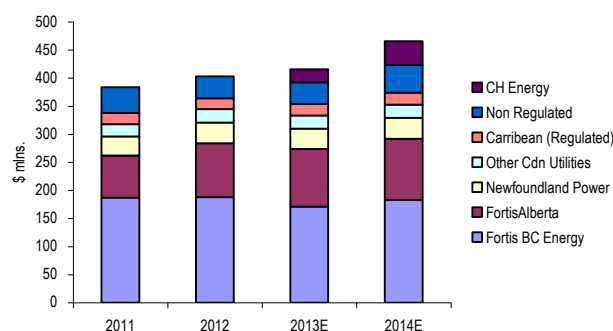
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

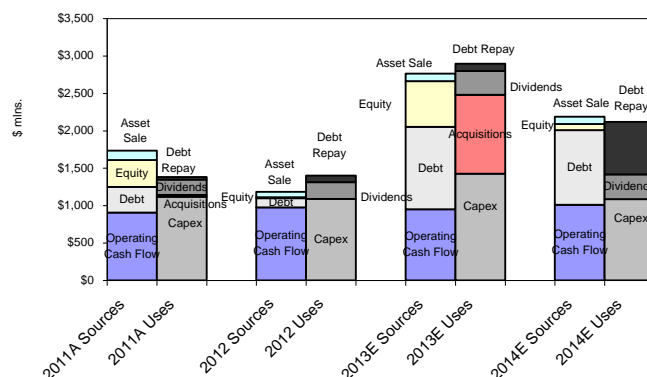
## Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Q3 Below Expectations

Fortis (FTS-SP) reported Q3/13 EPS of \$0.23, below CIBC and consensus estimates of \$0.26, and down Y/Y versus \$0.24. The variance from our estimate reflected higher operating and maintenance costs at FortisBC Energy. Q3 is FortisBC Energy's seasonally weakest quarter as winter gas demand results in the majority of earnings being recorded in Q1 and Q4. CH Energy, acquired in late Q2/13, contributed ~\$9.5 million in earnings in the quarter. On a per share basis, however, CH Energy's contribution was negligible given the associated common share offering and financing costs. The company does not expect meaningful accretion from the CH Energy acquisition until the customer rate freeze ends in mid-2015.

---

## Waiting On Regulatory Decisions

- **Alberta:** The Alberta Utilities Commission (AUC) issued a performance rate based (PBR) mechanism in September 2012 for all Alberta distribution utilities that uses a formula incorporating inflation and productivity improvements to determine customer rates, but places constraints on the ability to earn on capital expenditures. As such, Fortis has sought further clarification on the treatment of capital expenditures through Review and Variance (ultimately denied) and Capital Tracker applications. An interim decision granting utilities 60% of the applied-for Capital Tracker amount was issued in March 2013. A final decision on the Capital Tracker application is expected in Q4/13. Separately, the AUC initiated a Generic Cost of Capital (GCOC) proceeding in October 2012, to set the allowed ROE for 2013 and 2014, as well as establish an interim ROE for 2015. The process commenced in Q2/13 and a hearing is scheduled for early 2014. We foresee limited downside risk given FortisAlberta's allowed ROE of 8.75% is in line with other utilities across the country.
- **British Columbia:** The BC Utilities Commission (BCUC) issued a decision on GCOC for BC utilities in May 2013, reducing the allowed ROE for FortisBC Energy, the benchmark utility in BC, by 75 bps and reducing its equity thickness from 40% to 38.5%. The decision also set a 75 bps reduction in allowed ROE for all other BC utilities on an interim basis (although no change in equity thickness), pending the outcome of the second phase of the GCOC hearings (decision expected in H1/14), which would finalize both allowed ROE and capital structure for these other utilities. The BCUC decision has reduced earnings in FortisBC Energy and FortisBC Electric by \$12 million year to date. In June and July 2013, Fortis' B.C. utilities filed applications for a multi-year performance-based ratemaking (PBR) plan for 2014-2018. The PBR plan determines rate increases through a formula linked to inflation, productivity and operating (and, to a lesser extent, capital) costs. The review process for the PBR applications will continue through the year with a decision expected mid-2014. The PBR reduces uncertainty in the rate-setting process, but we do not expect any major change to Fortis' earnings in BC as a result of its implementation.



## Outlook Unchanged

While Q3 earnings were below expectations, our overall outlook for Fortis remains unchanged. The company has a 2013–2017 capital program of \$6 billion, which is expected to drive a rate base/generation investment CAGR of 6% over the period. Short-term results (2013–2014) are somewhat more challenged given recent negative regulatory decisions and the lack of accretion from CH Energy until mid-2015. We maintain our Sector Performer rating and \$34.50 price target.

## Q3/13 Results

Fortis reported Q3/13 EPS of \$0.23, below our \$0.26 estimate (consensus \$0.26) and down versus \$0.24 in Q3/12. Results were below expectations mainly due to higher operating and maintenance costs at FortisBC Energy. Note that Q3 is Fortis' seasonally weakest quarter as FortisBC Energy records the majority of its earnings in Q1 and Q4 as a result of strong winter demand for gas (heating season).

Q3 marked the first full quarter of contribution from CH Energy (acquired on June 27). CH Energy's regulated earnings were above our expectations, while its non-regulated petroleum supply operations (Griffith Energy Services) had a \$2.5 million loss in the quarter (Non-Utility segment), reflecting typical seasonal weakness.

### Exhibit 1. Q3/13 Results (\$ mlns., except per share)

Segmented Earnings	Q3/13A	Q3/13E	Q3/12A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	(\$14)	(\$7)	(\$6)	Higher operating and maintenance costs
FortisAlberta	25	26	26	
FortisBC Electric	11	10	13	
Newfoundland Power	8	10	9	
Other Canadian Electric Utilities	7	7	6	
CH Energy	12	7	0	First full quarter of results
Regulated Electric Utilities – Caribbean	6	7	7	
Total Regulated Utilities	55	60	55	
<b>Non-regulated Operations</b>				
Fortis Generation	8	5	5	Increased production due to higher rainfall in Belize
Non-utility	6	10	8	Loss at Griffith (petroleum supply operations)
Total Non-regulated Operations	14	16	13	
Corporate	(21)	(20)	(23)	
<b>Operating Earnings For Common</b>	<b>48</b>	<b>55</b>	<b>46</b>	
Unusual Items	0	0	(1)	
Reported Earnings	48	55	45	
Weighted Average Shares Outstanding (mlns.)	212	212	190	
<b>Operating EPS</b>	<b>0.23</b>	<b>0.26</b>	<b>0.24</b>	
Reported EPS	0.23	0.26	0.24	
Dividend Per Share	0.31	0.31	0.30	
Pay out Ratio	136.9%	119.3%	125.4%	

Source: CIBC World Markets Inc.

## Revising Estimates

We have revised our estimates to reflect Q3 results as well as modestly lower expectations for FortisBC Energy, as well as splitting earnings from CH Energy between the regulated utility and Griffith (included in Non-Utility). As a result, our 2013 and 2014 EPS estimates decline from \$1.73 and \$1.82 to \$1.69 and \$1.80, respectively.

### Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)

Segmented Earnings	2012A	2013E		2014E	
		Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	\$138	\$133	\$123	\$136	\$132
FortisAlberta	96	103	103	109	109
FortisBC Electric	50	45	48	48	51
Newfoundland Power	37	38	36	39	37
Other Canadian Electric Utilities	24	24	24	24	24
CH Energy	0	21	23	50	43
Regulated Electric Utilities – Caribbean	19	21	20	21	21
Total Regulated Utilities	364	384	377	427	417
<b>Non-regulated Operations</b>					
Fortis Generation	17	14	17	19	20
Non-Utility	22	24	22	24	29
Total Non-regulated Operations	39	39	39	43	49
Corporate	(81)	(73)	(73)	(81)	(81)
<b>Operating Earnings For Common</b>	<b>323</b>	<b>350</b>	<b>343</b>	<b>390</b>	<b>385</b>
Unusual Items	(8)	15	15	0	0
Reported Earnings	315	365	358	390	385
Weighted Average Shares Outstanding (mlns.)	190	202	203	214	214
<b>Operating EPS</b>	<b>1.70</b>	<b>1.73</b>	<b>1.69</b>	<b>1.82</b>	<b>1.80</b>
Reported EPS	1.66	1.80	1.77	1.82	1.80
Dividend Per Share	1.20	1.24	1.24	1.28	1.28
Pay out Ratio	70.7%	71.8%	73.3%	70.3%	71.3%

Source: CIBC World Markets Inc.

## Price Target Calculation

Our \$34.50 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' five-year, \$6 billion capital spending program. Our price target equates to a P/E multiple of 19.2x our 2014 estimate, below the pipelines and utilities group average (22.3x) given Fortis' modest low-risk growth outlook.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and BC.
- **Acquisition Risks:** Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Prior	\$0.67A	\$0.32A	\$0.26E	\$0.49E	\$1.73E
2013 Current	\$0.67A	\$0.32A	\$0.23A	\$0.49E	\$1.69E
2014 Prior	--	--	--	--	\$1.82E
2014 Current	--	--	--	--	\$1.80E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 11/01/2013:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$44.35, Sector Outperformer)

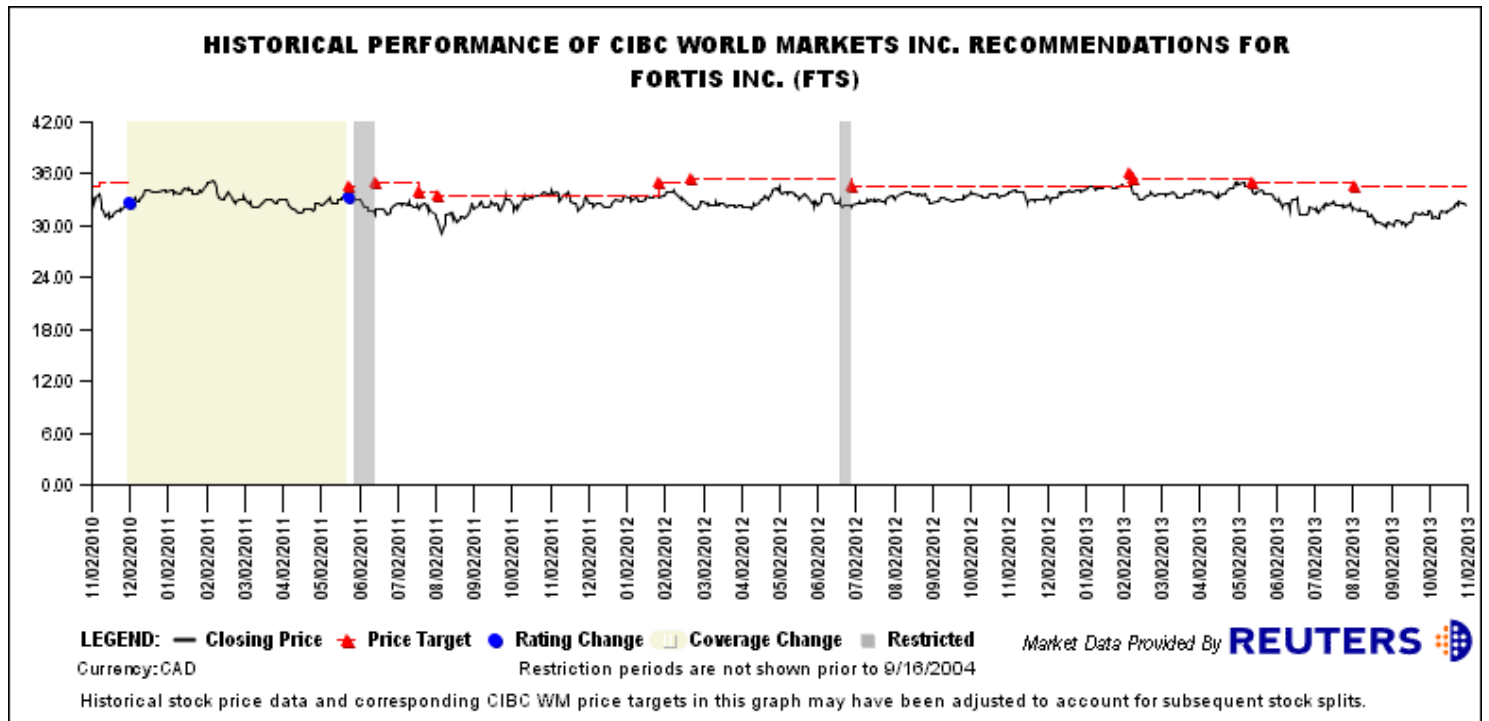
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.



## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
11/07/2010	▲	33.26	SO	35.00	Petro Panarites, CFA
12/01/2010	▲ ● ■	32.69	NR	None	CIBC World Markets Inc.
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 01 Nov 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	137	39.0%	Sector Outperformer (Buy)	131	95.6%
Sector Performer (Hold/Neutral)	177	50.4%	Sector Performer (Hold/Neutral)	163	92.1%
Sector Underperformer (Sell)	30	8.5%	Sector Underperformer (Sell)	26	86.7%
Restricted	6	1.7%	Restricted	6	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 01 Nov 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	62.5%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	3	37.5%	Sector Performer (Hold/Neutral)	3	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL, RNW, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at One Raffles Place, Tower 2, #12-61, Singapore 048616 (telephone number + 65-6908-0437) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2013 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

January 24, 2014

**Stock Rating:**  
**Sector Performer**

**Sector Weighting:**  
**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (1/23/14) \$30.11

Key Indices: Toronto, TS XUtls

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$29.51-\$35.14
Shares Outstanding	212.4M
Float	212.4M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$6,395.4M
Dividend/Div Yield	\$1.28 / 4.3%
Fiscal Year Ends	December
Book Value	\$22.07 per Shr
2013 ROE (E)	7.9%
LT Debt	\$7.7B
Preferred	\$1,229.00M
Common Equity	\$4.7B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2012		\$1.70A
2013		\$1.69E
2014	\$1.80E	\$1.55E
<b>P/E</b>		
2012		17.7x
2013		17.8x
2014	16.7x	19.4x

Dividend Per Share	
2012	\$1.20A
2013	\$1.24E
2014	\$1.28E

Yield	
2012	4.0%
2013	4.1%
2014	4.2%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

**Paul Lechem**  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

**Oswaldo Matias, CFA**  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

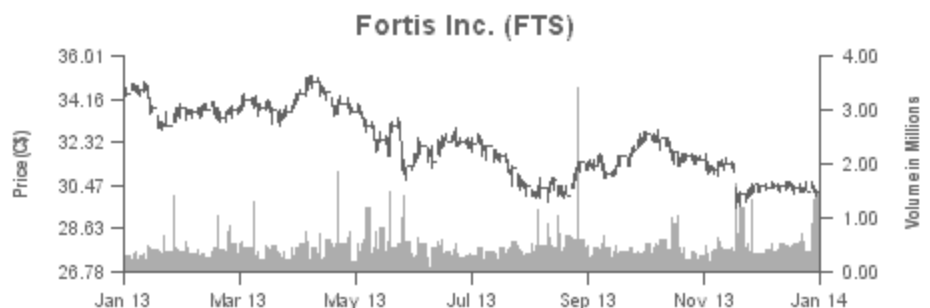
Pipelines, Utilities, & Power

## Fortis Inc.

### Fortis To Acquire UNS Energy

- Fortis announced on December 11 an agreement to acquire UNS Energy, a regulated utility in Arizona with ~650,000 electricity and gas customers. The total purchase price is ~US\$4.3B, including assumption of US\$1.8B of debt (~1.5x rate base on closing, expected late 2014).
- The acquisition will be financed through the issuance of \$1.8B in convertible debentures (\$1.6B to the public, \$0.2B through a private placement), with a conversion price of \$30.72. Payment for the debentures is through installments, with one-third payable up front, the remainder on close.
- UNS provides Fortis a footprint in the US southwest, an area of potential future growth. UNS itself expects ~7% rate base CAGR through 2018 from repowering its generation away from coal into natural gas and renewables.
- Approval of the transaction is required by shareholders (vote in early 2014) and regulators. Transaction is dilutive to 2014 given pre-financing, modestly accretive to 2015, more so over time with rate base growth. Maintain SP rating, price target up modestly to \$35 (prior \$34.50).

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

14-127373 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 1/24/14 \$30.11  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data				
Share Price	\$30.11	Net Debt		9,303
Shares Outstanding	212	Non Control Int.		355
Market Capitalization	6,396	Preferred Shares		1,229
		Enterprise Value		17,283
Valuations				
P/E	2011	2012	2013E	2014E
	17.8x	17.7x	17.8x	19.4x
EV/EBITDA	14.1x	13.3x	12.6x	12.1x
Pipeline And Utilities Sector Average				
P/E	25.0x	25.4x	25.6x	22.9x
EV/EBITDA	14.9x	14.2x	12.1x	11.0x
Other Data				
Dividend Per Share	2011	2012	2013E	2014E
	\$1.16	\$1.20	\$1.24	\$1.28
Dividend Yield	3.9%	4.0%	4.1%	4.3%
Payout Ratio	68.6%	70.7%	73.3%	82.5%
Book Value Per Share	\$20.48	\$20.84	\$22.06	\$23.79
Price / Book Value	1.5x	1.4x	1.4x	1.3x
Cash Per Share	\$0.49	\$0.81	\$0.69	\$0.11
Debt / Total Capital	54.3%	54.5%	54.6%	56.2%
Net Debt/EBITDA	4.8x	4.9x	5.3x	7.2x
Income Statement				
	2011	2012	2013E	2014E
FortisBC Energy	139	138	123	132
FortisAlberta	75	96	103	109
FortisBC Electric	48	50	48	51
Newfoundland Power	34	37	36	37
Other Canadian Electric Utilities	22	24	24	24
CH Energy	0	0	23	43
Regulated Electric Utilities - Caribbean	20	19	20	21
Fortis Generation	18	17	17	20
Non-Utility	23	22	22	29
Corporate	(72)	(81)	(73)	(135)
<b>Operating Earnings</b>	<b>307</b>	<b>323</b>	<b>343</b>	<b>331</b>
Unusual Items	11	(8)	15	(30)
Reported Earnings	318	315	358	301
<b>Operating EPS</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.69</b>	<b>\$1.55</b>
Reported EPS	\$1.75	\$1.66	\$1.77	\$1.41
Shares Outstanding	182	190	203	213
EBITDA	1,228	1,299	1,372	1,423
Cash Flow				
	2011	2012	2013E	2014E
Earnings (incl. pref share dividends)	357	371	404	345
Depreciation and Amortization	419	470	548	580
Total Operating Cash Flow	905	976	952	925
Capital Expenditures	1,174	1,130	1,425	1,087
Dividends	205	225	319	403
Net Long Term Debt Proceeds	307	36	1,003	2,798
Balance Sheet				
	2011	2012	2013E	2014E
Cash & Cash Equivalents	89	154	139	22
Utility Capital Assets / Income Properties	9,281	10,249	12,131	16,887
Total Assets	13,562	14,950	16,767	21,356
Current Liabilities	1,320	1,308	1,308	1,308
Debt (incl. Current and Short Term Borrowings)	5,944	6,471	7,474	10,272
Future Income Taxes	4	17	0	0
Non Controlling Interests	208	310	301	292
Preferred Shares	592	1,108	1,225	1,225
Shareholders' Equity	4,469	5,100	5,923	7,723
Total Shareholders' Equity And Liabilities	13,562	14,950	16,767	21,356

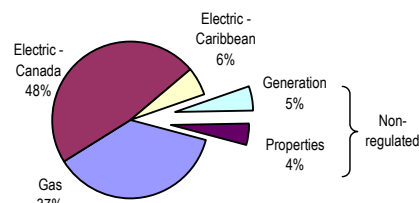
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.

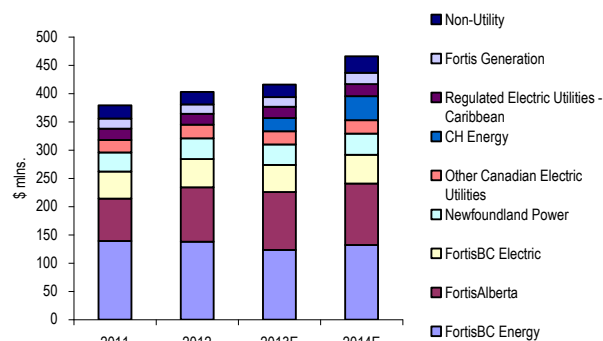
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 5 year, \$6 billion capital program which is expected to grow the regulated rate base by a CAGR of 6% through 2017. The capital program is inclusive of the company's 51% interest in the non-regulated \$900 million Waneta Expansion project.

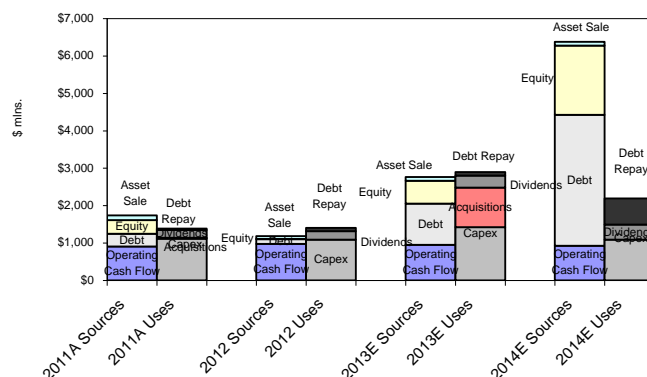
## Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

On December 11, Fortis (FTS-SP) announced an agreement to acquire UNS Energy (UNS-NYSE), an investor-owned utility in Arizona.

---

## The Transaction

- **Purchase price:** Fortis is offering US\$60.25 per UNS Energy share in an all-cash offer – a 31% premium to the closing price prior to the announcement of the offer. The total purchase price is US\$4.3 billion, including assumption of US\$1.8 billion in debt. Including financing costs, legal and banking fees, the amount payable equates to roughly a 1.5x multiple on the forecast US\$3.0 billion rate base at time of closing, expected in late 2014.
- **Support by UNS:** UNS's board unanimously supports the acquisition. There is a US\$64 million break fee in the event that UNS accepts a superior offer. There are currently no shareholder lock-up agreements.
- **Required approvals:** The acquisition requires typical approvals including: (1) majority shareholder approval; and, (2) regulatory approvals, including from the Arizona Corporation Commission (ACC) and Federal Energy Regulatory Commission (FERC).

We believe approvals should be more straightforward than with Fortis' protracted CH Energy acquisition completed in early 2012. We note UNS Energy shareholders are receiving a 31% premium, Fortis has already arranged financing, and alternate bids, although possible, appear unlikely.

Other regional utilities which theoretically might be interested in regional consolidation opportunities do not appear likely to do so. NV Energy (NVE-NYSE) of Nevada is in the process of being acquired by MidAmerican Energy (at a valuation of ~1.4x EV to rate base). Most other local investor-owned utilities such as Pinnacle West (PNW-NYSE) (owner of the largest Arizona utility, Arizona Public Service), and PNM Resources (PNM-NYSE) of New Mexico, are of comparable size to Fortis or smaller, and could be challenged to present a superior bid.

---

## Financing

Fortis will finance the transaction through:

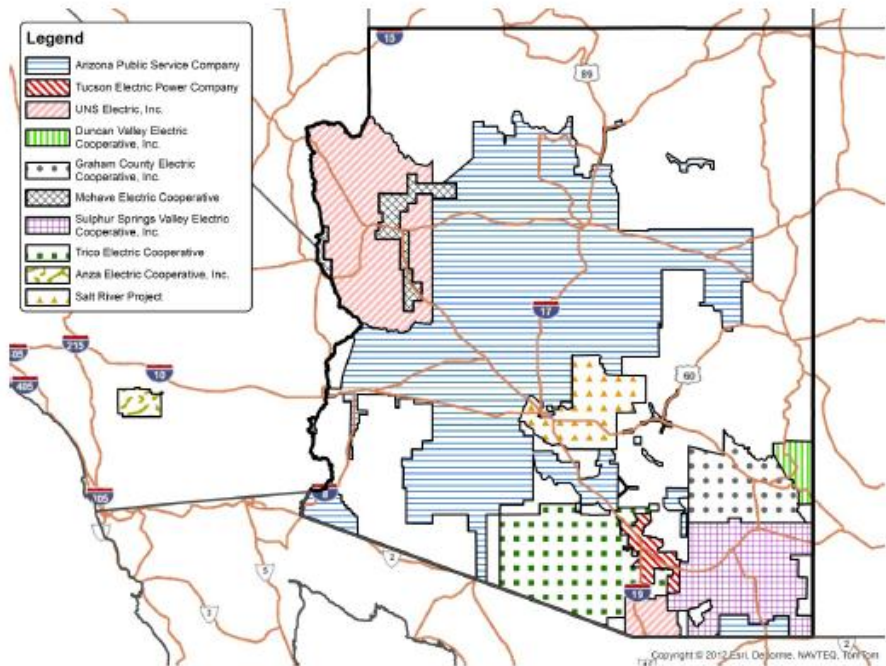
1. Assumption of US\$1.8 billion in debt.
2. Issuance of \$1.8 billion in convertible debentures (\$1.6 billion to the public, and \$0.2 billion in a private placement). The debentures are payable in installments – one-third up front, the remainder on closing of the transaction. The debentures have a coupon of 4% on the face value, but since investors only initially put up one-third of the capital, the effective interest rate is 12%. The conversion price is \$30.72 per Fortis share, a 1.5% discount to the closing price prior to the announcement, but a 2.0% premium to the current price. The debentures were issued in a bought deal to a consortium of Canadian investment banks.
3. The remaining \$0.7 billion will be financed through existing credit facilities.



# UNS Energy

UNS Energy is a vertically integrated Arizona utility, headquartered in Tucson, serving ~505,000 electric and ~149,000 gas customers.

## Exhibit 1. Arizona Utility Landscape



Source: Arizona Corporation Commission (ACC).

Other key utilities in the state include: Arizona Public Service (APS), the largest utility in the state with over 1.1 million customers, and a subsidiary of publicly traded Pinnacle West Capital; and, Salt River Project, a government-owned public utility that provides electricity to 970,000 customers in the Phoenix area.

UNS Energy operates through three subsidiaries: Tucson Electric Power (TEP), UNS Electric and UNS Gas.

## Exhibit 2. UNS Energy – Segments

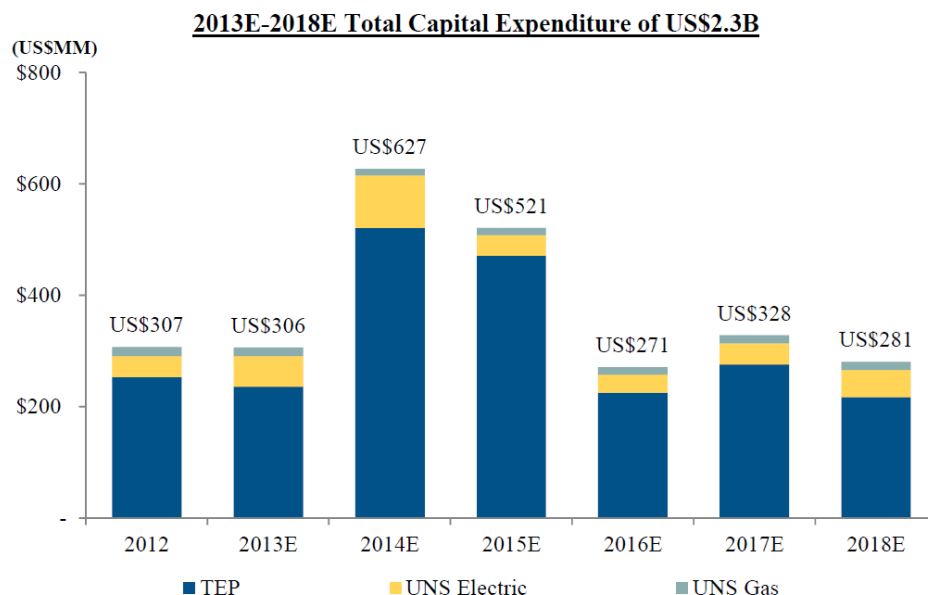
Subsidiary	Total Assets (as at Sep 30, 2013)		Net Income (9 months to Sep 30, 2013)	
	US\$m.	%	US\$m.	%
TEP	3.6	84	96	85
UNS Electric	0.4	9	11	10
UNS Gas	0.3	7	6	5

Source: Company reports and CIBC World Markets Inc.

UNS owns or leases 2,420 MW of generating capacity, primarily coal (59% of total capacity), with natural gas (34%) accounting for most of the remainder. Renewables (solar) represent only 1% of generation. The utility is slowly repowering this fleet away from coal towards renewables, and targets reducing coal generation by half (to 30%) by 2020, and increasing renewables to 15% by 2025 (as per ACC requirements).

This build-out (along with ongoing maintenance) is expected to contribute to capex spending of US\$2.3 billion from 2013-2018. This capex is expected to drive the rate base at a 7% CAGR over the same time frame. As part of this capex, UNS has already announced the election to purchase currently leased interests in the Springerville coal generating station, as well as an agreement to purchase the 550 MW Gila River Unit 3 gas facility, investments totaling US\$200 million. Fortis intends to fully fund these investments immediately upon closing of the transaction.

### Exhibit 3. UNS Energy Capex Forecast (US\$mIns.)



Source: Company reports.

## Impact On Fortis

Assuming successful completion of the transaction, this acquisition is initially expected to be slightly accretive to Fortis (we forecast by ~\$0.06 EPS in 2015 assuming the transaction is completed by December 31, 2014), benefiting somewhat from the "double dip" financing structure that enables interest deductibility in both Canada and the US.

Over time the transaction should become more accretive (we estimate \$0.09 EPS by 2018) as the acquired UNS operations grow the rate base and earnings. Further upside to this (not in our numbers) is the potential for Fortis to seek a higher equity thickness for TEP, currently set at 43.5%, well below UNS Electric at 52.6% (and Arizona Public Service at 53.9%).

Given that the acquisition is not expected to be completed until late 2014 and Fortis has already pre-financed the transaction (with the associated short-term dilution until the deal closes), we expect earnings to be down significantly in 2014. Our updated financial forecast is shown below. Note that our \$1.55 operating EPS forecast only includes the interest costs associated with the convertible debt (Corporate segment), with all other costs (M&A fees, legal and regulatory costs, etc.) included in Unusual Items.

**Exhibit 4. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2013E			2014E	
	2012A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	138	123	123	132	132
FortisAlberta	96	103	103	109	109
FortisBC Electric	50	48	48	51	51
Newfoundland Power	37	36	36	37	37
Other Canadian Electric Utilities	24	24	24	24	24
CH Energy	0	23	23	43	43
Regulated Electric Utilities – Caribbean	19	20	20	21	21
Total Regulated Utilities	364	377	377	417	417
<b>Non-regulated Operations</b>					
Fortis Generation	17	17	17	20	20
Non-Utility	22	22	22	29	29
Total Non-regulated Operations	39	39	39	49	49
Corporate	(81)	(73)	(73)	(81)	(135)
<b>Operating Earnings For Common</b>	<b>323</b>	<b>343</b>	<b>343</b>	<b>385</b>	<b>331</b>
Unusual Items	(8)	15	15	0	(30)
Reported Earnings	315	358	358	385	301
Weighted Average Shares Outstanding (mlns.)	190	203	203	214	213
<b>Operating EPS</b>	<b>1.70</b>	<b>1.69</b>	<b>1.69</b>	<b>1.80</b>	<b>1.55</b>
Reported EPS	1.66	1.77	1.77	1.80	1.41
Div idend Per Share	1.20	1.24	1.24	1.28	1.28
Pay out Ratio	70.7%	73.3%	73.3%	71.3%	82.5%

Source: CIBC World Markets Inc.

We are raising our price target from \$34.50 to \$35 to reflect the modest accretion in 2015 from the acquisition. However, noting the late 2014 time frame for closing the deal and the dilutive impact of financing the transaction in the interim, for now we maintain our Sector Performer rating.

## Price Target Calculation

Our \$35 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$12 billion capital spending program (including acquisitions) through 2018. Our price target equates to a P/E multiple of 22.6x our 2014 estimate, high for Fortis reflecting the temporary dilution associated with the UNS Energy acquisition, but in line with the pipelines and utilities group average (22.9x).

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the cost of capital proceedings taking place in Alberta and B.C.

- **Acquisition Risks:** Along with announcing the agreement to acquire UNS Energy, Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Current	\$0.67A	\$0.32A	\$0.23A	\$0.49E	\$1.69E
2014 Prior	--	--	--	--	\$1.80E
2014 Current	--	--	--	--	\$1.55E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 01/24/2014:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$47.81, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 01/24/2014:**

NV Energy, Inc. (NVE-NYSE, US\$23.74, Not Rated)

Pinnacle West Capital Corp. (PNW -NYSE, US\$52.77, Not Rated)

PNM Resources Inc. (PNM-OTC, US\$27.00, Not Rated)

UNS Energy Corp. (UNS-NYSE, US\$59.69, Not Rated)

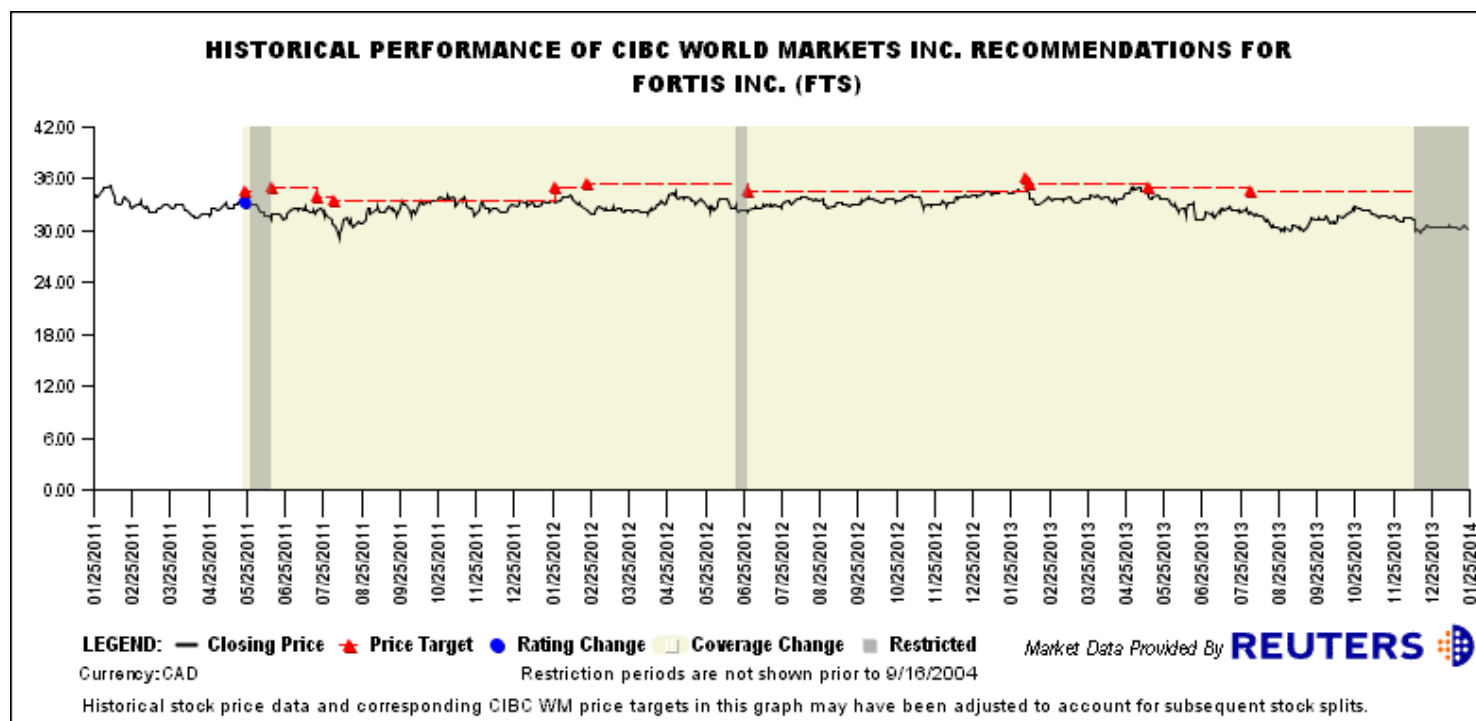
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**



## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/24/2011	▲ ●	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 24 Jan 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	134	37.7%	Sector Outperformer (Buy)	129	96.3%
Sector Performer (Hold/Neutral)	169	47.6%	Sector Performer (Hold/Neutral)	162	95.9%
Sector Underperformer (Sell)	40	11.3%	Sector Underperformer (Sell)	36	90.0%
Restricted	11	3.1%	Restricted	11	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 24 Jan 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	55.6%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	4	44.4%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at One Raffles Place, Tower 2, #12-61, Singapore 048616 (telephone number + 65-6908-0437) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

February 6, 2014

## Stock Rating: Sector Performer

## Sector Weighting: Market Weight

12-18 mo. Price Target \$35.00  
FTS-TSX (2/6/14) \$30.65

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$29.51-\$35.14  
Shares Outstanding 213.2M  
Float 213.2M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,534.6M  
Dividend/Div Yield \$1.28 / 4.2%  
Fiscal Year Ends December  
Book Value \$22.38 per Shr  
2014 ROE (E) 6.7%  
LT Debt \$7.8B  
Preferred \$1,229.00M  
Common Equity \$4.8B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2013	\$1.69E	\$1.70A
2014		\$1.55E
2015		\$2.01E

P/E		
2013	18.1x	18.0x
2014		19.8x
2015		15.2x

Dividend Per Share	
2013	\$1.24A
2014	\$1.28E
2015	\$1.34E

Yield	
2013	4.0%
2014	4.2%
2015	4.4%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

Pipelines, Utilities, & Power

## Fortis Inc.

### Q4 Roughly In Line; 2014 A Tough Year, 2015 To Benefit From UNS, Waneta, CH

- Fortis reported adjusted Q4/13 EPS of \$0.48, in line with consensus of \$0.48 (CIBC \$0.49). Weaker-than-expected results from FortisAlberta (timing of certain expenses and lower transmission revenues) were offset by stronger results at FortisBC and the Caribbean.
- Subsequent to quarter-end, Fortis announced the sale of Griffith Energy Services, CH Energy's non-regulated energy distributor in the Mid-Atlantic, for US\$70M. Griffith's incurred a loss of \$5M in 2013, including a \$3.5M charge in Q4 associated with tax expenses related to the pending sale.
- Fortis continues to focus on closing the UNS acquisition, with the Arizona regulator setting out a timetable of proceedings, and Fortis targeting a late 2014 close. Fortis issued \$1.8 billion in installment receipts in January to fund the acquisition.
- We see 2014 as a tough year, with earnings drags from UNS (\$1.8B pre-financing), Waneta (no contribution prior to coming into service in early 2015), and CH Energy (rate freeze through mid-2015). These issues should be resolved in 2015, but in the meantime we maintain SP rating/\$35 PT.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

14-127605 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 2/6/14 \$30.65  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$30.65	Net Debt		9,303	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.				
Shares Outstanding	212	Non Control Int.		355					
Market Capitalization	6,511	Preferred Shares		1,229					
		Enterprise Value		17,398					
Valuations					Investment Thesis				
P/E	18.1x	2012	2013	2014E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).				
EV/EBITDA	13.4x	18.0x	12.1x	12.1x					
		2015E		8.3x					
Pipeline And Utilities Sector Average					Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)				
P/E	25.2x	25.6x	25.7x	23.2x					
EV/EBITDA	14.7x	14.3x	12.2x	11.1x					
Other Data					Segmented Earnings (Exc. Corporate)				
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.34					
Dividend Yield	3.9%	4.0%	4.2%	4.4%					
Payout Ratio	70.7%	73.0%	82.5%	66.7%					
Book Value Per Share	\$20.84	\$22.38	\$24.04	\$24.76					
Price / Book Value	1.5x	1.4x	1.3x	1.2x					
Cash Per Share	\$0.81	\$0.36	\$0.53	\$1.11					
Debt / Total Capital	54.5%	55.0%	57.6%	58.7%					
Net Debt/EBITDA	4.9x	5.4x	7.6x	5.5x					
Income Statement					Major Sources, Uses Of Cash				
FortisBC Energy	138	127	137	145					
FortisAlberta	96	94	111	118					
FortisBC Electric	50	50	51	54					
Newfoundland Power	37	36	38	40					
Other Canadian Electric Utilities	24	22	24	24					
CH Energy	0	23	42	51					
Regulated Electric Utilities - Caribbean	19	23	23	23					
Fortis Generation	17	19	19	35					
Non-Utility	22	18	20	20					
Corporate	(81)	(68)	(135)	(113)					
<b>Operating Earnings</b>	<b>323</b>	<b>344</b>	<b>331</b>	<b>550</b>					
Unusual Items	(8)	9	(30)	0					
Reported Earnings	315	353	301	550					
<b>Operating EPS</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.55</b>	<b>\$2.01</b>					
Reported EPS	\$1.66	\$1.74	\$1.41	\$2.01					
Shares Outstanding	190	203	213	274					
EBITDA	1,299	1,439	1,439	2,097					
Cash Flow									
Earnings (incl. pref share dividends)	371	420	345	594					
Depreciation and Amortization	470	542	583	816					
Total Operating Cash Flow	976	906	928	1,410					
Capital Expenditures	1,130	1,165	1,430	1,793					
Dividends	225	248	405	423					
Net Long Term Debt Proceeds	36	480	3,298	848					
Balance Sheet									
Cash & Cash Equivalents	154	72	113	305					
Utility Capital Assets / Income Properties	10,249	12,267	17,364	18,291					
Total Assets	14,950	17,908	22,996	24,065					
Current Liabilities	1,308	2,084	2,084	2,084					
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	11,086	11,934					
Future Income Taxes	17	(2)	0	0					
Non Controlling Interests	310	375	364	353					
Preferred Shares	1,108	1,229	1,229	1,229					
Shareholders' Equity	5,100	6,001	7,802	8,034					
Total Shareholders' Equity And Liabilities	14,950	17,908	22,996	24,065					

Source: Company reports and CIBC World Markets Inc.



---

## Q4 In Line

Fortis (FTS-SP) reported adjusted Q4/13 EPS of \$0.48, in line with consensus of \$0.48 (CIBC \$0.49) and overall tracking roughly as expected.

We note a couple areas of weakness in the quarter:

- **FortisAlberta:** net earnings of \$18 million versus \$23 million y/y, and below our \$27 million estimate. The company cited timing of depreciation and operating expenses, and lower transmission revenue of \$2 million as key issues.
- **Non-regulated – non-utility:** net earnings of \$1 million versus \$5 million y/y, and below our \$7 million estimate. The company recorded a \$3.5 million charge against CH Energy's Griffith Energy Service's division due to income tax expenses related to the division's pending sale (for US\$70 million, anticipated Q1/14 closing).

Offsetting these issues, the company reported better-than-expected results from FortisBC Energy and FortisBC Electric (lower costs, rate base growth, high gas and electric volumes due to cold weather), and the Caribbean operations, which recorded a \$3 million benefit from capitalization of overhead costs at Fortis Turks and Caicos stemming from a favourable decision in December.

---

## 2014 Faces Headwinds That Reverse In 2015

It looks like 2014 will be a tough year, financially, for Fortis. We see a number of headwinds:

- **Pre-financing of UNS Energy (UNS-NYSE) acquisition:** Fortis issued \$1.8 billion in installment receipts in January to finance the pending acquisition of UNS Energy. With the deal expected to close by late 2014, we see this as a significant drag on earnings in 2014 (~\$0.25 EPS impact).
- **Waneta Dam Expansion:** Approximately \$579 million has been invested in the \$900 million expansion project to date (Fortis owns 51%), and the project is expected to come on line in spring 2015. As a non-regulated investment, Fortis does not earn a return on this project until it enters service.
- **CH Energy:** As part of the CH Energy acquisition, Fortis was required to freeze Central Hudson's rate through June 30, 2015. Over the same period, Central Hudson is required to invest US\$215 million in capex; Fortis will not earn a return on this investment until it is able to adjust rates in mid-2015.

As a result of these issues, we continue to forecast an earnings decline in 2014 (\$1.55 in EPS) versus 2013 (\$1.70). However, these issues should be resolved by (or during) 2015, suggesting a rebound of earnings in that year (\$2.01).

---

## Q4/13 Results

Fortis reported Q4/13 adjusted EPS of \$0.48 (excluding acquisition expenses associated with the UNS Energy transaction), roughly in line with our \$0.49 estimate (consensus \$0.48) and up versus \$0.46 in Q4/12. Although headline numbers were roughly in line with expectations, we note that results varied by individual segments. Results were below expectations at FortisAlberta mainly due to the timing of depreciation and operating expenses and lower net

transmission revenue, as well as in Non Utility operations as CH Energy's Griffith Energy Services (non-regulated petroleum supply operations) has been classified as discontinued operations pending its sale (expected to close in Q1/14). Offsetting the declines were higher-than-expected earnings from FortisBC Energy and FortisBC Electric (both with lower finance charges that offset lower allowed ROEs versus 2012), Caribbean Utilities (capitalization of overhead costs at Fortis Turks and Caicos), and Fortis Generation (higher production in Belize due to greater rainfall).

### Exhibit 1. Q4/13 Results (\$ mlns., except per share)

Segmented Earnings	Q4/13A	Q4/13E	Q4/12A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	50	46	49	Lower finance charges offsetting lower y/y allowed ROEs
FortisAlberta	18	27	23	Timing of depreciation and other operating expenses, lower net transmission revenue
FortisBC Electric	13	11	12	Lower finance charges offsetting lower y/y allowed ROEs
Newfoundland Power	10	10	9	
Other Canadian Electric Utilities	4	6	6	
CH Energy	11	11	0	
Regulated Electric Utilities – Caribbean	8	5	3	Capitalization of overhead costs at Fortis Turks and Caicos
Total Regulated Utilities	114	116	102	
<b>Non-regulated Operations</b>				
Fortis Generation	6	4	2	Increased production due to higher rainfall in Belize
Non-Utility	1	7	5	Griffith moved to discontinued operations pending sale
Total Non-regulated Operations	7	11	7	
Corporate	(19)	(22)	(22)	
<b>Operating Earnings For Common</b>	<b>102</b>	<b>105</b>	<b>87</b>	
Unusual Items	(2)	0	0	
Reported Earnings	100	105	87	
Weighted Average Shares Outstanding (mlns.)	213	213	191	
<b>Operating EPS</b>	<b>0.48</b>	<b>0.49</b>	<b>0.46</b>	
Reported EPS	0.47	0.49	0.46	
Dividend Per Share	0.31	0.31	0.30	
Pay out Ratio	64.6%	63.0%	65.9%	

Source: CIBC World Markets Inc.

## Revising Estimates

We have made minor changes to our model, reflecting higher capex than we had previously expected on Fortis' Western Canadian utilities (and as a result higher rate base and earnings) offset by the impact of lost earnings from Griffith Energy Services. Our 2014 and 2015 EPS estimates remain unchanged at \$1.55 and \$2.01, respectively.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2014E			2015E	
	2013A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	127	132	137	136	145
FortisAlberta	94	109	111	115	118
FortisBC Electric	50	51	51	54	54
New foundland Power	36	37	38	39	40
Other Canadian Electric Utilities	22	24	24	24	24
CH Energy	0	43	42	50	51
Regulated Electric Utilities – Caribbean	23	21	23	21	23
Total Regulated Utilities	352	417	426	594	609
<b>Non-regulated Operations</b>					
Fortis Generation	19	20	19	35	35
Non-Utility	18	29	20	29	20
Total Non-regulated Operations	37	49	39	64	55
Corporate	(68)	(135)	(135)	(109)	(113)
<b>Operating Earnings For Common</b>	<b>321</b>	<b>331</b>	<b>331</b>	<b>550</b>	<b>550</b>
Unusual Items	9	(30)	(30)	0	0
Reported Earnings	330	301	301	550	550
Weighted Average Shares Outstanding (mlns.)	203	213	213	274	274
<b>Operating EPS</b>	<b>1.70</b>	<b>1.55</b>	<b>1.55</b>	<b>2.01</b>	<b>2.01</b>
Reported EPS	1.74	1.41	1.41	2.01	2.01
Div idend Per Share	1.24	1.28	1.28	1.30	1.31
Payout Ratio	73.0%	82.5%	82.5%	65.0%	65.0%

Source: CIBC World Markets Inc.

**Price Target Calculation**

Our \$35 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$12 billion capital spending program (including acquisitions) through 2018. Our price target equates to a P/E multiple of 17.4x our 2015 estimate, below the pipelines and utilities group average of 21.2x.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Along with announcing the agreement to acquire UNS Energy, Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Prior	\$0.67A	\$0.32A	\$0.23A	\$0.49E	\$1.69E
2013 Current	\$0.67A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	--	--	--	--	\$1.55E
2015 Current	--	--	--	--	\$2.01E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/06/2014:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$46.91, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 02/06/2014:**

UNS Energy Corp. (UNS-NYSE, US\$59.99, Not Rated)

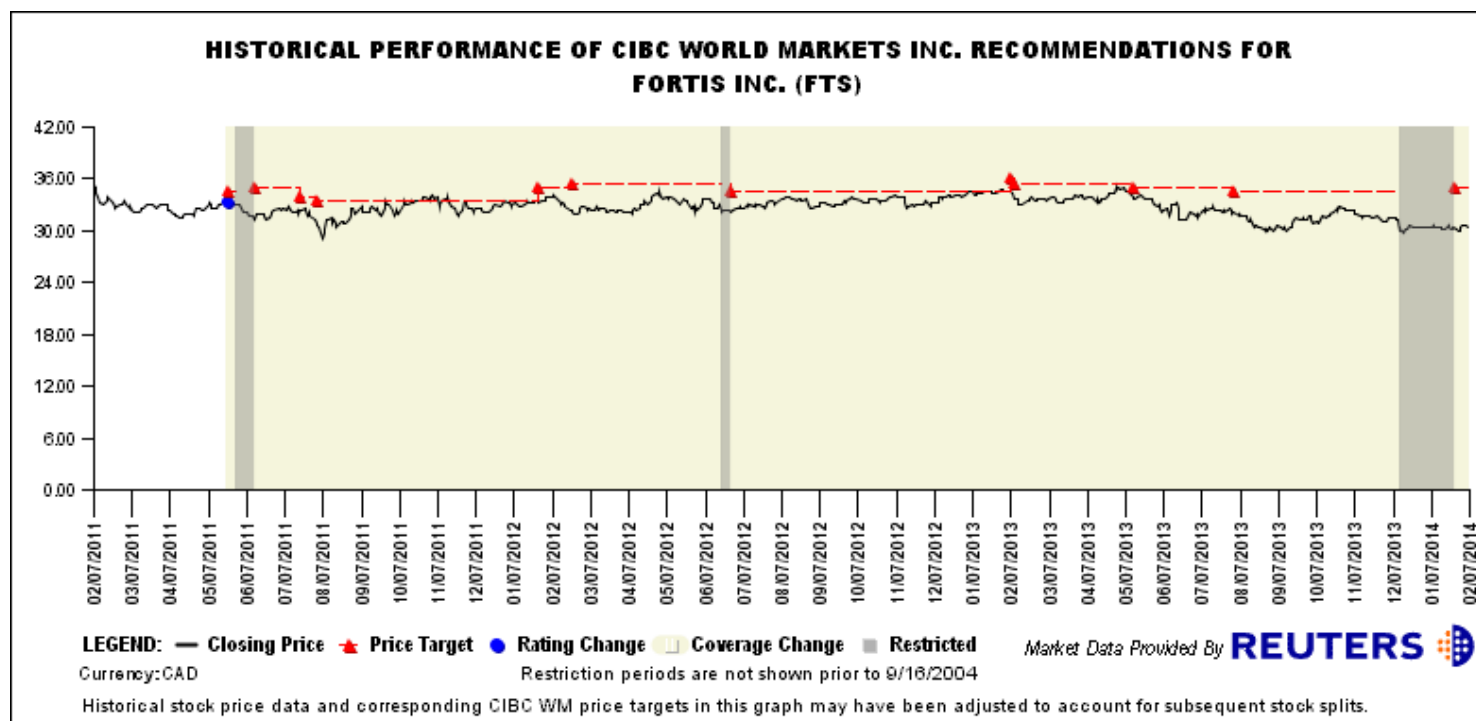
**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**



## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 06 Feb 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	138	38.7%	Sector Outperformer (Buy)	125	90.6%
Sector Performer (Hold/Neutral)	174	48.7%	Sector Performer (Hold/Neutral)	156	89.7%
Sector Underperformer (Sell)	40	11.2%	Sector Underperformer (Sell)	28	70.0%
Restricted	4	1.1%	Restricted	4	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 06 Feb 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	44.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	55.6%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: CPX, EMA, ENB, FTS, IPL, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at One Raffles Place, Tower 2, #12-61, Singapore 048616 (telephone number + 65-6908-0437) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Company Update

March 26, 2014

**Stock Rating:**  
**Sector Performer**

**Sector Weighting:**  
**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (3/26/14) \$31.26

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$29.51-\$35.14  
Shares Outstanding 213.2M  
Float 213.2M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,664.6M  
Dividend/Div Yield \$1.28 / 4.1%  
Fiscal Year Ends December  
Book Value \$22.51 per Shr  
2014 ROE (E) 6.7%  
LT Debt \$7.8B  
Preferred \$1,229.00M  
Common Equity \$4.8B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2013		\$1.70A
2014		\$1.55E
2015		\$2.01E

P/E	
2013	18.4x
2014	20.2x
2015	15.6x

Dividend Per Share	
2013	\$1.24A
2014	\$1.28E
2015	\$1.34E

Yield	
2013	4.0%
2014	4.1%
2015	4.3%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

**Paul Lechem**  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

**Oswaldo Matias, CFA**  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

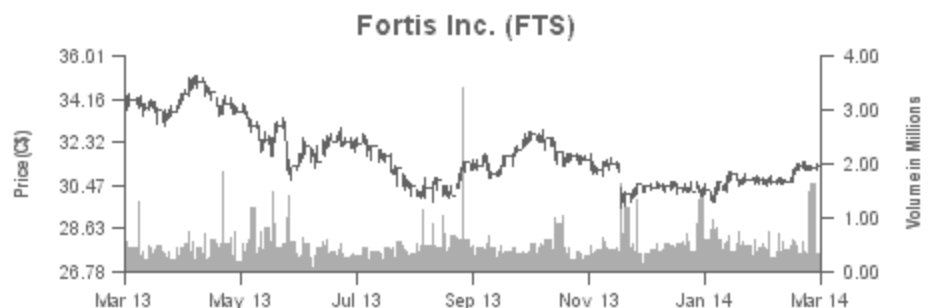
Pipelines, Utilities, & Power

## Fortis Inc.

### Corporate Update: UNS Energy Shareholders Approve Acquisition; BC GCOC Decision

- On Wednesday, UNS Energy shareholders approved Fortis' acquisition of the company, with ~97% of shares cast in favour of the acquisition. In December 2013, Fortis announced the agreement to acquire UNS Energy, an Arizona-based regulated utility, for US\$4.3 billion.
- The acquisition is expected to close in late 2014, subject to receipt of certain regulatory and government approvals, including approval by the Arizona Corporation Commission and the FERC. ACC hearings are expected to commence in June.
- Separately, the BCUC issued its decision on the second stage of the generic cost of capital (GCOC) review for B.C. utilities. The first stage decision in May 2013 reduced FortisBC Energy's (the baseline utility) ROE and equity thickness by 75 bps (to 8.75%) and 1.5% (to 38.5%), respectively.
- The decision was in line with our expectations, with FortisBC Inc. (electric utility) and FortisBC (Vancouver Island) both seeing 75 bps declines in allowed ROE (retroactively applied to 2013), with FortisBC (VI) getting a 1.5% increase in equity thickness. No material change to our forecasts.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

14-128545 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

**Fortis Inc.**

FTS - TSX 3/26/14 \$31.26  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

**Sector Performer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$31.26	Net Debt	9,516		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.				
Shares Outstanding	213	Non Control Int.	375						
Market Capitalization	6,665	Preferred Shares	1,229						
		Enterprise Value	17,785						
Valuations					Investment Thesis				
P/E	18.4x	18.4x	20.1x	15.6x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).				
EV/EBITDA	13.7x	12.4x	11.8x	8.2x					
Pipeline And Utilities Sector Average									
P/E	25.2x	25.6x	25.7x	23.2x					
EV/EBITDA	14.7x	14.3x	12.2x	11.1x					
Other Data					Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)				
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.34					
Dividend Yield	3.8%	4.0%	4.1%	4.3%					
Payout Ratio	70.7%	73.0%	82.4%	66.7%					
Book Value Per Share	\$20.84	\$22.38	\$24.04	\$24.76					
Price / Book Value	1.5x	1.4x	1.3x	1.3x					
Cash Per Share	\$0.81	\$0.36	\$0.53	\$1.12					
Debt / Total Capital	54.5%	55.0%	57.6%	58.7%					
Net Debt/EBITDA	4.9x	5.4x	7.2x	5.4x					
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	138	127	136	143					
FortisAlberta	96	94	111	118					
FortisBC Electric	50	50	52	56					
Newfoundland Power	37	36	38	40					
Other Canadian Electric Utilities	24	22	24	24					
CH Energy	0	23	42	51					
UNS Energy	0	0	0	155					
Regulated Electric Utilities - Caribbean	19	23	23	23					
Fortis Generation	17	19	19	35					
Non-Utility	22	18	20	20					
Corporate	(81)	(68)	(135)	(113)					
<b>Operating Earnings</b>	<b>323</b>	<b>344</b>	<b>331</b>	<b>551</b>					
Unusual Items	(8)	9	(30)	0					
Reported Earnings	315	353	301	551					
<b>Operating EPS</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.55</b>	<b>\$2.01</b>					
Reported EPS	\$1.66	\$1.74	\$1.41	\$2.01					
Shares Outstanding	190	203	213	274					
EBITDA	1,299	1,439	1,514	2,171					
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	371	420	345	595					
Depreciation and Amortization	470	542	583	816					
Total Operating Cash Flow	976	906	929	1,411					
Capital Expenditures	1,130	1,165	1,430	1,793					
Dividends	225	248	405	423					
Net Long Term Debt Proceeds	36	480	3,298	848					
Balance Sheet									
Cash & Cash Equivalents	154	72	114	306					
Utility Capital Assets / Income Properties	10,249	12,267	17,364	18,291					
Total Assets	14,950	17,908	22,996	24,066					
Current Liabilities	1,308	2,084	2,084	2,084					
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	11,086	11,934					
Future Income Taxes	17	(2)	0	0					
Non Controlling Interests	310	375	364	353					
Preferred Shares	1,108	1,229	1,229	1,229					
Shareholders' Equity	5,100	6,001	7,802	8,035					
Total Shareholders' Equity And Liabilities	14,950	17,908	22,996	24,066					

Source: Company reports and CIBC World Markets Inc.



---

## Price Target Calculation

Our \$35 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$12 billion capital spending program (including acquisitions) through 2018. Our price target equates to a P/E multiple of 17.4x our 2015 estimate, below the pipelines and utilities group average of 23.2x.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Along with announcing the agreement to acquire UNS Energy, Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SO) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.67A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	--	--	--	--	\$1.55E
2015 Current	--	--	--	--	\$2.01E

---

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 03/26/2014:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$46.87, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 03/26/2014:**

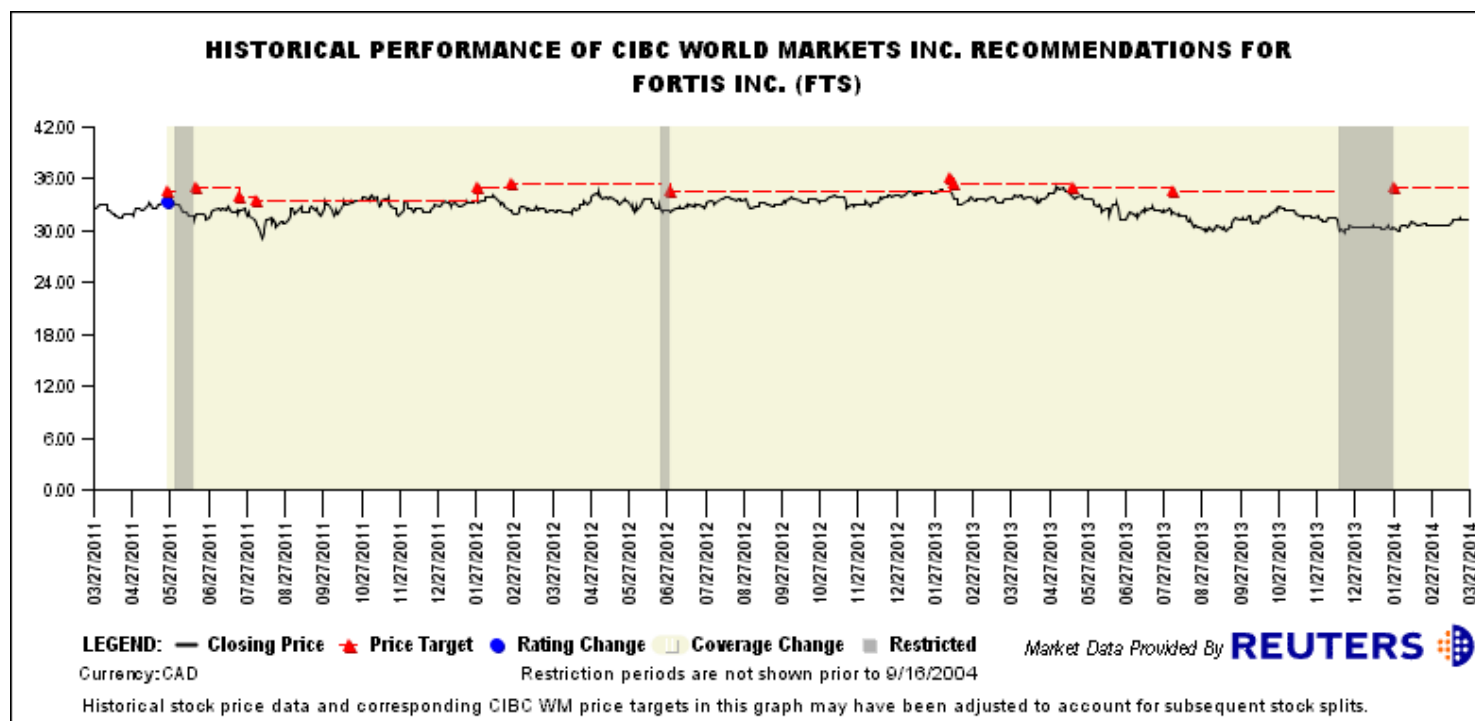
UNS Energy Corp. (UNS-NYSE, US\$60.02, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 26 Mar 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	140	38.3%	Sector Outperformer (Buy)	131	93.6%
Sector Performer (Hold/Neutral)	171	46.7%	Sector Performer (Hold/Neutral)	162	94.7%
Sector Underperformer (Sell)	45	12.3%	Sector Underperformer (Sell)	36	80.0%
Restricted	9	2.5%	Restricted	8	88.9%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 26 Mar 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	40.0%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	50.0%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	1	10.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IROC Rule 3400, including potential conflicts of interest information, our system for rating investment opportunities and our dissemination policy can be obtained by visiting CIBC World Markets on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.



## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to accredited investors, expert investors and institutional investors (each, "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at One Raffles Place, Tower 2, #12-61, Singapore 048616 (telephone number + 65-6908-0437) in respect of any matter arising from or in connection with this report.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Earnings Update

May 8, 2014

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (5/8/14) \$32.50

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$29.51-\$35.10  
Shares Outstanding 214.3M  
Float 214.3M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,964.8M  
Dividend/Div Yield \$1.28 / 4.0%  
Fiscal Year Ends December  
Book Value \$22.91 per Shr  
2014 ROE (E) 6.7%  
LT Debt \$8.3B  
Preferred \$1,229.00M  
Common Equity \$4.9B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2013		\$1.70A
2014	\$1.55E	\$1.55E
2015		\$2.01E

P/E		
2013		19.1x
2014	21.0x	21.0x
2015		16.2x

Dividend Per Share	
2013	\$1.24A
2014	\$1.28E
2015	\$1.34E

Yield	
2013	3.8%
2014	3.9%
2015	4.1%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

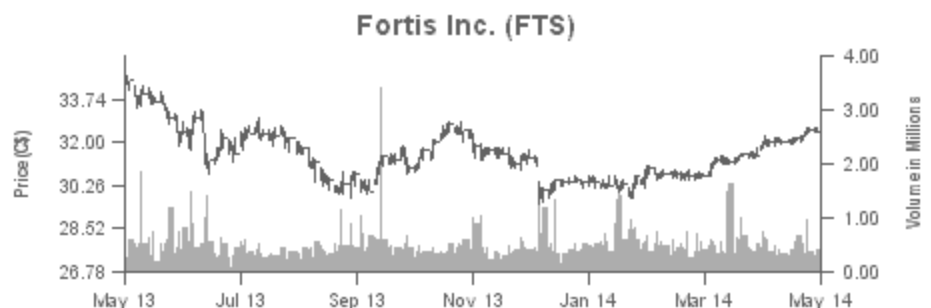
Pipelines, Utilities, & Power

## Fortis Inc.

### Q1 In Line; UNS Energy Acquisition Approval Progressing

- Fortis reported Q1 adjusted EPS of \$0.65 versus consensus of \$0.64 (CIBC \$0.66). Weaker-than-expected results at Fortis' B.C. and Alberta utilities were offset by stronger results at Newfoundland Power, CH Energy and Caribbean Utilities.
- Fortis' US\$4.3B acquisition of UNS Energy was recently approved by the FERC and UNS shareholders. Arizona Corporation Commission (ACC) hearings are scheduled for mid-June, with settlement discussions underway that could result in the transaction closing before the late-2014 target.
- 2014 results are expected to be down Y/Y, given: 1) interest expense on \$1.8 billion in debentures issued for UNS acquisition, 2) customer rate freeze at Central Hudson through June 2015, and 3) no return on the Waneta Dam Expansion project until it enters service (2015).
- We expect 2015 earnings will rebound as these issues are resolved. Beyond that, ~\$12 billion in capital expenditures (including UNS acquisition and associated capex) through 2018 should drive strong earnings growth well into the future. We maintain our SP rating and \$35 price target.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

14-129400 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



## Fortis Inc.

FTS - TSX 5/8/14 \$32.50  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Performer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile				
Share Price	\$32.50	Net Debt	7,724		Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.				
Shares Outstanding	214	Non Control Int.	393						
Market Capitalization	6,965	Preferred Shares	1,229						
		Enterprise Value	16,311						
Valuations					Investment Thesis				
P/E	19.1x	2012	2013	2014E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).				
EV/EBITDA	12.6x	19.1x	21.0x	16.2x					
		11.3x	11.2x	9.6x					
Pipeline And Utilities Sector Average									
P/E	28.0x	29.1x	25.4x	22.8x					
EV/EBITDA	15.0x	13.2x	12.0x	11.1x					
Other Data					Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)				
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.34					
Dividend Yield	3.7%	3.8%	3.9%	4.1%					
Payout Ratio	70.7%	73.0%	82.5%	66.8%					
Book Value Per Share	\$20.84	\$22.38	\$24.04	\$24.76					
Price / Book Value	1.6x	1.5x	1.4x	1.3x					
Cash Per Share	\$0.81	\$0.36	\$1.31	\$1.96					
Debt / Total Capital	54.5%	55.0%	57.6%	58.7%					
Net Debt/EBITDA	4.9x	5.4x	6.8x	5.0x					
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	138	127	136	143					
FortisAlberta	96	94	111	118					
FortisBC Electric	50	50	52	56					
Newfoundland Power	37	36	38	40					
Other Canadian Electric Utilities	24	22	24	24					
CH Energy	0	23	43	51					
UNS Energy	0	0	0	155					
Regulated Electric Utilities - Caribbean	19	23	23	23					
Fortis Generation	17	19	20	36					
Non-Utility	22	18	20	20					
Corporate	(81)	(68)	(135)	(115)					
Operating Earnings	323	344	332	550					
Unusual Items	(8)	9	(30)	0					
Reported Earnings	315	353	302	550					
Operating EPS	\$1.70	\$1.70	\$1.55	\$2.01					
Reported EPS	\$1.66	\$1.74	\$1.41	\$2.01					
Shares Outstanding	190	203	214	274					
EBITDA	1,299	1,439	1,594	2,257					
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	371	420	357	605					
Depreciation and Amortization	470	542	644	880					
Total Operating Cash Flow	976	906	1,001	1,485					
Capital Expenditures	1,130	1,165	1,430	1,793					
Dividends	225	248	416	434					
Net Long Term Debt Proceeds	36	480	3,298	848					
Balance Sheet									
Cash & Cash Equivalents	154	72	281	537					
Utility Capital Assets / Income Properties	10,249	12,267	17,197	18,060					
Total Assets	14,950	17,908	22,997	24,066					
Current Liabilities	1,308	2,084	2,084	2,084					
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	11,086	11,934					
Future Income Taxes	17	(2)	0	0					
Non Controlling Interests	310	375	364	353					
Preferred Shares	1,108	1,229	1,229	1,229					
Shareholders' Equity	5,100	6,001	7,803	8,035					
Total Shareholders' Equity And Liabilities	14,950	17,908	22,997	24,066					

Source: Company reports and CIBC World Markets Inc.

---

## Q1 In Line

Fortis (FTS-SP) reported Q1/14 adjusted EPS of \$0.65, in line with consensus of \$0.64 (CIBC \$0.66). While overall results were in line, segmented earnings varied modestly from our forecasts with weakness at Fortis' B.C. and Alberta utilities offset by stronger-than-expected results at Newfoundland Power, CH Energy and Caribbean Utilities.

Y/Y EPS declined versus \$0.68 in Q1/13 due to higher finance costs associated with the \$1.8 billion in convertible debentures [associated with proposed UNS Energy (UNS-NYSE) acquisition] and a higher share count due to a \$600 million equity issue (in June 2013 associated with the CH Energy acquisition).

---

## UNS Energy Acquisition Approval Progressing

On April 2, the Federal Energy Regulatory Commission (FERC) approved Fortis' acquisition of UNS Energy. This follows the March 26 approval by UNS Energy shareholders, with ~97% of shares cast in favor of the acquisition. In December 2013, Fortis announced the agreement to acquire UNS Energy, an Arizona-based regulated utility with ~650,000 natural gas and electricity customers, for US\$4.3 billion (including the assumption of US\$1.8 billion of debt). The acquisition is subject to receipt of certain regulatory and government approvals, including approval by the Arizona Corporation Commission (ACC). In April, the ACC staff and other intervenors filed their direct testimony in the merger proceeding, indicating that they would support the merger subject to certain conditions, and settlement discussions are underway. The deadline to file a settlement agreement with the ACC is May 16. If an agreement is reached, we would expect an expedited ACC administrative law judge (ALJ) hearing process (which begins June 16), and the potential for the acquisition to close a couple of months before Fortis' current expectation of late 2014.

---

## Outlook Unchanged

We continue to expect 2014 will be a difficult year financially for Fortis, given: 1) interest expense associated with the \$1.8 billion in convertible debentures issued to partially fund the UNS Energy acquisition; 2) a customer rate freeze at Central Hudson through June 2015 (agreed to as a condition of the acquisition), and a US\$215 million capex investment at the utility that Fortis will not be able to earn on until it can adjust customer rates (i.e. July 2015), and 3) the \$900 million Waneta Dam Expansion project (51% owned by Fortis), of which \$603 million has been invested to date (~\$308 million by Fortis), which will not earn a return until it comes into service in the spring of 2015. As a result, we expect EPS to decline from \$1.70 in 2013 to \$1.55 in 2014. However, 2015 expectations are strong (EPS estimate of \$2.01) as these issues get resolved. Beyond that, the growth profile looks fairly strong with \$6.5 billion in projects coming into service in the 2014-2018 timeframe, and an additional \$1.5 billion in capex expected at UNS Energy from 2015 to 2018 (if the acquisition is approved). We maintain our Sector Performer rating and \$35 price target.

---

## Q1/14 Results

Fortis reported Q1/14 adjusted EPS of \$0.65, roughly in line with consensus estimates of \$0.64 (CIBC \$0.66), and down versus \$0.68 in Q1/13. While results were in line overall, several segments were modestly below expectations including FortisBC Energy (higher income taxes and lower allowed ROE Y/Y), FortisAlberta (lower net transmission revenues Y/Y) and FortisBC Electric (lower

ROE Y/Y). Offsetting the above were better-than-expected contributions from Newfoundland Power (higher electricity rates and sales volumes) and Caribbean Utilities (higher sales volumes and a strong US\$), along with a strong contribution from CH Energy which was acquired in June 2013. Y/Y results were negatively impacted by higher finance costs associated with the \$1.8 billion in convertible debentures issued in support of the UNS Energy acquisition, as well as a higher share count related to a \$600 million equity issue in June 2013 associated with the CH Energy acquisition.

---

**Exhibit 1. Q1/14 Results (\$ mlns., except per share)**

Segmented Earnings	Q1/14A	Q1/14E	Q1/13A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	79	90	85	Higher income taxes and lower allowed ROE Y/Y
FortisAlberta	25	28	26	Lower Y/Y net transmission revenues as Q1/13 included \$2 million related to 2012
FortisBC Electric	18	20	18	Timing of regulatory deferrals (favourable impact) offset by lower allowed ROE Y/Y
Newfoundland Power	10	7	7	Increased electricity rates and higher sales volumes
Other Canadian Electric Utilities	7	6	6	
CH Energy	18	13	0	Acquired in June 2013
Regulated Electric Utilities – Caribbean	5	3	3	Higher electricity sales and a stronger US\$
Total Regulated Utilities	162	167	145	
<b>Non-regulated Operations</b>				
Fortis Generation	6	5	4	Increased production due to higher rainfall in Belize
Non-Utility	0	1	0	
Total Non-regulated Operations	6	6	4	
Corporate	(30)	(33)	(18)	Higher Y/Y due to interest on convertible debentures to finance UNS acquisition
<b>Operating Earnings For Common</b>	<b>138</b>	<b>140</b>	<b>131</b>	
Unusual Items	5	(8)	20	
Reported Earnings	143	133	151	
Weighted Average Shares Outstanding (mlns.)	214	213	192	\$600 million equity issue in Q2/13
<b>Operating EPS</b>	<b>0.65</b>	<b>0.66</b>	<b>0.68</b>	
Reported EPS	0.67	0.62	0.79	
Dividend Per Share	0.32	0.32	0.31	
Pay out Ratio	49.5%	48.7%	45.4%	

Source: CIBC World Markets Inc.

---

**Estimates Unchanged**

We have made minor, offsetting revisions to our forecast, with 2014 and 2015 EPS estimates remaining unchanged at \$1.55 and \$2.01, respectively.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2014E			2015E	
	2013A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	127	136	136	143	143
FortisAlberta	94	111	111	118	118
FortisBC Electric	50	52	52	56	56
Newfoundland Power	36	38	38	40	40
Other Canadian Electric Utilities	22	24	24	24	24
CH Energy	23	42	43	51	51
UNS Energy	0	0	0	155	155
Regulated Electric Utilities – Caribbean	23	23	23	23	23
Total Regulated Utilities	375	427	427	609	609
<b>Non-regulated Operations</b>					
Fortis Generation	19	19	20	35	36
Non-Utility	18	20	20	20	20
Total Non-regulated Operations	37	39	40	55	56
Corporate	(68)	(135)	(135)	(113)	(115)
<b>Operating Earnings For Common</b>	<b>344</b>	<b>331</b>	<b>332</b>	<b>551</b>	<b>550</b>
Unusual Items	9	(30)	(30)	0	0
Reported Earnings	353	301	302	551	550
Weighted Average Shares Outstanding (mlns.)	203	213	214	274	274
<b>Operating EPS</b>	<b>1.70</b>	<b>1.55</b>	<b>1.55</b>	<b>2.01</b>	<b>2.01</b>
Reported EPS	1.74	1.41	1.41	2.01	2.01
Dividend Per Share	1.24	1.28	1.28	1.34	1.34
Pay out Ratio	73.0%	82.4%	82.5%	66.7%	66.8%

Source: CIBC World Markets Inc.

**Price Target Calculation**

Our \$35 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$12 billion capital spending program (including acquisitions) through 2018. Our price target equates to a P/E multiple of 17.4x our 2015 estimate, below the pipelines and utilities group average of 22.8x.

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Along with announcing the agreement to acquire UNS Energy, Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.



- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Prior	\$0.66E	\$0.24E	\$0.19E	\$0.47E	\$1.55E
2014 Current	\$0.65A	\$0.24E	\$0.18E	\$0.49E	\$1.55E
2015 Current	--	--	--	--	\$2.01E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/08/2014:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$51.54, Sector Performer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/08/2014:**

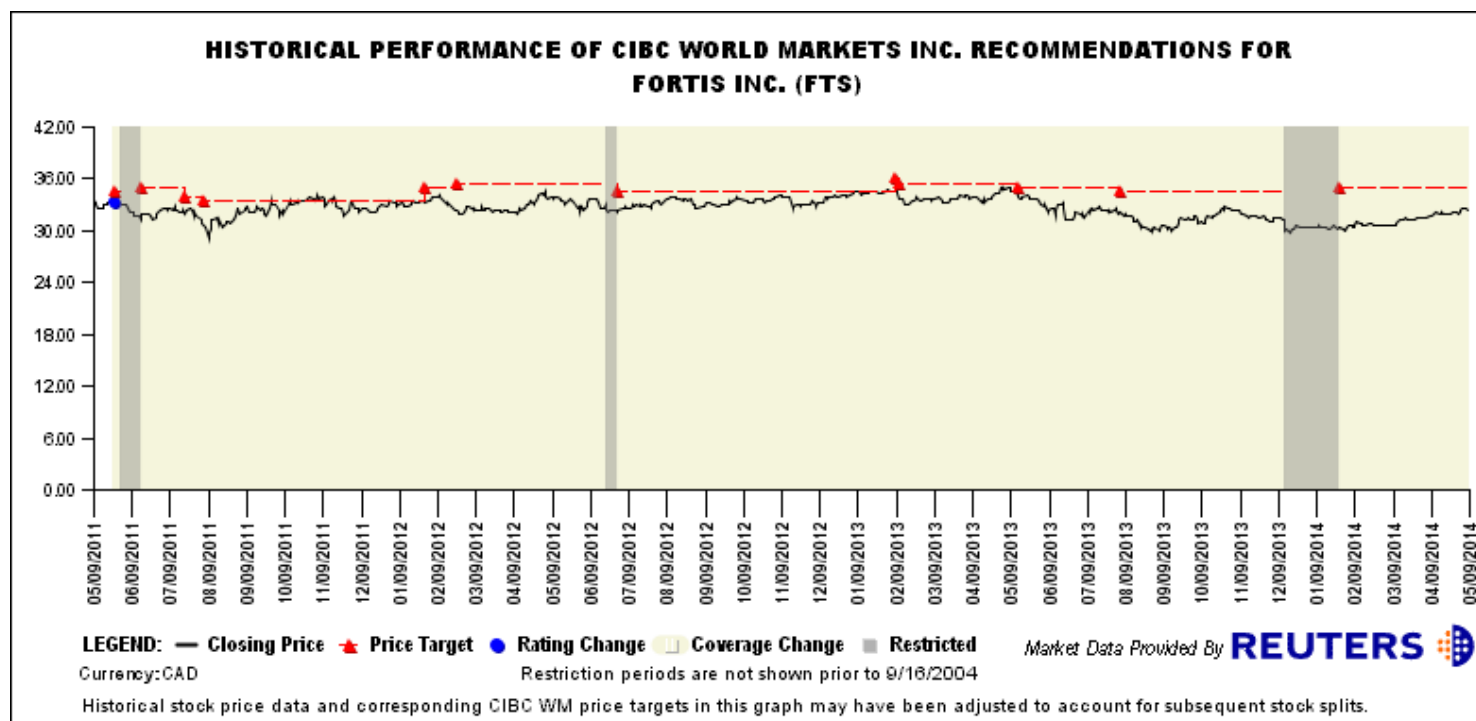
UNS Energy Corp. (UNS-NYSE, US\$60.24, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 08 May 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	149	40.5%	Sector Outperformer (Buy)	147	98.7%
Sector Performer (Hold/Neutral)	172	46.7%	Sector Performer (Hold/Neutral)	167	97.1%
Sector Underperformer (Sell)	41	11.1%	Sector Underperformer (Sell)	39	95.1%
Restricted	5	1.4%	Restricted	5	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 08 May 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	30.0%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	6	60.0%	Sector Performer (Hold/Neutral)	6	100.0%
Sector Underperformer (Sell)	1	10.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including our system for rating investment opportunities and our dissemination policy, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.



## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research Company Update

May 20, 2014

Stock Rating:

**Sector Performer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$35.00  
FTS-TSX (5/20/14) \$32.31

Key Indices: Toronto, TSX Utilities

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$29.51-\$34.28  
Shares Outstanding 214.3M  
Float 214.3M Shrs  
Avg. Daily Trading Vol. 459,853  
Market Capitalization \$6,924.0M  
Dividend/Div Yield \$1.28 / 4.0%  
Fiscal Year Ends December  
Book Value \$22.91 per Shr  
2014 ROE (E) 6.7%  
LT Debt \$8.3B  
Preferred \$1,229.00M  
Common Equity \$4.9B  
Convertible Available Yes

Earnings Per Share	Prev	Current
2013		\$1.70A
2014		\$1.55E
2015		\$2.01E

P/E	
2013	19.0x
2014	20.8x
2015	16.1x

Dividend Per Share	
2013	\$1.24A
2014	\$1.28E
2015	\$1.34E

Yield	
2013	3.8%
2014	4.0%
2015	4.1%

## Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

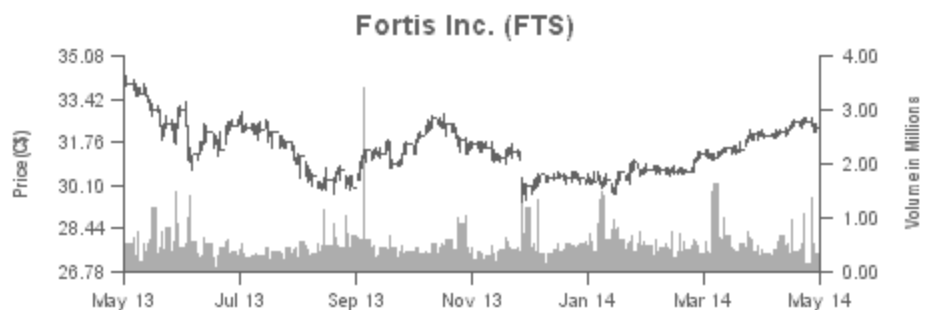
Pipelines, Utilities, & Power

## Fortis Inc.

### Announces Settlement Agreement For UNS Energy

- On May 16, UNS Energy, Fortis, Arizona Corporation Commission (ACC) Staff, the Residential Utility Consumer Office and other parties entered into a settlement agreement whereby the parties agree that the Fortis/UNS merger is in the public interest, and recommend approval by the ACC.
- The recommended approval is subject to certain conditions, including Fortis providing US\$30 million in benefits to utility retail customers over a five-year period and Fortis making an equity infusion totaling US\$220 million into the utilities following closing of the merger.
- We do not view the conditions attached to the merger as surprising or particularly onerous. With \$1.5 billion in capital expenditures at UNS Energy expected in the 2015-2018 timeframe, we anticipated that Fortis would be making a significant equity investment regardless of the merger conditions.
- The settlement agreement for Fortis' US\$4.3 billion UNS Energy acquisition is positive, as it will likely result in an expedited ACC administrative law judge hearing process (beginning June 16) and the potential for the acquisition to close a few months before the late 2014 target. SP; \$35 PT.

## Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

14-129694 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

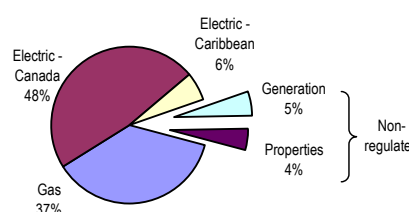
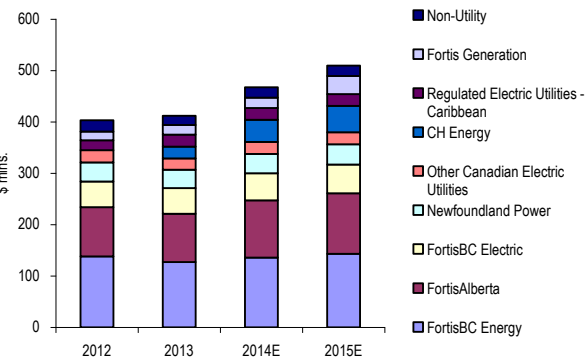
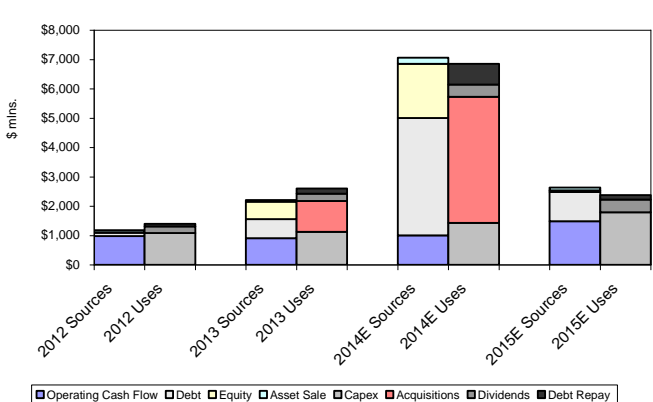
**Fortis Inc.**

FTS - TSX 5/20/14 \$32.31  
 12- To 18- Month Price Target: \$35.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

**Sector Performer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile
Share Price	\$32.31	Net Debt	7,724	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces and the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.	
Shares Outstanding	214	Non Control Int.	393		
Market Capitalization	6,924	Preferred Shares	1,229		
		Enterprise Value	16,270		
Valuations	2012	2013	2014E	2015E	Investment Thesis
P/E	19.0x	19.0x	20.8x	16.1x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).
EV/EBITDA	12.5x	11.3x	11.1x	9.5x	
Pipeline And Utilities Sector Average					
P/E	28.0x	29.1x	25.4x	22.8x	
EV/EBITDA	15.0x	13.2x	12.0x	11.1x	Assets - Excl Corporate / Eliminations (As At Dec 31, 2012)
Other Data	2012	2013	2014E	2015E	
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.34	
Dividend Yield	3.7%	3.8%	4.0%	4.1%	
Payout Ratio	70.7%	73.0%	82.5%	66.8%	
Book Value Per Share	\$20.84	\$22.38	\$24.04	\$24.76	
Price / Book Value	1.6x	1.4x	1.3x	1.3x	
Cash Per Share	\$0.81	\$0.36	\$1.31	\$1.96	
Debt / Total Capital	54.5%	55.0%	57.6%	58.7%	
Net Debt/EBITDA	4.9x	5.4x	6.8x	5.0x	Segmented Earnings (Exc. Corporate)
Income Statement	2012	2013	2014E	2015E	
FortisBC Energy	138	127	136	143	
FortisAlberta	96	94	111	118	
FortisBC Electric	50	50	52	56	
Newfoundland Power	37	36	38	40	
Other Canadian Electric Utilities	24	22	24	24	
CH Energy	0	23	43	51	
UNS Energy	0	0	0	155	
Regulated Electric Utilities - Caribbean	19	23	23	23	
Fortis Generation	17	19	20	36	
Non-Utility	22	18	20	20	
Corporate	(81)	(68)	(135)	(115)	
Operating Earnings	323	344	332	550	
Unusual Items	(8)	9	(30)	0	
Reported Earnings	315	353	302	550	
Operating EPS	\$1.70	\$1.70	\$1.55	\$2.01	
Reported EPS	\$1.66	\$1.74	\$1.41	\$2.01	
Shares Outstanding	190	203	214	274	
EBITDA	1,299	1,439	1,594	2,257	
Cash Flow	2012	2013	2014E	2015E	Major Sources, Uses Of Cash
Earnings (incl. pref share dividends)	371	420	357	605	
Depreciation and Amortization	470	542	644	880	
Total Operating Cash Flow	976	906	1,001	1,485	
Capital Expenditures	1,130	1,165	1,430	1,793	
Dividends	225	248	416	434	
Net Long Term Debt Proceeds	36	480	3,298	848	
Balance Sheet	2012	2013	2014E	2015E	
Cash & Cash Equivalents	154	72	281	537	
Utility Capital Assets / Income Properties	10,249	12,267	17,197	18,060	
Total Assets	14,950	17,908	22,997	24,066	
Current Liabilities	1,308	2,084	2,084	2,084	
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	11,086	11,934	
Future Income Taxes	17	(2)	0	0	
Non Controlling Interests	310	375	364	353	
Preferred Shares	1,108	1,229	1,229	1,229	
Shareholders' Equity	5,100	6,001	7,803	8,035	
Total Shareholders' Equity And Liabilities	14,950	17,908	22,997	24,066	

Source: Company reports and CIBC World Markets Inc.

---

## Price Target Calculation

Our \$35 price target is based on a discounted cash flow (DCF) analysis, which captures the expected cash flow growth from Fortis' (FTS-SP) ~\$12 billion capital spending program (including acquisitions) through 2018. Our price target equates to a P/E multiple of 17.4x our 2015 estimate, below the pipelines and utilities group average of 22.8x.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance-based regulation (PBR) proceedings taking place in Alberta and BC.
- **Acquisition Risks:** Along with announcing the agreement to acquire UNS Energy (UNS-NYSE), Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the U.S. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.24E	\$0.18E	\$0.49E	\$1.55E
2015 Current	--	--	--	--	\$2.01E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.



## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/20/2014:**

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$50.90, Sector Performer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 05/20/2014:**

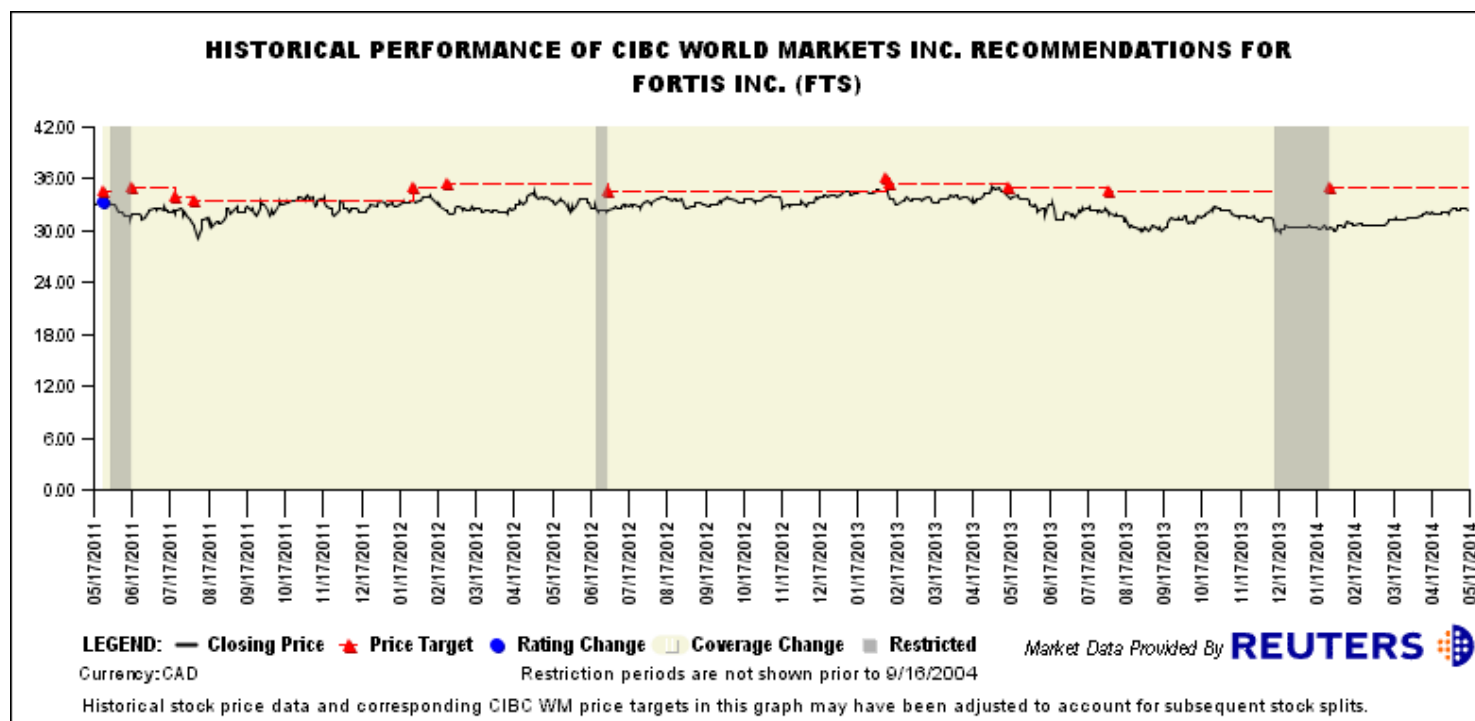
UNS Energy Corp. (UNS-NYSE, US\$60.52, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
05/24/2011	▲ ● ■	33.18	SP	34.50	Paul Lechem
05/30/2011	■	32.97	R	-	Paul Lechem
06/15/2011	■	31.35	SP	34.50	Paul Lechem
06/15/2011	▲	31.35	SP	35.00	Paul Lechem
07/20/2011	▲	31.99	SP	34.00	Paul Lechem
08/03/2011	▲	30.87	SP	33.50	Paul Lechem
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 20 May 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	144	39.5%	Sector Outperformer (Buy)	143	99.3%
Sector Performer (Hold/Neutral)	169	46.3%	Sector Performer (Hold/Neutral)	166	98.2%
Sector Underperformer (Sell)	41	11.2%	Sector Underperformer (Sell)	39	95.1%
Restricted	10	2.7%	Restricted	10	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 20 May 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	20.0%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	7	70.0%	Sector Performer (Hold/Neutral)	7	100.0%
Sector Underperformer (Sell)	1	10.0%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including our system for rating investment opportunities and our dissemination policy, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.



# Institutional Equity Research

## Change in Recommendation

August 04, 2014

Stock Rating:

**Sector Outperformer**

Sector Weighting:

**Market Weight**

12-18 mo. Price Target \$37.00  
FTS-TSX (8/1/14) \$33.09

Key Indices: Toronto, TS XU tils

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$29.51-\$33.88
Shares Outstanding	215.3M
Float	215.3M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$7,124.3M
Dividend/Div Yield	\$1.28 / 3.9%
Fiscal Year Ends	December
Book Value	\$22.73 per Shr
2014 ROE (E)	6.9%
LT Debt	\$8.3B
Preferred	\$1,229.00M
Common Equity	\$4.9B
Convertible Available	Yes

Earnings Per Share	Prev	Current
2013		\$1.70A
2014	\$1.55E	\$1.61E
2015		\$2.01E
<b>P/E</b>		
2013		19.5x
2014	21.3x	20.6x
2015		16.5x

#### Dividend Per Share

2013	\$1.24A
2014	\$1.28E
2015	\$1.34E

#### Yield

2013	3.7%
2014	3.9%
2015	4.0%

#### Company Description

Fortis owns a natural gas utility in B.C., electric distribution utilities in five Canadian provinces, Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

Paul Lechem  
1 (416) 956-6429  
Paul.Lechem@cibc.ca

Oswaldo Matias, CFA  
1 (416) 956-6428  
Oswaldo.Matias@cibc.ca

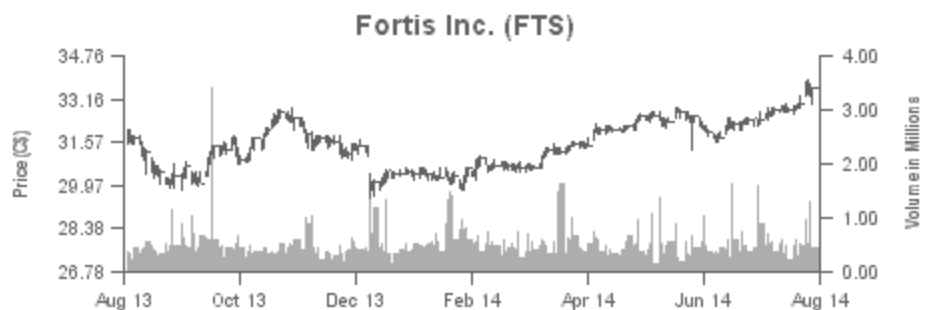
Pipelines, Utilities, & Power

## Fortis Inc.

### Q2 Roughly In-Line, UNS Acquisition Getting Close, Upgrading To SO

- Fortis reported Q2/2014 EPS of \$0.22, slightly below our \$0.24 estimate. Operationally, Q2 was a relatively benign quarter, with only minor variances versus expectations for the various segments and few regulatory issues.
- Fortis announced this week that its acquisition of UNS Energy received a positive recommended opinion from the Arizona Corporation Commission (the state regulator), with a meeting in mid-August to render a final decision. If positive, the acquisition could close by the end of August.
- With the UNS acquisition almost complete, the Waneta Expansion program expected to be finished in spring 2015, the Central Hudson rate freeze ending in mid-2015, and a \$400 million LNG project underway, we see strong earnings growth over the coming year.
- Given the imminent closing of the UNS acquisition, strong expected earnings growth and an in-line or even discounted valuation vs. its peers, we believe Fortis represents an appealing investment, and upgrade the stock, as of August 4, to Sector Outperformer/\$37 PT vs. prior SP/\$35 PT.

#### Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

14-130929 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.**

**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**





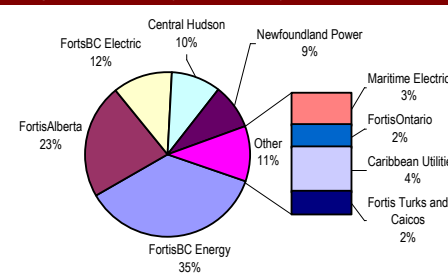
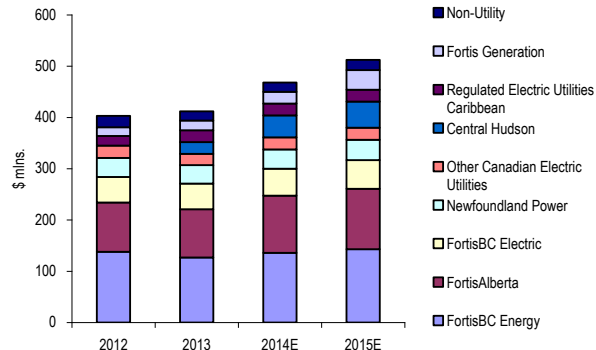
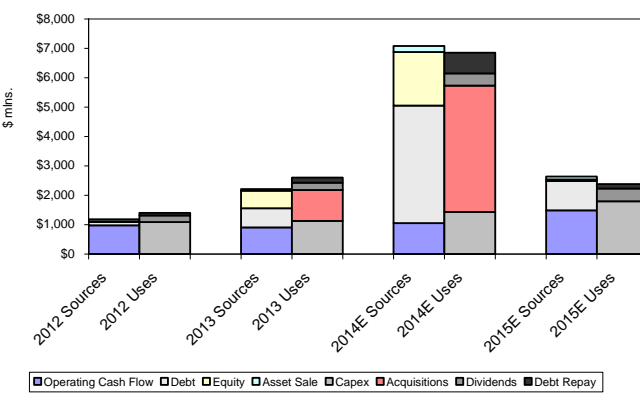
## Fortis Inc.

FTS - TSX 8/1/14 \$33.09  
 12- To 18- Month Price Target: \$37.00  
 Pipelines, Utilities & Power  
 Sector Weighting: Market Weight

## Sector Outperformer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
 Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data					Company Profile
Share Price	\$33.09	Net Debt	7,666	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.	
Shares Outstanding	215	Non Control Int.	395		
Market Capitalization	7,125	Preferred Shares	1,229		
		Enterprise Value	16,415		
Valuations	2012	2013	2014E	2015E	Investment Thesis
P/E	19.5x	19.5x	20.5x	16.4x	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).
EV/EBITDA	12.6x	11.4x	11.7x	9.6x	
Pipeline And Utilities Sector Average					
P/E	27.7x	30.5x	26.0x	25.1x	
EV/EBITDA	14.9x	13.8x	12.3x	11.3x	
Other Data	2012	2013	2014E	2015E	Assets - Excl Corporate / Eliminations (As Mid-Year 2013)
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.34	
Dividend Yield	3.6%	3.7%	3.9%	4.0%	
Payout Ratio	70.7%	73.0%	79.5%	66.6%	
Book Value Per Share	\$20.84	\$22.38	\$24.08	\$24.81	
Price / Book Value	1.6x	1.5x	1.4x	1.3x	
Cash Per Share	\$0.81	\$0.36	\$1.30	\$2.05	
Debt / Total Capital	54.5%	55.0%	57.5%	58.7%	
Net Debt/EBITDA	4.9x	5.4x	6.8x	5.0x	
Income Statement	2012	2013	2014E	2015E	Segmented Earnings (Exc. Corporate)
FortisBC Energy	138	127	136	143	
FortisAlberta	96	94	111	118	
FortisBC Electric	50	50	52	56	
Newfoundland Power	37	36	38	40	
Other Canadian Electric Utilities	24	22	24	24	
Central Hudson	0	23	43	51	
UNS Energy	0	0	52	155	
Regulated Electric Utilities - Caribbean	19	23	23	23	
Fortis Generation	17	19	23	38	
Non-Utility	22	18	18	20	
Corporate	(81)	(68)	(142)	(115)	
Operating Earnings	323	344	377	553	
Unusual Items	(8)	9	(25)	0	
Reported Earnings	315	353	352	553	
Operating EPS	\$1.70	\$1.70	\$1.61	\$2.01	
Reported EPS	\$1.66	\$1.74	\$1.50	\$2.01	
Shares Outstanding	190	203	234	275	
EBITDA	1,299	1,439	1,587	2,260	
Cash Flow	2012	2013	2014E	2015E	Major Sources, Uses Of Cash
Earnings (incl. pref share dividends)	371	420	407	608	
Depreciation and Amortization	470	542	644	880	
Total Operating Cash Flow	976	906	1,051	1,488	
Capital Expenditures	1,130	1,165	1,430	1,793	
Dividends	225	248	416	435	
Net Long Term Debt Proceeds	36	480	3,298	848	
Balance Sheet	2012	2013	2014E	2015E	
Cash & Cash Equivalents	154	72	305	563	
Utility Capital Assets / Income Properties	10,249	12,267	17,196	18,059	
Total Assets	14,950	17,908	23,020	24,090	
Current Liabilities	1,308	2,084	2,084	2,084	
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	11,086	11,934	
Future Income Taxes	17	(2)	0	0	
Non Controlling Interests	310	375	364	353	
Preferred Shares	1,108	1,229	1,229	1,229	
Shareholders' Equity	5,100	6,001	7,826	8,059	
Total Shareholders' Equity And Liabilities	14,950	17,908	23,020	24,090	

Source: Company reports and CIBC World Markets Inc.

---

## Benign Q2

Fortis (FTS-SO) reported Q2/14 EPS of \$0.22, slightly below our estimate of \$0.24. Earnings were down Y/Y versus \$0.32, reflecting the impact of financing costs of the pending UNS Energy (UNS-NYSE) acquisition (\$0.06 EPS) and the dilution from the conversion of \$601 million in subscription receipts related to the CH Energy acquisition, completed on June 27, 2013.

Although there were minor variances versus our expectations across Fortis' various operations, Q2 results were roughly in line with our estimates. Furthermore, there were few outstanding regulatory issues in the quarter. Overall, we see Q2 as a relatively benign quarter.

---

## UNS Acquisition Getting Close

This week Fortis announced that the UNS acquisition had received a positive recommended opinion and order from the administrative law judge of the Arizona Corporation Commission (ACC), the state utilities regulator. The recommended opinion is that the acquisition is in the public interest, and recommends approval by the ACC. The ACC has convened a meeting for August 12-13 to review this recommendation and make a ruling. If approved, this is the final required step in the process, and Fortis expects it could close the acquisition by the end of August, ahead of our prior end-of-year expectation.

Recall that the purchase price for UNS is US\$4.3 billion, including assumed debt of US\$1.8 billion, which Fortis partially financed through the issuance of \$1.8 billion subscription receipts on January 9, 2014. The subscription receipts convert to common shares on closing of the transaction, although Fortis must pay interest on the subscription receipts for a full year from the date of issuance.

We estimate total UNS rate base at ~\$3 billion on closing, versus Fortis' mid-year 2014 rate base of \$10.7 billion. UNS has a forecast rate base CAGR of ~7% through 2018.

---

## Earnings Set To Accelerate

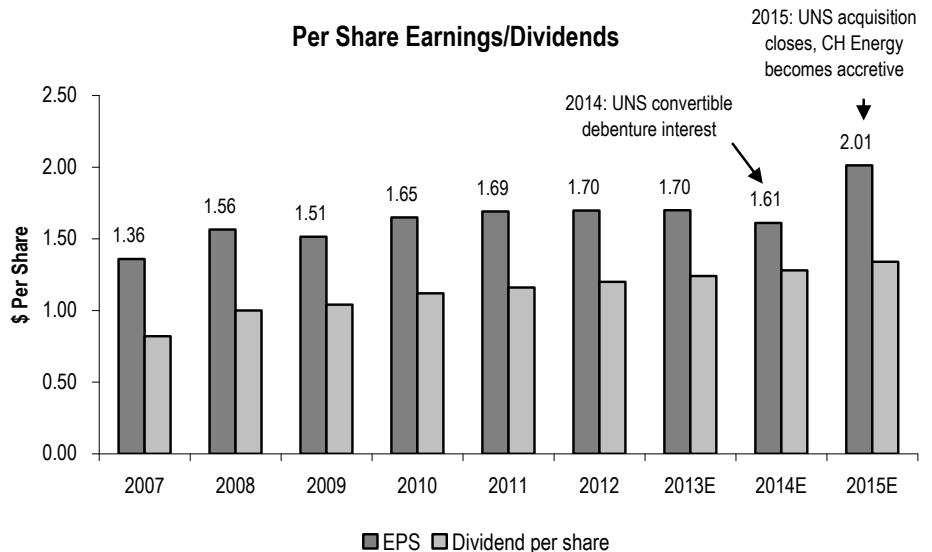
Fortis has seen EPS growth stall in recent years, despite ongoing high rates of capital expenditures, given lower allowed ROEs in a declining interest rate environment. Indeed, 2013 EPS of \$1.70 was virtually unchanged versus 2010 EPS of \$1.65.

In 2014, EPS are expected to decline to \$1.61 given: (1) \$1.8 billion in subscription receipts issued in advance of the UNS Energy acquisition which bear an interest rate of 4% (but without a commensurate earnings contribution from UNS until closing, expected by the end of August); (2) the impact of a rate freeze at Central Hudson, imposed by the state regulator, from date of acquisition (June 27, 2013) through June 30, 2015, despite a commitment to invest US\$215 million in capex over this period; (3) ongoing construction of the Waneta Expansion hydro project in BC, with \$633 million invested to date (Fortis a 51% owner), but no returns until the project enters operation, expected in spring 2015.

However, we expect earnings to rebound in 2015 to \$2.01 on resolution of these items, as: (1) the UNS Energy is completed and begins to contribute to earnings (end of August 2014), (2) the related subscription receipts convert to common shares, eliminating \$72 million of interest payments; (3) the Waneta Expansion

enters operation; (4) the rate freeze ends at Central Hudson; and, (5) work commences on a \$400 million LNG facility in BC.

### Exhibit 1. Fortis Earnings/Dividends



Source: Company reports and CIBC World Markets Inc.

## Upgrading To Sector Outperformer

We believe Fortis is representing more compelling value given: (1) the expected imminent closing (and de-risking) of the UNS acquisition; (2) the expected earnings growth over the coming year, as outlined above; and, (3) an in-line or even discounted valuation versus its peers [i.e., Fortis trading at an estimated 9.6x 2015 EV/EBITDA versus Canadian Utilities (CU-SO) at 9.6x and Emera (EMA-SP) at 11.7x], despite comparable or better growth. As such, we are upgrading Fortis, effective August 1, to a Sector Outperformer rating/\$37 price target versus prior Sector Performer rating/\$35 price target, representing a 12-month total shareholder return of 16%.

## Q2/14 Results

Fortis reported Q2/14 adjusted EPS of \$0.22, below our estimate of \$0.24, and down Y/Y versus \$0.32 in Q2/13. Regulated utility earnings were modestly above expectations reflecting higher-than-expected earnings at Central Hudson (acquired in June 2013) and Caribbean utilities (increased volumes and a stronger US\$), partially offset by lower-than-expected earnings at FortisAlberta (timing of operating expenses). Non-regulated earnings were in line with higher Fortis Generation earnings (increased hydro volumes in Belize) offset by lower non-utility earnings (lower earnings in the hospitality division of Fortis' real estate operations). Corporate costs were higher than expected due to higher operating and finance expenses, and increased significantly Y/Y due to interest on the convertible debentures issued to finance the UNS acquisition.

**Exhibit 2. Q2/14 Results (\$ mlns., except per share)**

Segmented Earnings	Q2/14A	Q2/14E	Q2/13A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	12	12		6 Higher Y/Y earnings related to the timing of recognizing the impact of GCOO proceedings
FortisAlberta	26	29		25 Rate base growth offset by timing of operating expenses
FortisBC Electric	7	8	8	
Newfoundland Power	11	10	11	
Other Canadian Electric Utilities	5	5	5	
Central Hudson	7	3	0	Acquired in June 2013
Regulated Electric Utilities – Caribbean	8	6	6	Electricity sales growth and stronger US\$.
Total Regulated Utilities	76	73	61	
<b>Non-regulated Operations</b>				
Fortis Generation	6	3	3	Increased production due to higher rainfall in Belize
Non-Utility	7	10	9	Lower performance in the hospitality division
Total Non-regulated Operations	13	13	12	
Corporate	(41)	(34)	(12)	Higher Y/Y due to interest on convertible debentures to finance UNS acquisition
<b>Operating Earnings For Common</b>	<b>48</b>	<b>52</b>	<b>61</b>	
Unusual Items	(1)	(8)	(7)	
Reported Earnings	47	45	54	
Weighted Average Shares Outstanding (mlns.)	215	214	193	\$600 million equity issue in June 2013
<b>Operating EPS</b>	<b>0.22</b>	<b>0.24</b>	<b>0.32</b>	
Reported EPS	0.22	0.21	0.28	
Dividend Per Share	0.32	0.32	0.31	
Payout Ratio	143.2%	130.9%	98.3%	

Source: CIBC World Markets Inc.

**Revising 2014 Estimate To Account For Accelerated Acquisition Closing**

We have revised our forecast to reflect the expectation of the UNS Energy acquisition closing at the end of August, versus the end of 2014 expectation previously. We have made a couple of assumptions related to the closing:

- the \$1.8 billion in convertible debentures associated with the acquisition will be converted to 58.6 million common shares upon closing of the acquisition.
- the remaining interest expense related to the convertible debentures (\$38 million) will be paid in its entirety in Q3/14.

As a result of these changes our 2014 EPS estimate increases from \$1.55 to \$1.61. Our 2015 EPS estimate remains unchanged at \$2.01.

**Exhibit 3. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2014E		2015E		
	2013A	Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	127	136	136	143	143
FortisAlberta	94	111	111	118	118
FortisBC Electric	50	52	52	56	56
New foundland Power	36	38	38	40	40
Other Canadian Electric Utilities	22	24	24	24	24
Central Hudson	23	43	43	51	51
UNS Energy	0	0	52	155	155
Regulated Electric Utilities – Caribbean	23	23	23	23	23
Total Regulated Utilities	375	427	479	609	609
<b>Non-regulated Operations</b>					
Fortis Generation	19	20	23	36	38
Non-Utility	18	20	18	20	20
Total Non-regulated Operations	37	40	41	56	58
Corporate	(68)	(135)	(142)	(115)	(115)
<b>Operating Earnings For Common</b>	<b>344</b>	<b>332</b>	<b>377</b>	<b>550</b>	<b>553</b>
Unusual Items	9	(30)	(25)	0	0
Reported Earnings	353	302	352	550	553
Weighted Average Shares Outstanding (mlns.)	203	214	234	274	275
<b>Operating EPS</b>	<b>1.70</b>	<b>1.55</b>	<b>1.61</b>	<b>2.01</b>	<b>2.01</b>
Reported EPS	1.74	1.41	1.50	2.01	2.01
Div idend Per Share	1.24	1.28	1.28	1.34	1.34
Pay out Ratio	73.0%	82.5%	79.5%	66.8%	66.6%

Source: CIBC World Markets Inc.

**Price Target Calculation**

Our \$37 price target (up from \$35 previously) is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$12 billion capital spending program (including acquisitions) through 2018. Our price target equates to a 2015 EV/EBITDA multiple of 10.1x, conservatively at the lower end of comparable companies Canadian Utilities (9.6x) and Emera (11.7x).

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.
- **Acquisition Risks:** Along with announcing the agreement to acquire UNS Energy, Fortis recently acquired CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Prior	\$0.65A	\$0.24E	\$0.18E	\$0.49E	\$1.55E
2014 Current	\$0.65A	\$0.22A	\$0.17E	\$0.57E	\$1.61E
2015 Current	--	--	--	--	\$2.01E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- 2a Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## **Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 08/04/2014:**

Canadian Utilities Ltd. (2g, 13) (CU-TSX, \$38.93, Sector Outperformer)

Emera Inc. (2a, 2c, 2e, 2g, 7) (EMA-TSX, \$33.52, Sector Performer)

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$57.49, Sector Performer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 08/04/2014:**

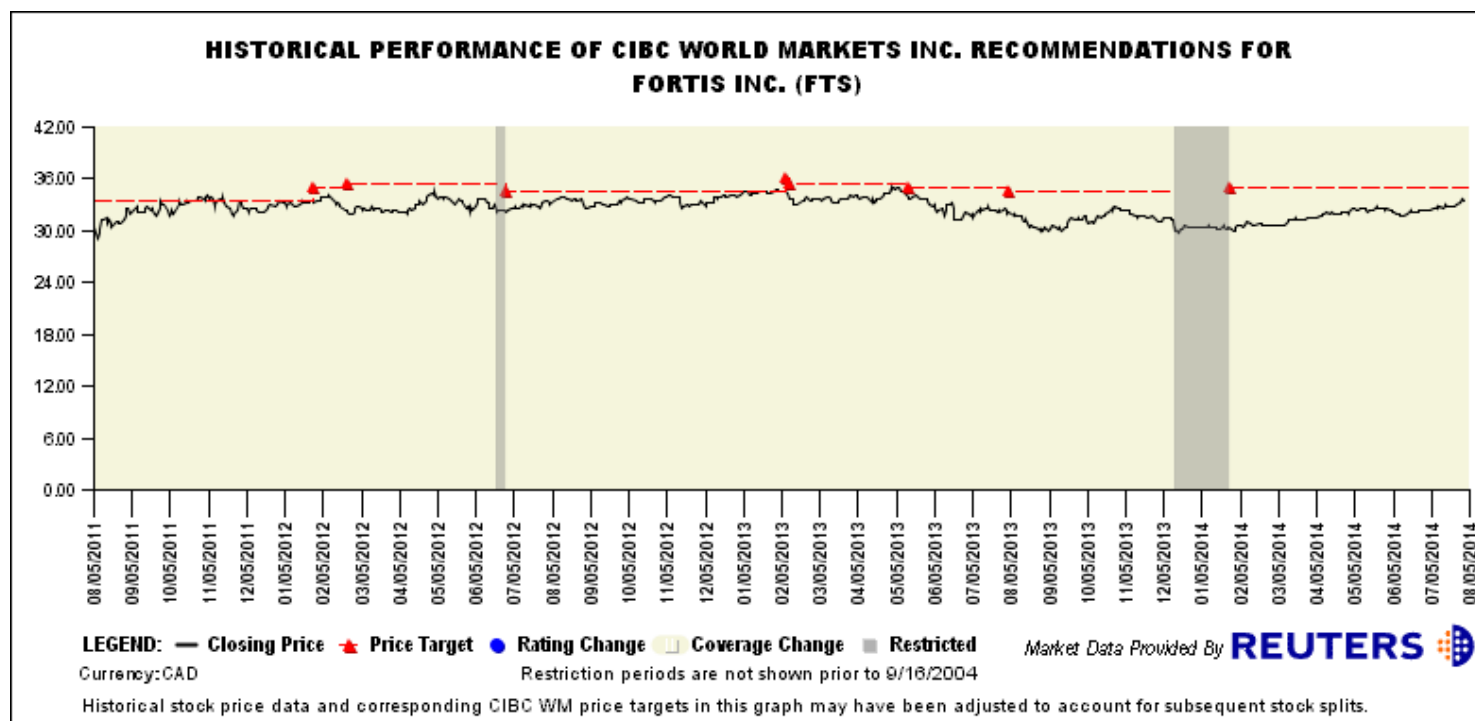
UNS Energy Corp. (UNS-NYSE, US\$60.49, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. ( FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 04 Aug 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	149	39.7%	Sector Outperformer (Buy)	143	96.0%
Sector Performer (Hold/Neutral)	182	48.5%	Sector Performer (Hold/Neutral)	170	93.4%
Sector Underperformer (Sell)	38	10.1%	Sector Underperformer (Sell)	31	81.6%
Restricted	5	1.3%	Restricted	5	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 04 Aug 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	36.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	6	54.5%	Sector Performer (Hold/Neutral)	6	100.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, including our system for rating investment opportunities and our dissemination policy, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com> under 'Quick Links' or by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request.

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.




**COMPANY UPDATE**

# Fortis Inc.

## Inaugural Investor Day - Solid Growth Outlook With Upside Potential

### What's The Event

Fortis held its inaugural investor day in Toronto on October 1. The event allowed the company to discuss the recent acquisitions of Central Hudson and UNS Energy, present the new management team, and discuss the growth outlook and upside opportunities available to the company.

### Implications

Fortis remains a highly stable business, with 93% of assets from its regulated utilities. Its current 5-year (2014-2018) \$9.3 billion capex program suggests a rate base CAGR of 7% over the same timeframe. We expect even faster EPS growth in 2015 (25%) given the resolution of a number of headwinds (full-year contribution from UNS, end of rate freeze at Central Hudson, entry into service of the Waneta Expansion), normalizing over time resulting in a 12% EPS CAGR over the 2014-2018 forecast horizon. The company identified a number of areas of upside to this growth outlook, the most likely appearing to be related to LNG facilities in BC.

Overall, we see no material change to our current outlook, financial forecast, price target (\$37) or rating (Sector Outperformer), although note that upside may exist if these prospective projects come to fruition.

October 1, 2014

**Pipelines, Utilities, & Power**

**SECTOR OUTPERFORMER**

**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

### Key Ratios and Statistics

12-18 mo. Price Target	\$37.00
FTS-TSX (10/1/14)	\$34.57

Key Indices: Toronto, TSXU tils

52-week Range \$29.51-\$34.81

Shares Outstanding 274.0M

Float 274.0M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$7,442.9M

Dividend/Div Yield \$1.28 / 3.7%

Fiscal Year Ends December

Book Value \$22.73 per Shr

2014 ROE (E) 6.9%

LT Debt \$8.3B

Common Equity \$4.9B

Convertible Available Yes

EPS	2012	2013	2014	2015
Current	\$1.70A	\$1.70A	\$1.61E	\$2.01E

### Valuation (Dec. 31)

P/E-Curr	20.3x	20.3x	21.5x	17.2x
----------	-------	-------	-------	-------

### Dividend Per Share

2013	\$1.24A
2014	\$1.28E
2015	\$1.34E

### Yield

2013	3.6%
2014	3.7%
2015	3.9%

### Company Description

Fortis owns a natural gas and electric utilities in six Canadian provinces, two US states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

14-131997 © 2014

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

**Fortis Inc.**

FTS - TSX 10/1/14

\$34.57

12- To 18- Month Price Target:

\$37.00

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

**Sector Outperformer**Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

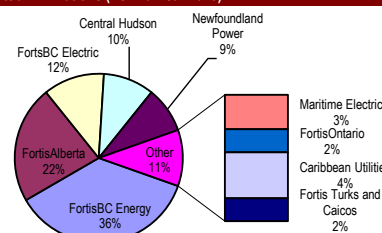
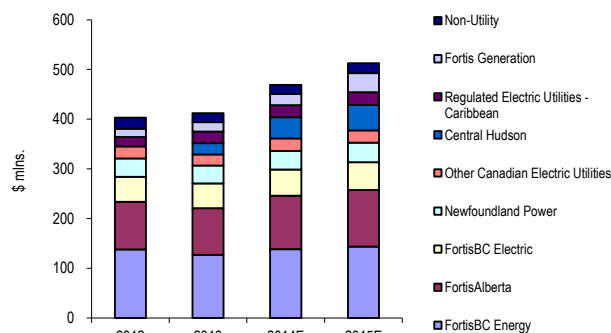
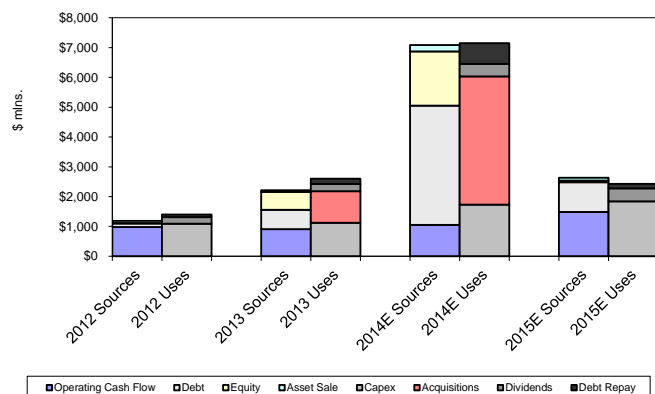
Market Data				
Share Price	\$34.57	Net Debt	7,666	
Shares Outstanding	274	Non Control Int.	395	
Market Capitalization	9,470	Preferred Shares	1,229	
		Enterprise Value	18,760	
Valuations				
P/E	20.4x	20.4x	21.4x	17.2x
EV/EBITDA	14.4x	13.0x	12.0x	10.0x
Pipeline And Utilities Sector Average				
P/E	29.1x	31.2x	27.2x	25.1x
EV/EBITDA	15.2x	14.5x	12.5x	11.5x
Other Data				
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.34
Dividend Yield	3.5%	3.6%	3.7%	3.9%
Payout Ratio	70.7%	73.0%	79.3%	66.5%
Book Value Per Share	\$20.84	\$22.38	\$24.09	\$24.82
Price / Book Value	1.7x	1.5x	1.4x	1.4x
Cash Per Share	\$0.81	\$0.36	\$2.57	\$2.96
Debt / Total Capital	54.5%	55.0%	55.8%	57.0%
Net Debt/EBITDA	4.9x	5.4x	6.6x	4.9x
Income Statement				
FortisBC Energy	138	127	139	144
FortisAlberta	96	94	107	113
FortisBC Electric	50	50	52	56
Newfoundland Power	37	36	38	40
Other Canadian Electric Utilities	24	22	25	25
Central Hudson	0	23	43	51
UNS Energy	0	0	52	155
Regulated Electric Utilities - Caribbean	19	23	24	26
Fortis Generation	17	19	23	38
Non-Utility	22	18	18	20
Corporate	(81)	(68)	(142)	(115)
<b>Operating Earnings</b>	<b>323</b>	<b>344</b>	<b>378</b>	<b>553</b>
Unusual Items	(8)	9	(25)	0
Reported Earnings	315	353	353	553
<b>Operating EPS</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.61</b>	<b>\$2.01</b>
Reported EPS	\$1.66	\$1.74	\$1.51	\$2.01
Shares Outstanding	190	203	234	275
EBITDA	1,299	1,439	1,587	2,253
Cash Flow				
Earnings (incl. pref share dividends)	371	420	408	608
Depreciation and Amortization	470	542	644	878
Total Operating Cash Flow	976	906	1,052	1,486
Capital Expenditures	1,130	1,165	1,733	1,840
Dividends	225	248	416	435
Net Long Term Debt Proceeds	36	480	3,298	848
Balance Sheet				
Cash & Cash Equivalents	154	72	602	812
Utility Capital Assets / Income Properties	10,249	12,267	17,499	18,411
Total Assets	14,950	17,908	23,621	24,692
Current Liabilities	1,308	2,084	2,084	2,084
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	11,086	11,934
Future Income Taxes	17	(2)	0	0
Non Controlling Interests	310	375	364	353
Preferred Shares	1,108	1,229	1,829	1,829
Shareholders' Equity	5,100	6,001	8,427	8,661
Total Shareholders' Equity And Liabilities	14,950	17,908	23,621	24,692

**Company Profile**

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.

**Investment Thesis**

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).

**Assets - Excl Corporate / Eliminations (As Mid-Year 2013)****Segmented Earnings (Exc. Corporate)****Major Sources, Uses Of Cash**

Source: Company reports and CIBC World Markets Inc.

## Inaugural Investor Day – Solid Growth Outlook With Upside Potential

Fortis (FTS-SO) held its inaugural investor day in Toronto on October 1. The company clearly has more to discuss than might have been the case in previous years, including:

- two major acquisitions completed in as many years, CH Energy (Central Hudson) and UNS Energy;
- significant management changes, including the appointment of Barry Perry as President and CEO, Karl Smith as his replacement as Executive VP and CFO, and the appointment of former CH and UNS executives to head their acquired operations;
- a recently announced strategic review of its properties business, which we believe could be valued at ~\$850 million;
- and a number of major projects, which could provide upside to the outlook.

Despite all these factors, Fortis remains a very stable distribution business with 93% of its assets from regulated businesses. The company's 5-year \$9.3 billion capital expenditure plan (2014-2018) is expected to drive a rate base CAGR of 7% over this period. We forecast an EPS CAGR over this timeframe of 12%, with a significant increase in 2015 (25%) as recent headwinds are resolved (e.g., upcoming end of rate freeze at Central Hudson, completion of the UNS acquisition, entry into service of Waneta Expansion). We expect dividend per share growth to track similarly, with a 5-year CAGR of 9%.

Furthermore, the company noted a number of areas of potential upside to the base case outlook, including LNG liquefaction projects in BC, gas and electric transmission projects in Central Hudson, and possible opportunities at UNS related to meeting carbon reduction requirements under the EPA's proposed clean power plan. None of these are in our forecast, but could provide upside as early as 2015.

Overall, we see little change to our outlook: a stable regulated utility with underlying mid- to high-single digit rate base growth, but with stronger earnings growth into 2015 given resolution of recent headwinds, and potential upside over the coming years if certain major projects come to fruition. We maintain our Sector Outperformer rating and \$37 price target.

We discuss the major areas of potential upside to our outlook below:

### FortisBC Gas

FortisBC Gas is the largest gas distribution utility in BC, with 961,000 customers and a mid-year 2014 rate base of \$3.7 billion. We estimate the utility has forecast capex of ~\$350 million/year largely related to system upgrades.

However, there is an area of potentially significant upside to this outlook related to LNG liquefaction terminals, with one project already approved by the regulator and under construction and a further two under evaluation/development. If approved, these latter two projects would add a further \$1.1 billion to capex, primarily in 2015/2016. We detail these opportunities below:

## **Tilbury LNG – Phase 1A Under Construction**

FortisBC Gas owns a micro LNG liquefaction facility (5000 GJ/day = ~4 mmcf/d) and storage tank (600,000 GJ = ~500 mmcf) on the Fraser River in Delta, BC, just south of Vancouver. The facility was built in 1971 and is used by FortisBC itself to serve peak winter loads.

There is also a movement in BC to support development of natural gas usage in the transportation sector – for industrial/mining users and remote communities. To this end, Fortis has received approvals (expedited by the BC government which allowed it to circumvent certain regulatory requirements) to expand the Tilbury facility through the construction of a second tank (1,000,000 GJ = ~850 mmcf) with liquefaction capacity of 36,000 GJ/day (~30 mmcf/d). Construction has already started, with an expected in service date of Q4/2016. This expansion ("Phase 1A") is expected to cost \$400 million, and will be included in FortisBC rate base. We have included this project in our forecast.

### **Exhibit 1. Existing Tilbury LNG Facility**



Source: Company reports

## **Tilbury – Future Expansions Under Consideration**

FortisBC is also evaluating further expansions of the Tilbury facility. The site is fully zoned for LNG and can support at a full build-out an estimated 3 million metric tonnes per annum (=450,000 GJ/day = ~385 mmcf/d) of LNG liquefaction capability. The site has gas supply through the Spectra Energy (SE-SP) BC gas transmission system (which connects to the FortisBC Lower Mainland pipeline network), and is located on the Fraser River with readily accessible ocean access.

The next stage of expansion beyond phase 1A noted above is targeted at LNG export opportunities, with a conditional contract with Hawaiian Electric. If a firm contract can be reached (targeting mid-2015), FortisBC would expect construction to commence shortly thereafter with a targeted in service date of late 2017.

The company estimates this expansion project to cost ~\$450 million. Interestingly, although the facility would be targeting international customers, Fortis expects to be able to include the capex in FortisBC Gas rate base. The rationale here is that: (1) fees from liquefaction would cover the increased

revenue requirement; and, (2) the facility will have ancillary benefits to existing FortisBC customers by increasing throughput on underutilized components of the distribution network, potentially reducing the revenue requirement on FortisBC rate payers.

### Exhibit 2. Potential Tilbury Expansions



Source: Company reports

### Woodfibre LNG

Woodfibre LNG (owned by Singapore-based RGE Pte. Ltd.) is a proposed small scale LNG liquefaction facility located on the BC coast ~7 km southwest of Squamish. A pulp mill operated on the site until it was shut down in 2006 [operator Western Forest Products is responsible for clean-up of the site and obtaining a Certificate of Compliance from the BC Ministry of Environment]. The site is zoned for industrial use, has an existing deep water port and electricity interconnection to BC Hydro transmission.

The proposed project was granted an NEB export license in December 2013 for ~2.1 MPTA (~270 mmcf/d) of LNG. The project recently signed a preliminary offtake agreement with Chinese gas distributor Guangzhou Gas Group for 1 MPTA of LNG/year starting in 2017. The project still requires both certain regulatory / government approvals and a final investment decision.

While the site has connection to existing FortisBC Gas pipeline infrastructure, the project would require a major expansion of compression and pipeline capacity, estimated to cost ~\$600 million. Engineering and permitting work is underway. If approved, we would expect work to commence in 2015.

### UNS

Fortis completed the acquisition of UNS Energy on August 15. UNS Energy is an Arizona distribution utility serving ~500,000 electric and 150,000 gas customers, and had a 2014 mid-year rate base of US\$3 billion.

UNS currently has a 5-year capex plan of US\$2.0 billion, somewhat front-end loaded in 2014/15 related to the purchase of generating capacity at the Springerville 1 (coal) and Gila River 3 (natural gas) facilities. This capex drives 4.7% rate base CAGR from 2014-2018.

However we see various factors which could drive earnings upside to this growth outlook:

- **Equity thickness:** UNS' largest subsidiary, Tucson Electric Power (TEP), has an approved equity thickness of 41% in 2014; the company is anticipating regulatory approval to increase equity thickness by 2018 to 49%.
- **New mining customer:** HudBay Minerals (HBM-SP), through its acquisition of Augusta Resource Corp., is the developer of the Rosemont copper project in Arizona. The project has received seven of eight required major permits, with mine construction potentially starting late 2014. The mine would have a potential load of 85 MW once in service in 2017, which would make it the utility's largest single customer.
- **Proposed EPA clean power plan:** The US Environmental Protection Agency (EPA) has proposed a nationwide plan to reduce CO<sub>2</sub> emissions from existing power plants by 30% by 2030 versus 2005 baseline levels. There are state-by-state goals to achieve this target, with Arizona facing a proposed 52% required emissions reduction – the second highest target among all the states. The proposal would see the majority of the cuts in place by 2020. While UNS does not believe this is a viable target to achieve given the relatively short timelines and the major disruption it would cause, nevertheless, the move away from higher polluting coal generation presents opportunities over time. TEP currently generates 80% of its capacity from coal, and targets a reduction to 57% by 2020. More aggressive EPA-imposed targets could require further investment in natural gas or renewables generation, and/or transmission.

Given the uncertainty over some of these issues (especially the EPA emissions targets) we are basing our forecast off the company's base case capex model, although upside could exist to the extent that the company must meet further load (from the Rosemont copper project) or emissions (from the EPA targets) requirements.

## Central Hudson

Central Hudson is a distribution utility in the Central Hudson Valley in southeastern New York State serving 78,000 gas and 300,000 electric customers, and with a mid-year 2014 rate base of US\$1.0 billion. Fortis completed its acquisition of CH Energy (parent company of Central Hudson) in June 2013.

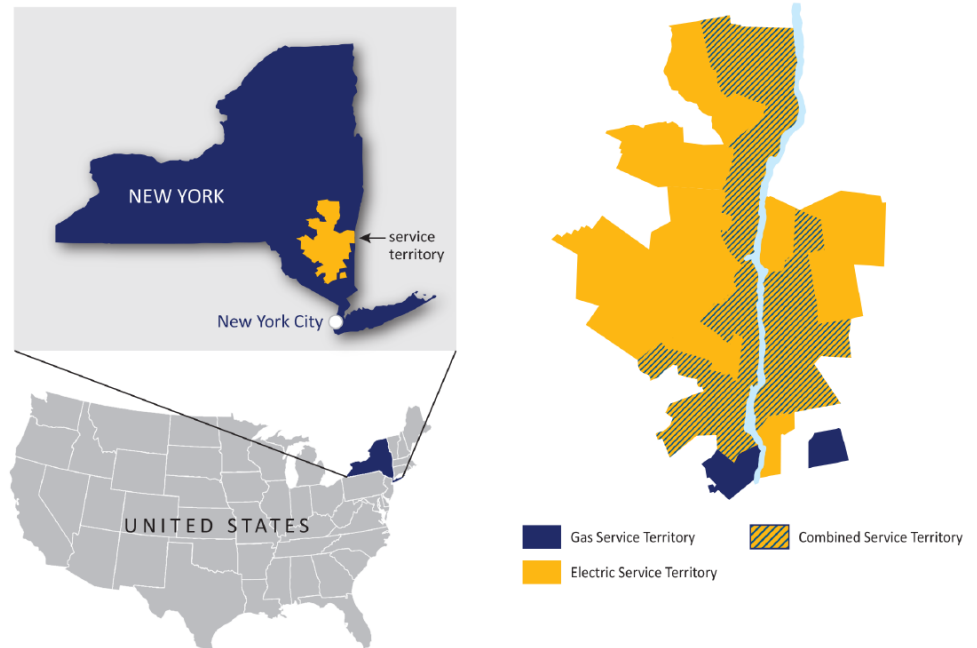
Central Hudson has a 5-year (2014-2018) capex plan totaling US\$0.7 billion, driving a rate base CAGR of 7%. Upside to this forecast could come from transmission opportunities, both gas and electric:

- **New York Transco** (NY Transco), a company formed by New York utilities including Central Hudson, Con Edison (ED-NYSE), and subsidiaries of Iberdrola (IBE-MC) and National Grid (NG-L), is pursuing a number of new electric transmission projects to solve transmission constraints in the state. The New York Energy Highway Task Force issued a request for information (RFI) in April 2012 stating a need to "modernize the transmission system and eliminate the bottlenecks", and inviting parties to submit projects to solve these issues. NY Transco currently has four proposed transmission projects. Central Hudson has a 6% ownership stake in NY Transco, with the projects currently representing a US\$50 million (net) investment to Central Hudson.
- **Gas transmission:** Central Hudson is at an early stage of evaluating the potential to build a gas pipeline from the Marcellus gas basin in Pennsylvania



into southern New York state. The utility is advantageously positioned for this project. However, this is a longer-term, more prospective project which has been tentatively scoped at \$250-\$500 million with a potential in service date of late 2018.

### Exhibit 3. Central Hudson service territory



Source: Company reports

## Strategic Process Underway For Fortis Properties

Fortis announced on September 29 that it will “engage in a review of strategic options” for its property business which owns 23 hotels and 2.8 million square feet of commercial and retail real estate in Canada. In 2013 the segment generated revenues of ~\$250 million and EBITDA of ~\$80 million.

The business is non-regulated, and was operated as a means to generate taxable income against which Fortis’ corporate costs (which could not be allocated to individual regulated utilities) could be offset. We believe this same benefit can now be achieved through the company’s non-regulated generation business, especially with the 2015 start-up of the non-regulated Waneta Expansion hydro facility (which will generate estimated annual EBITDA of \$65 million).

The strategic review process is evaluating all potential options, including sale and/or IPO of the business. According to recent cap rate surveys, current cap rates for retail and office properties in eastern Canada range from ~6%-8%, and for hotel properties from ~8%-10%. Using a blended cap rate in the 8% range implies a valuation of ~\$850 million for the properties – we provide a sensitivity analysis below:



**Exhibit 4. Implied Valuation of Properties Business (\$mlns.)**

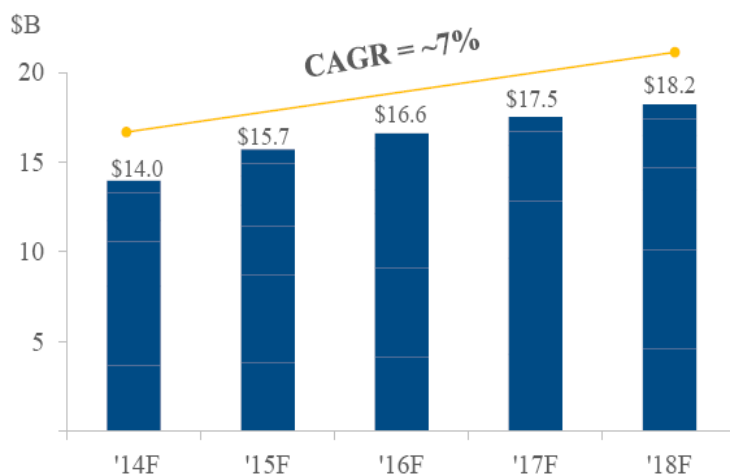
EBITDA	80				
Taxes	12				
Net operating income	68				
Cap rate	7.0%	7.5%	8.0%	8.5%	9.0%
<b>Implied value</b>	<b>971</b>	<b>907</b>	<b>850</b>	<b>800</b>	<b>756</b>

Source: CIBC World Markets Inc.

The company noted that the use of proceeds could be used (at least in part) to finance the balance of funding for the UNS acquisition (US\$500 million outstanding, post the company's \$600 million preferred share issuance in September).

**Solid Rate Base Growth Through 2018**

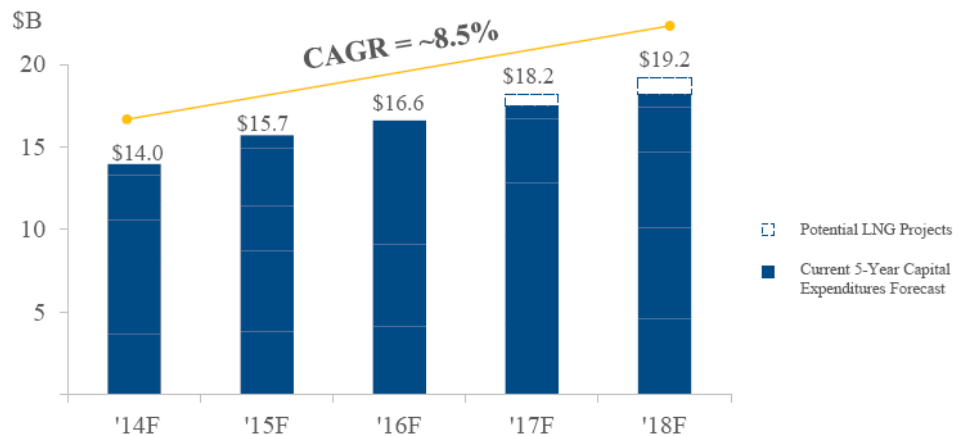
Fortis 2014-2018 capital plan calls for capital expenditures of \$9.3 billion in the five-year timeframe led by investments in western Canadian utilities (\$4.5 billion) and UNS Energy (US\$2.0 billion). These investments are expected to deliver a 7% CAGR in rate base through to 2018 (from \$14.0 billion to \$18.2 billion). We forecast an EPS CAGR of 12% from 2014-2018 as a result of these investments, as well as the resolution of certain headwinds in 2014-2015 (i.e. the end of the rate freeze at Central Hudson, financing charges associated with the convertible debentures related to the UNS acquisition).

**Exhibit 5. Fortis Estimated Rate Base Growth (\$blns.) – Base Case 7% CAGR**

Source: Company reports.

If Fortis is successful in securing the two LNG projects (Tilbury Expansion and Woodfibre Pipeline), that would drive the rate base CAGR to 8.5% through 2018 (2018 rate base of \$19.2 billion).

### Exhibit 6. Fortis Estimated Rate Base Growth, Including LNG Projects (\$blns.) – Upside Case 8.5% CAGR



Source: Company reports.

In terms of financing, the company still has to permanently finance US\$0.5 billion of the UNS acquisition. Fortis currently has \$2.5 billion in unused credit facilities, and we would anticipate that it will use part of the proceeds from the sale of Fortis Properties towards the permanent financing of UNS. Management indicated that it would require additional common equity to finance the LNG projects if they come to fruition. We estimate that the LNG projects will add \$0.02-\$0.07 to annual EPS when fully in service, depending upon how they are financed.

## Price Target Calculation

Our \$37 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' \$9.3 billion capital spending program (including acquisitions) through 2018. Our price target equates to a 2015 EV/EBITDA multiple of 10.3x, conservatively at the lower end of comparable companies Canadian Utilities (9.6x) and Emera (11.9x).

### Exhibit 7. Price Target Calculation Details

Metric	Value	Details
DCF	\$37	Cost of equity: 7%-10% (varies by segment) Cost of debt: 5.9%-6.8% (varies by segment) WACC: 6.2% Terminal growth: 0%
P/E	\$37	Implied from DCF - equates to 18.4x vs. group 25.0x (2015)
EV/EBITDA	\$37	Implied from DCF - equates to 10.3x vs. group 11.5x (2015)

Source: CIBC World Markets Inc.

## Key Risks To Price Target

- Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.22A	\$0.17E	\$0.57E	\$1.61E
2015 Current	--	--	--	--	\$2.01E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.
- 

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 10/01/2014:

HudBay Minerals Inc. (2a, 2c, 2e, 2g, 7) (HBM-TSX, \$9.40, Sector Performer)

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$52.11, Sector Performer)

Spectra Energy Corp (2g) (SE-NYSE, US\$38.98, Sector Performer)

Western Forest Products Inc. (2a, 2c, 2e, 2g) (WEF-TSX, \$2.20, Sector Outperformer)

## **Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:**

### **Stock Prices as of 10/01/2014:**

Consolidated Edison (ED-NYSE, US\$56.94, Not Rated)

Iberdrola (IBE-MC, €4.04, Not Rated)

National Grid PLC (NG-L, p8.87, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and  
9 commercial real estate business.



## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 01 Oct 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	154	41.1%	Sector Outperformer (Buy)	149	96.8%
Sector Performer (Hold/Neutral)	177	47.2%	Sector Performer (Hold/Neutral)	172	97.2%
Sector Underperformer (Sell)	35	9.3%	Sector Underperformer (Sell)	27	77.1%
Restricted	8	2.1%	Restricted	8	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

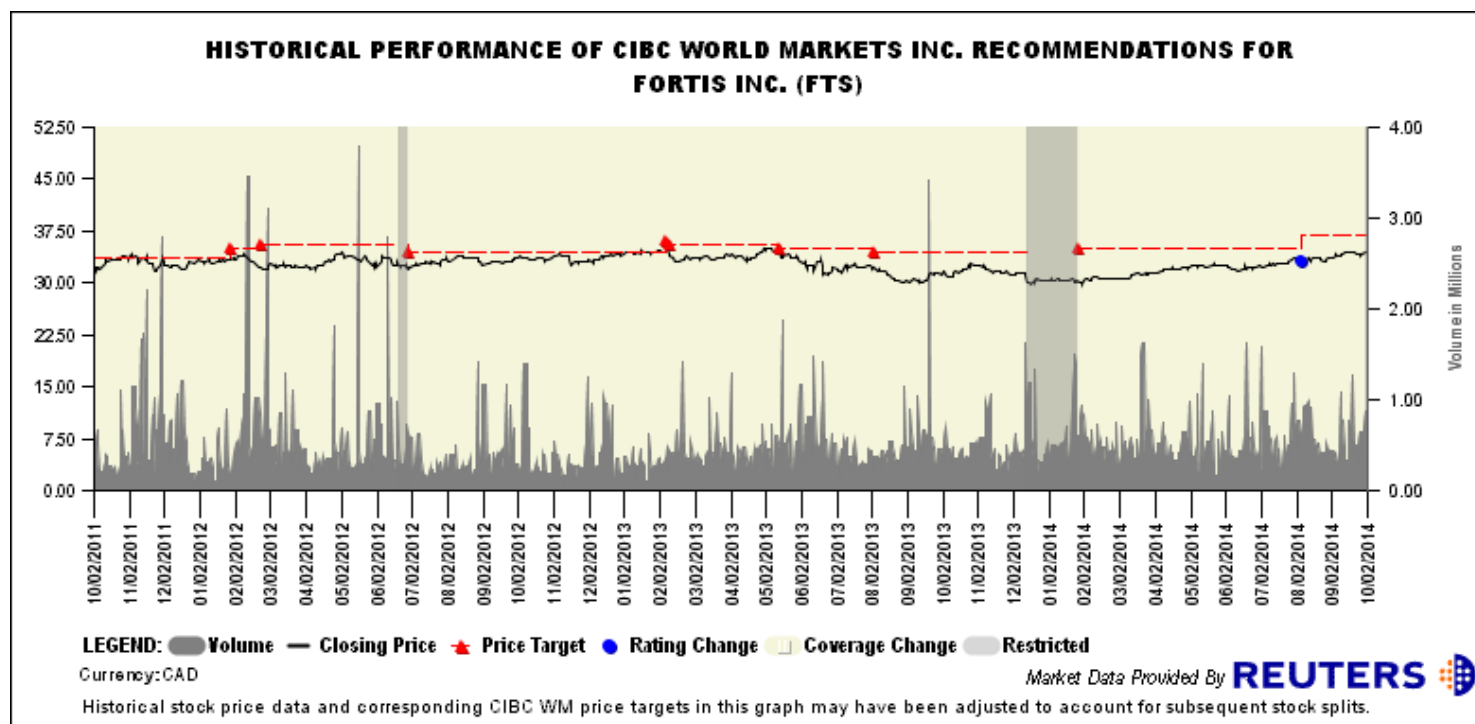
(as of 01 Oct 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	36.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	45.5%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	9.1%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	■	30.31	SP	35.00	Paul Lechem
08/04/2014	▲●	33.09	SO	37.00	Paul Lechem
09/29/2014	■	34.56	R	-	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are

## Legal Disclaimer (Continued)

subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.


**EARNINGS UPDATE**

# Fortis Inc.

## Q3 Slightly Low, Reflecting Seasonality, But Growth Accelerates From Here

### What's The Event

Fortis released Q3/14 EPS of \$0.06; included in this amount was \$0.16 from one-time acquisition-related costs and customer benefits related to UNS. Excluding these, the company reported \$0.22, which compares to our (and consensus) \$0.25 estimate. The quarter also included an \$0.11/share cost related to final interest payments on the convertible debentures issued to pay for UNS (which we had included in our estimate). Excluding this, EPS would have been \$0.33, up significantly versus \$0.23 Y/Y.

Operationally, the quarter included UNS' results from the date of acquisition on August 15. Q3 is UNS' seasonally strongest quarter (summer in Arizona!), and was above our expectations. Fortis' other utilities were generally light of our forecast, with some weaker Y/Y given cooler summer temperatures. In aggregate, the quarter was slightly below our forecast, but we expect the segments to true-up the results in Q4 to achieve their allowed ROEs.

### Implications

We foresee an acceleration of EPS growth over the coming years. 2015 should benefit from a full year's contribution from UNS, the end of a rate freeze at Central Hudson, and the entry into service of the Waneta Expansion. Furthermore, Fortis foresees \$9 billion of capex between 2014-2018, to drive 7% rate base CAGR, possibly higher if proposed LNG facilities or other potential projects were to occur.

A strategic review of the company's Properties business is ongoing, but management is confident of a successful conclusion to this process (likely a sale), with the proceeds to be used to repay the remaining \$500 million of the UNS purchase (currently financed through a bridge loan and line of credit).

### What's Changed

Overall, we see little change to Fortis' outlook. We remain positive on the stock given substantial earnings momentum into 2015 and beyond. We are increasing our dividend growth expectation in 2015 as a result, and maintain our Sector Outperformer rating and \$41 price target.

All figures in Canadian dollars, unless otherwise stated.

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

November 7, 2014  
**Pipelines, Utilities, & Power**  
**SECTOR OUTPERFORMER**  
**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

### Key Ratios and Statistics

12-18 mo. Price Target \$41.00  
FTS-TSX (11/7/14) \$37.61

Key Indices: Toronto, TSXU tils

52-week Range \$29.51-\$37.93

Shares Outstanding 275.0M

Float 275.0M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$10,342.8M

Dividend/Div Yield \$1.28 / 3.4%

Fiscal Year Ends December

Book Value \$24.36 per Shr

2014 ROE (E) 7.0%

LT Debt \$12.3B

Common Equity \$6.7B

Convertible Available Yes

EPS	2012	2013	2014	2015
Current	\$1.70A	\$1.70A	\$1.63E	\$2.00E
Prior			\$1.69E	\$2.01E

### Valuation (Dec. 31)

P/E-Curr	22.1x	22.1x	23.1x	18.8x
P/E-Prior			22.3x	18.7x

### Dividend Per Share

	Prior	Current
2013		\$1.24A
2014		\$1.28E
2015	\$1.34E	\$1.40E

### Yield

2013		3.3%
2014		3.4%
2015	3.6%	3.7%

### Company Description

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)



## Fortis Inc.

FTS - TSX 11/7/14

\$37.61

12- To 18- Month Price Target:

\$41.00

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

## Sector Outperformer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca

Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

All figures in Canadian millions, except per share data. Financial data for 2010-2011 are presented according to Canadian GAAP; 2012E-2013E figures are according to US GAAP.

Market Data				
Share Price	\$37.61	Net Debt	11,799	
Shares Outstanding	275	Non Control Int.	405	
Market Capitalization	10,329	Preferred Shares	1,820	
		Enterprise Value	24,353	
Valuations				
P/E	22.2x	2012	2013	2014E
		22.1x	23.1x	18.8x
EV/EBITDA	18.8x	16.9x	12.4x	10.5x
Pipeline And Utilities Sector Average				
P/E	28.7x	30.3x	26.9x	25.9x
EV/EBITDA	15.6x	14.5x	12.6x	11.4x
Other Data				
Dividend Per Share	\$1.20	\$1.24	\$1.28	\$1.40
Dividend Yield	3.2%	3.3%	3.4%	3.7%
Payout Ratio	70.7%	73.0%	78.7%	70.1%
Book Value Per Share	\$20.84	\$22.38	\$23.97	\$24.64
Price / Book Value	1.8x	1.7x	1.6x	1.5x
Cash Per Share	\$0.81	\$0.36	\$0.33	\$0.96
Debt / Total Capital	54.5%	55.0%	55.2%	56.5%
Net Debt/EBITDA	4.9x	5.4x	6.8x	5.1x
Income Statement				
	2012	2013	2014E	2015E
FortisBC Energy	138	127	137	144
FortisAlberta	96	94	105	113
FortisBC Electric	50	50	50	56
Newfoundland Power	37	36	38	40
Other Canadian Electric Utilities	24	22	25	25
Central Hudson	0	23	43	51
UNS Energy	0	0	54	155
Regulated Electric Utilities - Caribbean	19	23	25	26
Fortis Generation	17	19	20	35
Non-Utility	22	18	20	20
Corporate	(81)	(68)	(151)	(116)
<b>Operating Earnings</b>	<b>323</b>	<b>344</b>	<b>366</b>	<b>549</b>
Unusual Items	(8)	9	(31)	0
Reported Earnings	315	353	335	549
<b>Operating EPS</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.63</b>	<b>\$2.00</b>
Reported EPS	\$1.66	\$1.74	\$1.49	\$2.00
Shares Outstanding	190	203	225	275
EBITDA	1,299	1,439	1,579	2,250
Cash Flow				
	2012	2013	2014E	2015E
Earnings (incl. pref share dividends)	371	420	397	629
Depreciation and Amortization	470	542	644	878
Total Operating Cash Flow	976	906	1,041	1,507
Capital Expenditures	1,130	1,165	1,733	1,840
Dividends	225	248	424	477
Net Long Term Debt Proceeds	36	480	2,998	848
Balance Sheet				
	2012	2013	2014E	2015E
Cash & Cash Equivalents	154	72	75	264
Utility Capital Assets / Income Properties	10,249	12,267	17,699	18,611
Total Assets	14,950	17,908	23,293	24,344
Current Liabilities	1,308	2,084	2,084	2,084
Debt (incl. Current and Short Term Borrowings)	6,471	7,788	10,786	11,634
Future Income Taxes	17	(2)	0	0
Non Controlling Interests	310	375	364	353
Preferred Shares	1,108	1,229	1,816	1,816
Shareholders' Equity	5,100	6,001	8,399	8,613
Total Shareholders' Equity And Liabilities	14,950	17,908	23,293	24,344

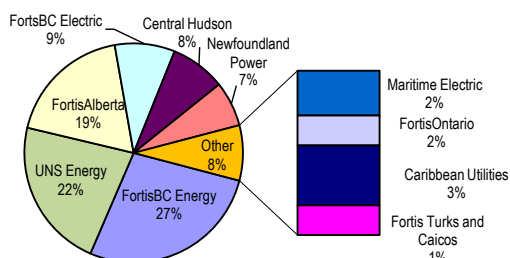
## Company Profile

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, a gas and electric utility in New York State, and non-regulated power generation and real estate assets.

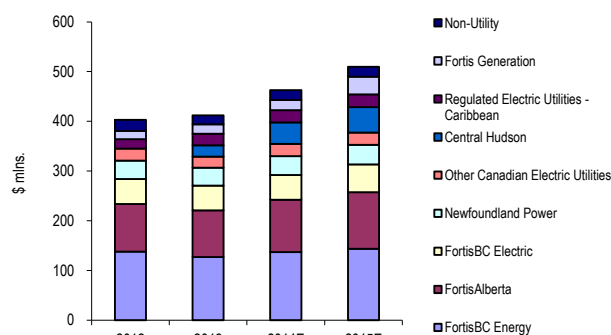
## Investment Thesis

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018, \$6.5 billion capital program. Fortis has an additional \$1.5 billion capex plan for UNS Energy for 2015-2018 once the US\$4.3 billion acquisition closes (expected in late 2014).

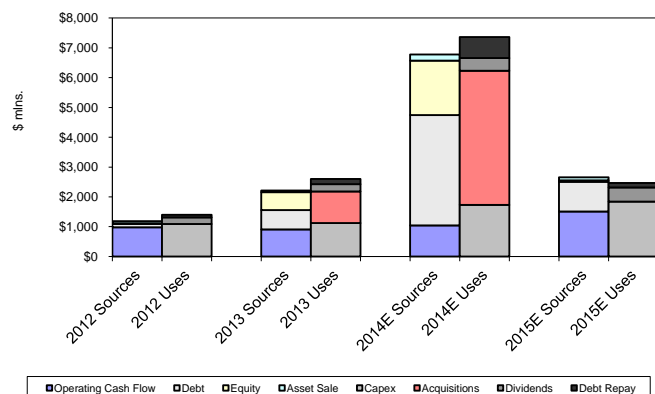
## Assets - Excl Corporate / Eliminations (Mid-Year 2014, Total \$14 Billion)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

## Q3 Results – Reflect Seasonality And UNS

Fortis (FTS-SO) reported Q3/14 EPS of \$0.06. However, included in this amount were a number of charges related to closing the UNS Energy acquisition, completed on August 15:

- Customer benefits of \$20 million after tax and various acquisition and closing costs of \$15 million. Excluding these one-time items arrives at adjusted EPS for Q3 of \$0.22. This compares to our operating EPS estimate of \$0.25. We exclude these amounts from our operating EPS estimate.
- Finance charges related to interest and the final make-whole payment on the \$1.8 billion of convertible debentures issued to finance the UNS acquisition, totaling \$23 million after tax (\$0.11 EPS). We include these amounts in our operating EPS estimate.

We note that consensus EPS were also \$0.25, but do not have insight into which of the above items were included in the individual estimates and, thus, treat the consensus with some degree of caution.

Operationally, we note that Q3 is a highly seasonal quarter, with the “northern” utilities – especially FortisBC Energy, FortisBC Electric and Central Hudson – seeing a seasonal slowdown versus the winter heating peak but UNS Energy (in Arizona) experiencing a seasonal peak due to air conditioning load. This quarter, we underestimated the seasonal strength at UNS, but this was partially offset by weaker-than-expected results at the northern utilities mentioned above due to cooler-than-average summer temperatures. We note that rate-regulated utilities may experience quarterly fluctuations in results, but generally true-up earnings on an annual basis in order to earn within their allowable ROE.



**Exhibit 1. Q3/14 Results (\$ mlns., except per share)**

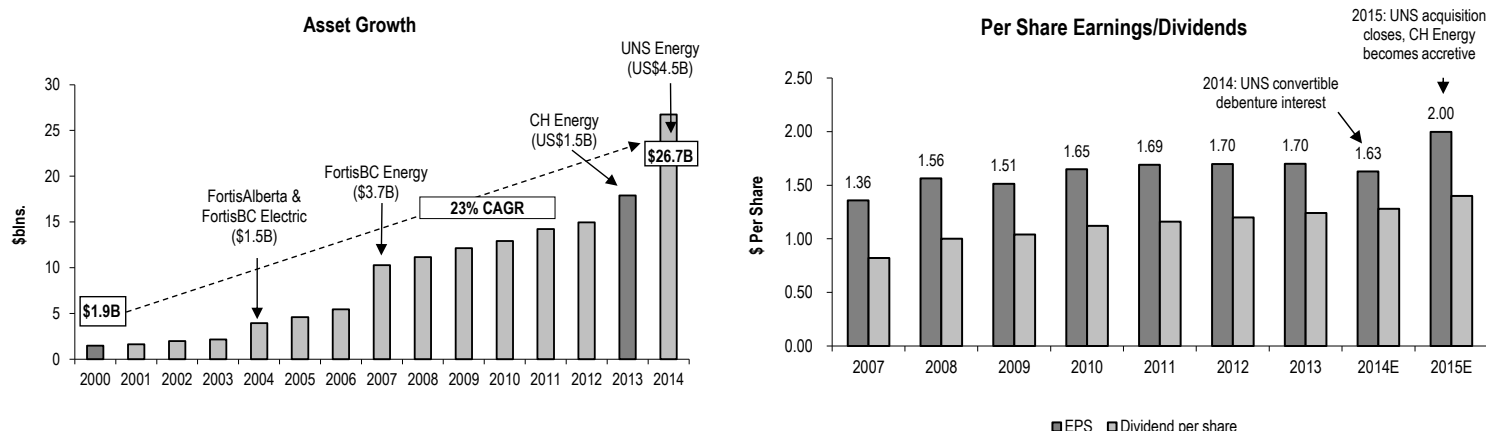
Segmented Earnings	Q3/14A	Q3/14E	Q3/13A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	(13)	(10)	(14)	Modestly below expectations in seasonally the weakest quarter
FortisAlberta	27	29	25	Y/Y growth due to restoration costs recognized in Q3/13
FortisBC Electric	9	12	11	Higher operating and finance expenses
Newfoundland Power	7	7	8	
Other Canadian Electric Utilities	6	7	7	
Central Hudson	8	11	12	Higher depreciation and operating expenses during the rate-freeze period
UNS Energy	37	13	0	Seasonally stronger than expected
Regulated Electric Utilities – Caribbean	8	6	6	Electricity sales growth and stronger US\$
Total Regulated Utilities	89	75	55	
<b>Non-regulated Operations</b>				
Fortis Generation	4	7	8	Decreased production due to lower rainfall in Belize
Non-Utility	9	7	6	
Total Non-regulated Operations	13	14	14	
Corporate	(53)	(35)	(21)	Higher finance costs related to UNS acquisition and higher retirement expenses
<b>Operating Earnings For Common</b>	<b>49</b>	<b>54</b>	<b>48</b>	
Unusual Items	(35)	(29)	0	One-time acquisition costs
Reported Earnings	14	25	48	
Weighted Average Shares Outstanding (mlns.)	216	215	212	
<b>Operating EPS</b>	<b>0.22</b>	<b>0.25</b>	<b>0.23</b>	
Reported EPS	0.06	0.11	0.23	
Dividend Per Share	0.32	0.32	0.31	
Payout Ratio	147.3%	128.8%	136.9%	

Source: CIBC World Markets Inc.

**Set For Acceleration In EPS Growth**

Despite significant asset growth (Exhibit 2, left) at Fortis over the past few years [i.e., more than doubling between 2008 (\$11.2 billion) and Q3/14 (\$26.7 billion)], earnings per share growth has not kept pace. Indeed, EPS are up a total of only ~4% over that same period (Exhibit 2, right), as allowed returns have declined along with falling interest rates.

## Exhibit 2. EPS Growth To Accelerate Following Significant Asset Growth



Source: Company reports and CIBC World Markets Inc.

At this juncture, we now foresee significant acceleration in EPS growth, especially in 2015 but also in the years beyond. The main elements of this include:

- A full-year contribution in 2015 from UNS. In 2014, UNS will contribute only from the date of acquisition (August 15), although Fortis was carrying significant financing costs through most of the year given the issuance of \$1.8 billion of convertible debentures on January 9.
- The expiry of a two-year rate freeze at Central Hudson, with the utility unable to earn a return on its required capex spend over this period of US\$215 million. The rate freeze expires in mid-2015. Central Hudson has filed a General Rate Application for new rates effective July 1, 2015 in order to recover returns on this spending.
- The entry into service of the Waneta Expansion, a \$900 million hydroelectric project, of which Fortis owns 51%. Total capex invested to date is \$648 million. As a non-regulated facility, Fortis will not earn on this investment until it enters service, expected in spring 2015 (April/May timeframe).
- Ongoing organic capex spend expected to total \$9 billion between 2014–2018, of which \$1.8 billion is expected in 2014. This capex should drive 7% rate base CAGR over this period.
- Fortis is also pursuing a number of major projects that would drive incremental growth to this. In particular, FortisBC Energy is pursuing two micro-LNG export facilities (Tilbury 1B and Woodfibre), which could add an incremental ~\$1 billion to the capex forecast and raise the four-year rate base CAGR to 8.5%.

## Little Change To Forecast

Overall, we see little change to the outlook. We have adjusted our model to reflect Q3 results and quarterly seasonality, and increased our dividend growth expectation in 2015 to reflect the EPS growth outlook. We await updates on the incremental BC LNG facilities and the company's strategic review process for its Properties business (proceeds to be used to repay outstanding \$500 million bridge debt/credit lines used to purchase UNS), although we do not expect conclusions to either until H1/15. We maintain our Sector Outperformer rating and \$41 price target.

**Exhibit 3. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2013A	2014E		2015E	
		Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	\$127	\$139	\$137	\$144	\$144
FortisAlberta	94	107	105	113	113
FortisBC Electric	50	52	50	56	56
Newfoundland Power	36	38	38	40	40
Other Canadian Electric Utilities	22	25	25	25	25
Central Hudson	23	43	43	51	51
UNS Energy	0	52	54	155	155
Regulated Electric Utilities – Caribbean	23	24	25	26	26
Total Regulated Utilities	375	480	477	610	610
<b>Non-regulated Operations</b>					
Fortis Generation	19	23	20	38	35
Non-Utility	18	18	20	20	20
Total Non-regulated Operations	37	41	40	58	55
Corporate	(68)	(142)	(151)	(115)	(116)
<b>Operating Earnings For Common</b>	<b>344</b>	<b>378</b>	<b>366</b>	<b>553</b>	<b>549</b>
Unusual Items	9	(25)	(31)	0	0
Reported Earnings	353	353	335	553	549
Weighted Average Shares Outstanding (mlns.)	203	225	225	275	275
<b>Operating EPS</b>	<b>1.70</b>	<b>1.69</b>	<b>1.63</b>	<b>2.01</b>	<b>2.00</b>
Reported EPS	1.74	1.57	1.49	2.01	2.00
Div idend Per Share	1.24	1.28	1.28	1.34	1.40
Payout Ratio	73.0%	76.0%	78.7%	66.5%	70.1%

Source: CIBC World Markets Inc.

**Price Target Calculation**

Our \$41 price target is based on a discounted cash flow (DCF) analysis, which captures the expected cash flow growth from Fortis' \$9 billion capital spending program (including acquisitions) through 2018. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 10.3x (utilizing a 2016 average net debt estimate of \$11.7 billion).

**Key Risks To Price Target**

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and BC.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction) and operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.66A	\$0.34A	\$0.24A	\$0.46A	\$1.70A
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Prior	\$0.65A	\$0.22A	\$0.25E	\$0.57E	\$1.69E
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.53E	\$1.63E
2015 Prior	--	--	--	--	\$2.01E
2015 Current	--	--	--	--	\$2.00E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.
- 

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 11/07/2014:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$44.41, Sector Performer)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and  
9 commercial real estate business.



## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 07 Nov 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	156	41.5%	Sector Outperformer (Buy)	150	96.2%
Sector Performer (Hold/Neutral)	181	48.1%	Sector Performer (Hold/Neutral)	176	97.2%
Sector Underperformer (Sell)	32	8.5%	Sector Underperformer (Sell)	26	81.3%
Restricted	6	1.6%	Restricted	6	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

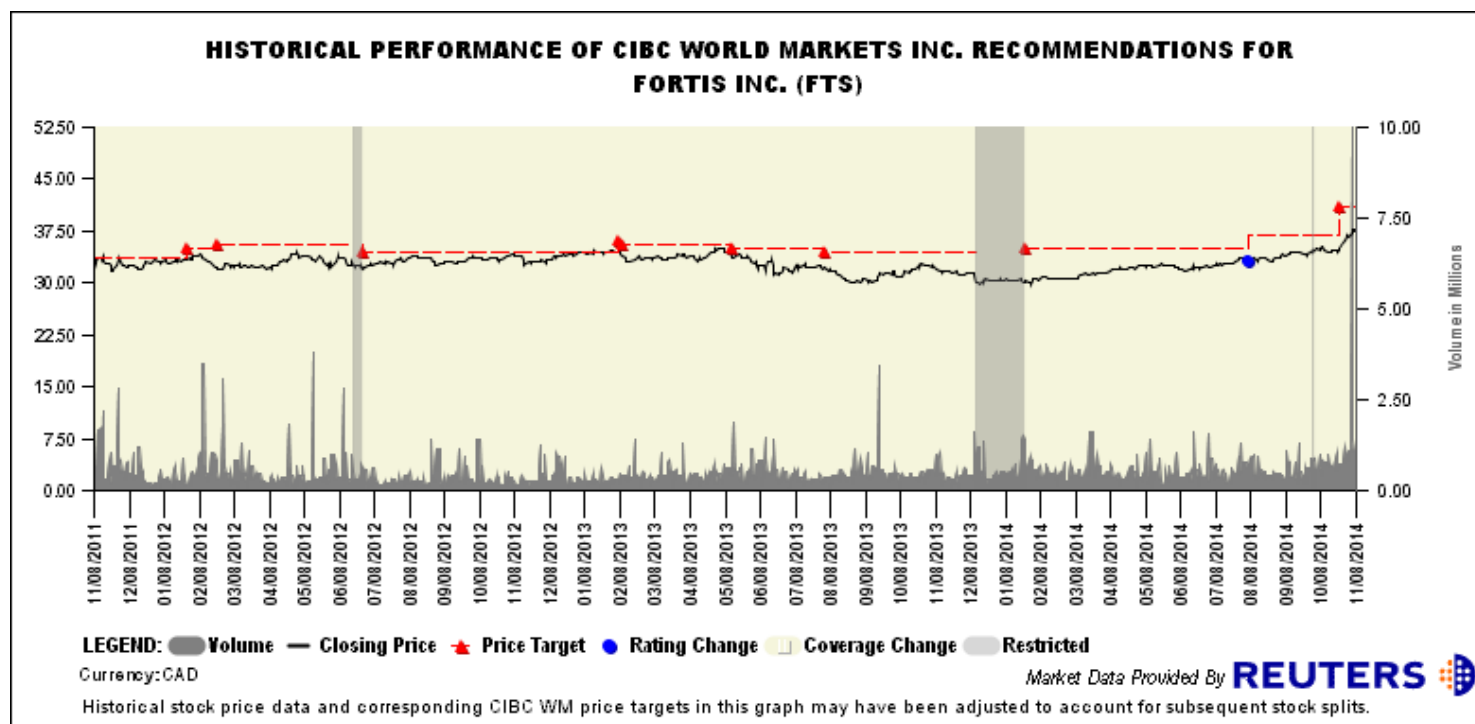
(as of 07 Nov 2014)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	36.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	45.5%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	9.1%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
01/26/2012	▲	33.44	SP	35.00	Paul Lechem
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	■	30.31	SP	35.00	Paul Lechem
08/04/2014	▲●	33.09	SO	37.00	Paul Lechem
09/29/2014	■	34.56	R	-	Paul Lechem
10/01/2014	■	34.57	SO	37.00	Paul Lechem
10/23/2014	▲	34.60	SO	41.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without

## Legal Disclaimer (Continued)

notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2014 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.


**EARNINGS UPDATE**

# Fortis Inc.

## LNG To The Aloha State

### What's The Event

Fortis has announced potential investment opportunities related to micro-LNG export facilities in BC. While multiple third-party BC LNG mega-projects remain mired in political and commercial uncertainties, these micro LNG projects appear better positioned to proceed, regardless of current depressed oil and gas prices. At present, Fortis is pursuing two opportunities with an aggregate capex spend of ~\$1 billion.

### Implications

We discuss in this report the main drivers of these projects which we expect to be approved by mid-year 2015. If approved, we note that these projects will be included in FortisBC Energy's rate base, and thus pose no commodity risk to the company.

We expect these projects to be partially funded by the sale of the company's Properties division (which the company announced last September to be under a strategic review for potential sale), and we do not anticipate the need for a common equity issuance.

While there is a modest reduction to our EPS estimates in 2015 and 2016 (\$0.02) due to the sale of the Properties division, longer-term, the LNG projects will more than offset lost Properties' earnings once fully in-service (2018).

We are updating our earnings forecast to reflect a 75% probability that Tilbury Phase 1B Expansion and a 50% probability that the Woodfibre LNG project proceed (previously not included in our forecast); we are also hereby increasing our price target by \$1 from \$41 to \$42.

While Fortis' stock is trading near its all-time high, we continue to see a positive, low-risk growth outlook for the company and maintain our Sector Outperformer rating.

February 11, 2015

**Pipelines, Utilities, & Power**

**SECTOR OUTPERFORMER**

**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

### Key Ratios and Statistics

12-18 mo. Price Target	\$42.00
FTS-TSX (2/11/15)	\$40.23

Key Indices: Toronto, TSXUtils

52-week Range \$30.48-\$42.23

Shares Outstanding 275.0M

Float 275.0M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$11,063.3M

Dividend/Div Yield \$1.36 / 3.4%

Fiscal Year Ends December

Book Value \$18.18 per Shr

2015 ROE (E) 8.2%

LT Debt \$12.3B

Common Equity \$5.0B

Convertible Available Yes

EPS	2013	2014	2015	2016
Current	\$1.70A	\$1.63E	\$2.00E	\$2.21E
Prior			\$2.02E	\$2.23E

Estimates (Dec. 31)	2013	2014	2015	2016
Div Per Share-Curr	\$1.24A	\$1.28A	\$1.36E	\$1.50E
Div Per Share-Prior			\$1.36E	\$1.50E

Valuation (Dec. 31)				
P/E-Curr	23.7x	24.7x	20.1x	18.2x
P/E-Prior			19.9x	18.0x
Dividend Yield-Curr	3.1%	3.2%	3.4%	3.7%
Dividend Yield-Prior			3.4%	3.7%

### Company Description

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

15-134305 © 2015

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

**Fortis Inc.**

FTS - TSX 2/11/15

\$40.23

12- To 18- Month Price Target:

\$42.00

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

**Sector Outperformer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca

Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

Market Data					Company Profile																																																																																		
Share Price	\$40.23	Net Debt		11,799	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation and real estate assets.																																																																																		
Shares Outstanding	275	Non Control Int.		405																																																																																			
Market Capitalization	11,048	Preferred Shares		1,820																																																																																			
		Enterprise Value		25,072																																																																																			
Valuations		2013	2014E	2015E	2016E	Investment Thesis																																																																																	
P/E	23.7x	24.7x	20.2x	18.2x																																																																																			
EV/EBITDA	17.4x	15.9x	10.0x	9.7x																																																																																			
Pipeline And Utilities Sector Average						Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2014-2018 \$9.3 billion capital program which is expected to drive a 7% CAGR in rate base through 2018. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~8.5%.																																																																																	
P/E	29.8x	25.5x	24.8x	22.5x																																																																																			
EV/EBITDA	14.4x	12.9x	11.5x	10.7x																																																																																			
Other Data		2013	2014E	2015E	2016E	<div>Assets - Excl Corporate / Eliminations (Mid-Year 2014, Total \$14 Billion)</div> <table><thead><tr><th>Asset</th><th>Percentage</th></tr></thead><tbody><tr><td>FortisBC Energy</td><td>27%</td></tr><tr><td>UNS Energy</td><td>22%</td></tr><tr><td>FortisAlberta</td><td>19%</td></tr><tr><td>FortisBC Electric</td><td>9%</td></tr><tr><td>Central Hudson</td><td>8%</td></tr><tr><td>Newfoundland Power</td><td>7%</td></tr><tr><td>Other</td><td>8%</td></tr><tr><td>Maritime Electric</td><td>2%</td></tr><tr><td>FortisOntario</td><td>2%</td></tr><tr><td>Caribbean Utilities</td><td>3%</td></tr><tr><td>Fortis Turks and Caicos</td><td>1%</td></tr></tbody></table>	Asset	Percentage	FortisBC Energy	27%	UNS Energy	22%	FortisAlberta	19%	FortisBC Electric	9%	Central Hudson	8%	Newfoundland Power	7%	Other	8%	Maritime Electric	2%	FortisOntario	2%	Caribbean Utilities	3%	Fortis Turks and Caicos	1%																																																									
Asset	Percentage																																																																																						
FortisBC Energy	27%																																																																																						
UNS Energy	22%																																																																																						
FortisAlberta	19%																																																																																						
FortisBC Electric	9%																																																																																						
Central Hudson	8%																																																																																						
Newfoundland Power	7%																																																																																						
Other	8%																																																																																						
Maritime Electric	2%																																																																																						
FortisOntario	2%																																																																																						
Caribbean Utilities	3%																																																																																						
Fortis Turks and Caicos	1%																																																																																						
Dividend Per Share	\$1.24	\$1.28	\$1.36	\$1.50																																																																																			
Dividend Yield	3.1%	3.2%	3.4%	3.7%																																																																																			
Payout Ratio	73.0%	78.6%	68.1%	68.0%																																																																																			
Book Value Per Share	\$22.38	\$23.97	\$24.68	\$25.46																																																																																			
Price / Book Value	1.8x	1.7x	1.6x	1.6x																																																																																			
Cash Per Share	\$0.36	\$0.39	\$0.66	\$0.14																																																																																			
Debt / Total Capital	55.0%	55.2%	54.7%	55.6%																																																																																			
Net Debt/EBITDA	5.4x	6.8x	4.5x	4.5x																																																																																			
Income Statement		2013	2014E	2015E	2016E	<div>Segmented Earnings (Exc. Corporate)</div> <table><thead><tr><th>Year</th><th>Non-Utility</th><th>Fortis Generation</th><th>Regulated Electric Utilities - Caribbean</th><th>Central Hudson</th><th>Other Canadian Electric Utilities</th><th>Newfoundland Power</th><th>FortisBC Electric</th><th>FortisAlberta</th><th>FortisBC Energy</th></tr></thead><tbody><tr><td>2013</td><td>18</td><td>0</td><td>23</td><td>23</td><td>36</td><td>50</td><td>94</td><td>127</td></tr><tr><td>2014E</td><td>20</td><td>0</td><td>25</td><td>43</td><td>38</td><td>50</td><td>105</td><td>137</td></tr><tr><td>2015E</td><td>9</td><td>0</td><td>32</td><td>55</td><td>40</td><td>56</td><td>113</td><td>149</td></tr><tr><td>2016E</td><td>0</td><td>0</td><td>29</td><td>76</td><td>41</td><td>58</td><td>118</td><td>165</td></tr></tbody></table>	Year	Non-Utility	Fortis Generation	Regulated Electric Utilities - Caribbean	Central Hudson	Other Canadian Electric Utilities	Newfoundland Power	FortisBC Electric	FortisAlberta	FortisBC Energy	2013	18	0	23	23	36	50	94	127	2014E	20	0	25	43	38	50	105	137	2015E	9	0	32	55	40	56	113	149	2016E	0	0	29	76	41	58	118	165																																			
Year	Non-Utility	Fortis Generation	Regulated Electric Utilities - Caribbean	Central Hudson	Other Canadian Electric Utilities		Newfoundland Power	FortisBC Electric	FortisAlberta	FortisBC Energy																																																																													
2013	18	0	23	23	36		50	94	127																																																																														
2014E	20	0	25	43	38		50	105	137																																																																														
2015E	9	0	32	55	40		56	113	149																																																																														
2016E	0	0	29	76	41		58	118	165																																																																														
FortisBC Energy	127	137	149	165																																																																																			
FortisAlberta	94	105	113	118																																																																																			
FortisBC Electric	50	50	56	58																																																																																			
Newfoundland Power	36	38	40	41																																																																																			
Other Canadian Electric Utilities	22	25	25	27																																																																																			
Central Hudson	23	43	55	76																																																																																			
UNS Energy	0	54	180	192																																																																																			
Regulated Electric Utilities - Caribbean	23	25	32	29																																																																																			
Fortis Generation	19	20	35	43																																																																																			
Non-Utility	18	20	9	0																																																																																			
Corporate	(68)	(151)	(144)	(139)																																																																																			
<b>Operating Earnings</b>	<b>344</b>	<b>366</b>	<b>549</b>	<b>610</b>																																																																																			
Unusual Items	9	(31)	0	0																																																																																			
Reported Earnings	353	335	549	610																																																																																			
<b>Operating EPS</b>	<b>\$1.70</b>	<b>\$1.63</b>	<b>\$2.00</b>	<b>\$2.21</b>																																																																																			
Reported EPS	\$1.74	\$1.49	\$2.00	\$2.21																																																																																			
Shares Outstanding	203	225	275	276																																																																																			
EBITDA	1,439	1,579	2,386	2,564																																																																																			
Cash Flow		2013	2014E	2015E	2016E	<div>Major Sources, Uses Of Cash</div> <table><thead><tr><th>Year</th><th>Operating Cash Flow</th><th>Debt</th><th>Equity</th><th>Asset Sale</th><th>Capex</th><th>Acquisitions</th><th>Dividends</th><th>Debt Repay</th></tr></thead><tbody><tr><td>2013 Sources</td><td>1,439</td><td>480</td><td>248</td><td>1,165</td><td>906</td><td>542</td><td>420</td><td>72</td></tr><tr><td>2013 Uses</td><td>1,439</td><td>480</td><td>248</td><td>1,165</td><td>906</td><td>542</td><td>420</td><td>72</td></tr><tr><td>2014E Sources</td><td>1,579</td><td>2,998</td><td>424</td><td>1,722</td><td>1,041</td><td>644</td><td>397</td><td>87</td></tr><tr><td>2014E Uses</td><td>1,579</td><td>2,998</td><td>424</td><td>1,722</td><td>1,041</td><td>644</td><td>397</td><td>87</td></tr><tr><td>2015E Sources</td><td>2,386</td><td>48</td><td>466</td><td>2,039</td><td>1,551</td><td>922</td><td>629</td><td>182</td></tr><tr><td>2015E Uses</td><td>2,386</td><td>48</td><td>466</td><td>2,039</td><td>1,551</td><td>922</td><td>629</td><td>182</td></tr><tr><td>2016E Sources</td><td>2,564</td><td>0</td><td>506</td><td>2,061</td><td>1,668</td><td>978</td><td>690</td><td>38</td></tr><tr><td>2016E Uses</td><td>2,564</td><td>0</td><td>506</td><td>2,061</td><td>1,668</td><td>978</td><td>690</td><td>38</td></tr></tbody></table>	Year	Operating Cash Flow	Debt	Equity	Asset Sale	Capex	Acquisitions	Dividends	Debt Repay	2013 Sources	1,439	480	248	1,165	906	542	420	72	2013 Uses	1,439	480	248	1,165	906	542	420	72	2014E Sources	1,579	2,998	424	1,722	1,041	644	397	87	2014E Uses	1,579	2,998	424	1,722	1,041	644	397	87	2015E Sources	2,386	48	466	2,039	1,551	922	629	182	2015E Uses	2,386	48	466	2,039	1,551	922	629	182	2016E Sources	2,564	0	506	2,061	1,668	978	690	38	2016E Uses	2,564	0	506	2,061	1,668	978	690	38
Year	Operating Cash Flow	Debt	Equity	Asset Sale	Capex		Acquisitions	Dividends	Debt Repay																																																																														
2013 Sources	1,439	480	248	1,165	906		542	420	72																																																																														
2013 Uses	1,439	480	248	1,165	906		542	420	72																																																																														
2014E Sources	1,579	2,998	424	1,722	1,041		644	397	87																																																																														
2014E Uses	1,579	2,998	424	1,722	1,041		644	397	87																																																																														
2015E Sources	2,386	48	466	2,039	1,551		922	629	182																																																																														
2015E Uses	2,386	48	466	2,039	1,551		922	629	182																																																																														
2016E Sources	2,564	0	506	2,061	1,668		978	690	38																																																																														
2016E Uses	2,564	0	506	2,061	1,668		978	690	38																																																																														
Earnings (incl. pref share dividends)	420	397	629	690																																																																																			
Depreciation and Amortization	542	644	922	978																																																																																			
Total Operating Cash Flow	906	1,041	1,551	1,668																																																																																			
Capital Expenditures	1,165	1,722	2,039	2,061																																																																																			
Dividends	248	424	466	506																																																																																			
Net Long Term Debt Proceeds	480	2,998	48	706																																																																																			
Balance Sheet		2013	2014E	2015E	2016E																																																																																		
Cash & Cash Equivalents	72	87	182	38																																																																																			
Utility Capital Assets / Income Properties	12,267	17,688	17,904	19,037																																																																																			
Total Assets	17,908	23,294	23,555	24,494																																																																																			
Current Liabilities	2,084	2,084	2,084	2,084																																																																																			
Debt (incl. Current and Short Term Borrowings)	7,788	10,786	10,834	11,540																																																																																			
Future Income Taxes	(2)	0	0	0																																																																																			
Non Controlling Interests	375	364	353	342																																																																																			
Preferred Shares	1,229	1,816	1,816	1,816																																																																																			
Shareholders' Equity	6,001	8,400	8,624	8,868																																																																																			
Total Shareholders' Equity And Liabilities	17,908	23,294	23,555	24,494																																																																																			

Source: Company reports and CIBC World Markets Inc.





---

## Fortis – Pursuing Micro LNG Opportunities

Much has been made of the multiple third-party LNG liquefaction mega-projects proposed for the BC coast, primarily in the Kitimat and Prince Rupert regions, about 700 km northwest of Vancouver. While these projects are mired in political and commercial uncertainties, a number of smaller micro-scale LNG liquefaction projects are also quietly making their way through early-stage development. These projects do not require the same sizable gas production, pipeline, power and other infrastructure commitments as do the mega-projects, and can be built incrementally at more palatable costs.

### Tilbury LNG Facility Today

Fortis (FTS-SO) is involved with a couple of such micro-LNG proposals, the most promising of which involves its existing Tilbury LNG liquefaction facility on the Fraser River in Delta, BC., just to the south of Vancouver. Currently, the Tilbury facility is used as a storage and peak serving facility supporting FortisBC Energy's gas distribution operations in the Lower Mainland. The facility has been in service since 1971, offering 600,000 GJ (560 MMcf) of storage capacity and 4,500 GJ/d (4.2 MMcf/d) of liquefaction capability.

---

#### Exhibit 1. Tilbury LNG Facility On The Fraser River



Source: Company reports

Fortis has identified opportunities for phased expansion of Tilbury, one of which is underway, and another we expect to be announced soon.

### Phase 1A Expansion

In November 2013, Fortis announced plans for a \$400 million expansion of Tilbury involving an additional storage tank (1.1 million GJ, or 1.0 Bcf) and associated liquefaction equipment with capacity of 34,000 GJ/d (32 MMcf/d). The expansion is to provide LNG to the BC transportation market, remote communities and the marketplace. Fortis announced in July 2014 the selection of Bechtel Canada as the EPC contractor, with ground-breaking on the site in October 2014 and a targeted completion date in late 2016.

The expansion was supported by the Government of BC which exempted the expansion from a certificate of public convenience and necessity review by the



regulator, the BC Utilities Commission (BCUC). The facility expansion will be included in FortisBC Energy's rate base.

### Phase 1B Expansion

The Tilbury LNG site has significant room for further expansion beyond phase 1A – a 35 acre site zoned for LNG for expansion to up to 450,000 GJ/d (420 MMcf/d) liquefaction capability (i.e., over 10x of forecast capacity including phase 1A), with no further site approvals necessary. Furthermore, the site is on the Fraser River with direct ocean access.

---

#### Exhibit 2. Tilbury – Future Phases Of Expansion



Source: Company reports

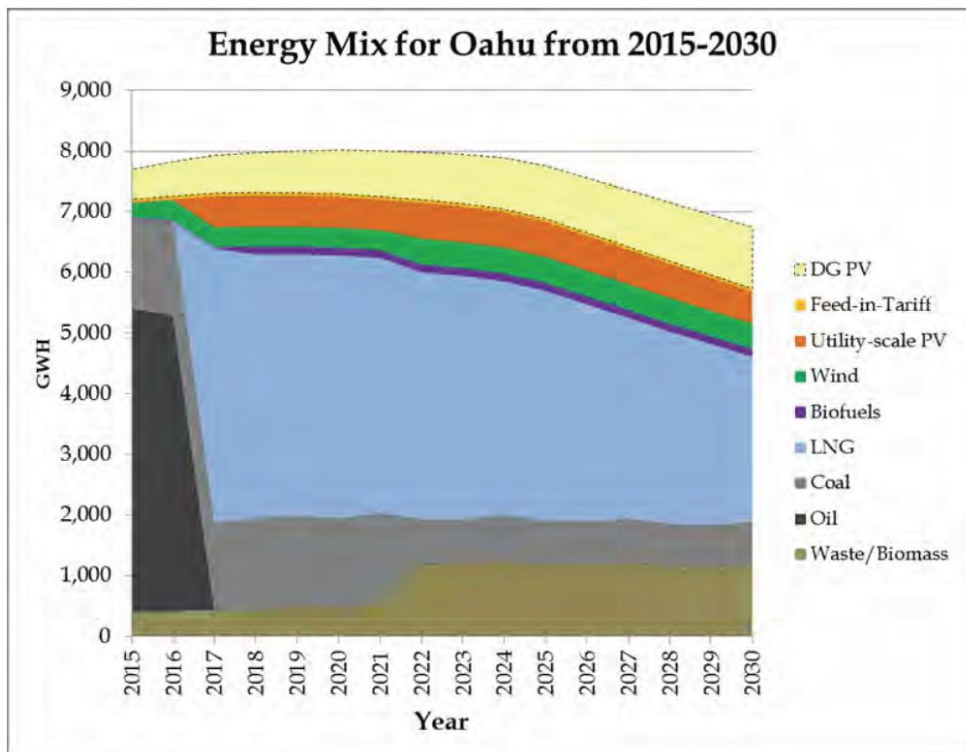
Accordingly, Fortis has signed a conditional contract with Hawaiian Electric (HE-NYSE) for the next phased expansion of Tilbury, 1B, which would add 140,000 GJ/d (131 MMcf/d) of liquefaction at a cost of \$450 million. We discuss the drivers of this agreement below.

---

### Hawaii Electric – Bringing LNG To The Aloha State

Hawaii represents a good opportunity for Fortis. It is a power market which currently generates 85% of its electricity from fossil fuel (primarily oil) which needs to be imported at high cost. Hawaiian Electric submitted a Power Supply Improvement Plan (PSIP) to the Hawaii Public Utilities Commission (PUC) in August 2014 laying out a plan to rapidly move to replace oil generation with imported LNG, starting in 2017, with the dual benefits of reducing costs and emissions.

### Exhibit 3. Hawaii's Expected Energy Mix Currently Largely Dependent On Oil, But Plans To Switch To LNG



Source: Hawaiian Electric

Hawaiian Electric foresees at first importing LNG through ISO containerized LNG (essentially an LNG tank in the format of a standardized 40' shipping container), switching to bulk LNG via specialized LNG carriers at a later stage (in the 2020-2022 timeframe) which would further reduce costs. The delivered costs for containerized LNG are expected to be US\$15.71/MMBtu in 2017, dropping to US\$12.73/MMBtu in 2022 with bulk shipments.

### Exhibit 4. Hawaiian Electric LNG Itemized Pricing, 2022E

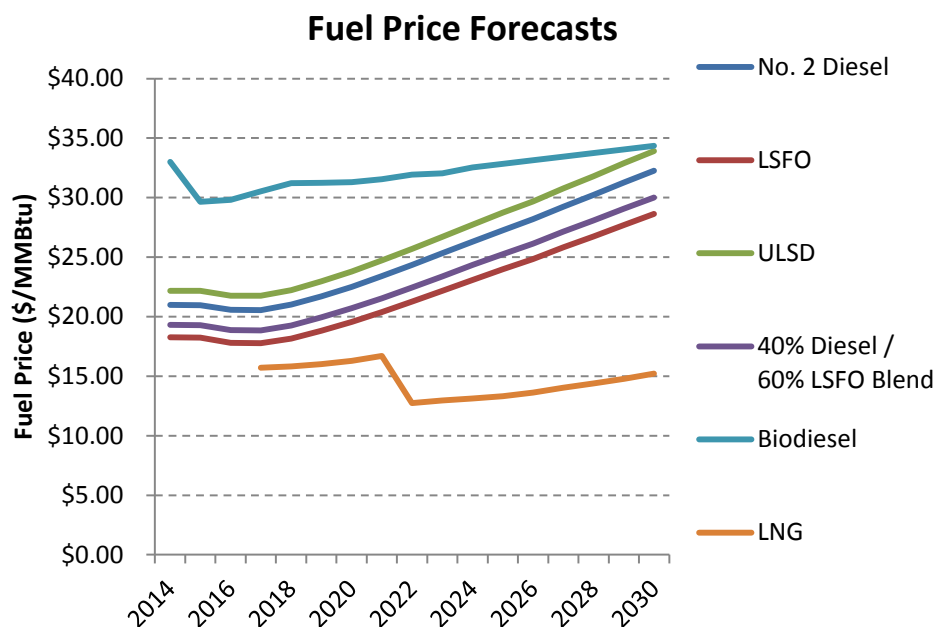
Item	Price
Gas Commodity	US\$4.31
Pipeline Header (Fixed)	0.60
Pipeline Cost Of Fuel	0.11
Marketer Fee (Fixed)	0.01
Liquefaction (Fixed)	1.99
Liquefaction Cost of Power	0.91
Process Fuel Gas	0.04
BC LNG Export Tax	0.00
Marine Terminal	0.33
<b>LNG FOB FortisBC</b>	<b>\$8.30</b>
Shipping	1.89
FSRU + Gas Pipeline	2.54
<b>2022 LNG Forecast with Bulk Terminal</b>	<b>\$12.73</b>

Source: Hawaiian Electric and CIBC World Markets Inc.

While forecast LNG costs initially are only expected to be a modest saving versus the state's current primary fuel, low sulfur fuel oil (LSFO), the savings are expected to rapidly widen over the remainder of the forecast period through

2030, with LNG costs dropping as bulk shipments are phased in, while other fuel alternatives are expected to increase in price. By 2030, LNG costs are forecast to be roughly half other fossil fuel alternatives.

#### Exhibit 5. Hawaiian Electric Delivered Fuel Costs (\$/MMBtu)



Source: Hawaiian Electric and CIBC World Markets Inc.

FortisBC Energy provides a stable fee-based cost structure for LNG export, readily capable of supporting Hawaii's requirements in the proposed timeframe. According to FortisBC Energy's Rate Schedule 46 (latest revision on January 1, 2015), the LNG facility charge is currently \$3.61/GJ, with a surcharge of \$0.90/GJ for electricity used to produce, store and dispense LNG (i.e., a total of \$4.51/GJ), in addition to the cost of gas (currently set at \$4.76/GJ). The facility charge and electricity surcharge escalate annually at the greater of 2% or B.C.'s CPI. Gas costs are passed through without markup.

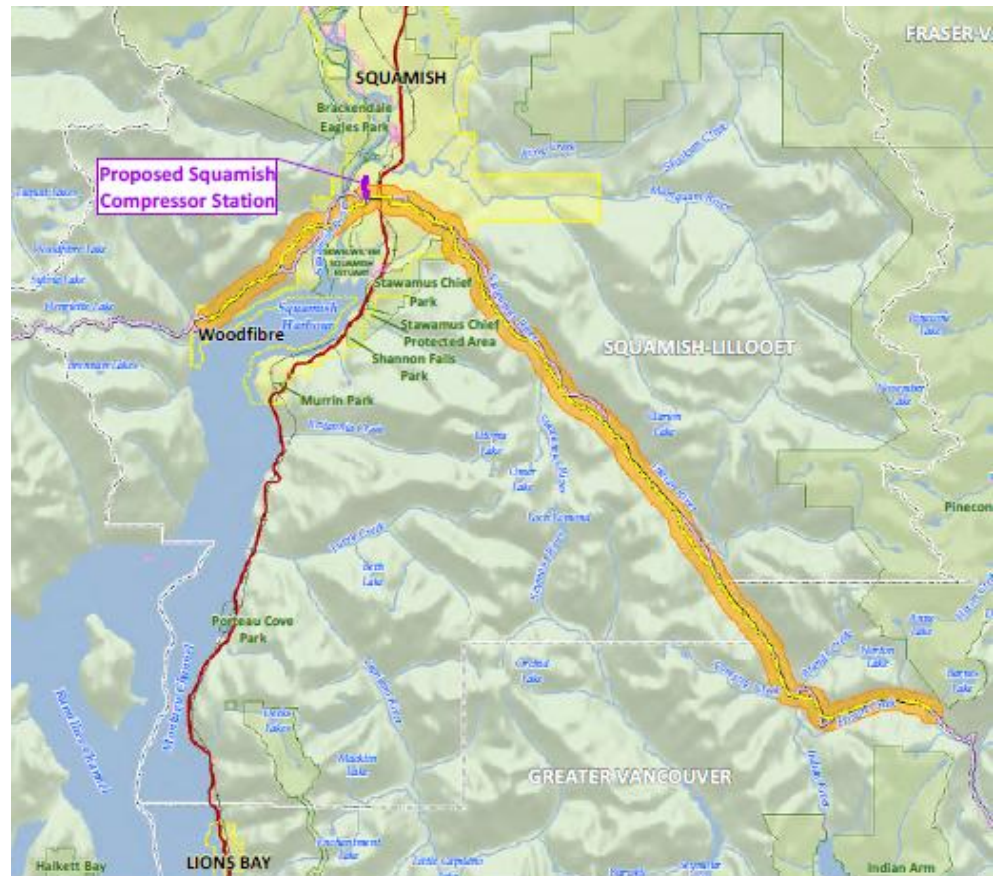
At this point, Hawaiian Electric is awaiting a decision on its plan from the Hawaii PUC, expected by mid-year 2015. If approved, it will enable FortisBC to move forward on phase 1B of the Tilbury expansion, with an expected in-service date of late 2017. We expect this phase to also be included in FortisBC Energy rate base, as the fees paid by Hawaiian Electric not only cover the costs of the expansion and operation of the liquefaction facility itself, but also for usage of the common gas pipeline infrastructure which provides benefits by shouldering some of the costs otherwise borne by other FortisBC Energy rate payers.

### Woodfibre LNG

Fortis is also pursuing projects related to a third party micro-LNG liquefaction facility – the Woodfibre LNG project near Squamish (~60 km north of Vancouver). The proposed project was granted an NEB export license in December 2013 for 270 MMcf/d of LNG, and recently signed a preliminary offtake agreement with Chinese gas distributor Guangzhou Gas Group for ~130 MMcf/d of LNG starting in 2017.

If the project proceeds, FortisBC Energy would need to expand its gas transmission system to serve the facility, including construction of a 52 km pipeline expansion from Coquitlam to Squamish along an existing right of way, as well as expansion of compressor stations in Coquitlam and Port Mellon and construction of a new compressor station near Squamish. Total estimated costs are ~\$600 million.

#### Exhibit 6. Route For Proposed New Gas Pipeline To Serve Woodfibre LNG

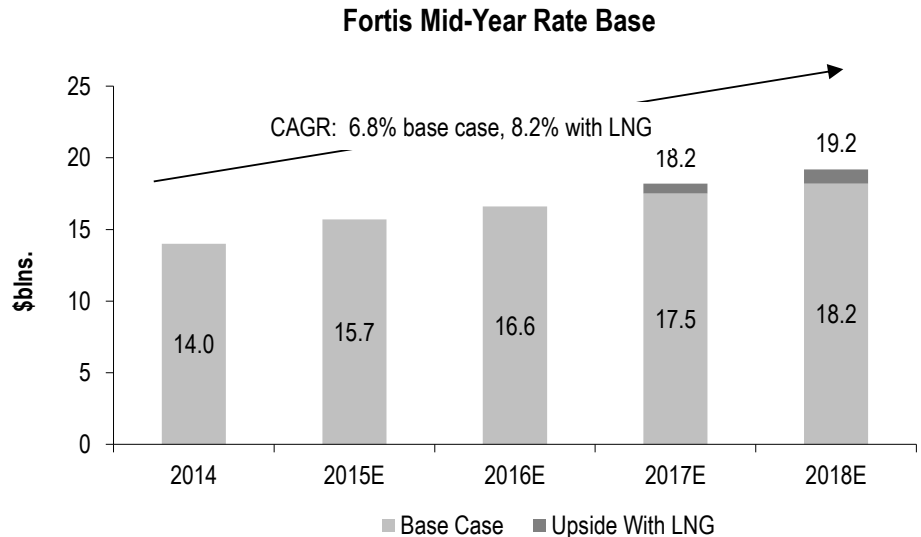


Source: Company reports.

The project and FortisBC Energy's proposed pipeline are both making their way through their respective environmental review processes (ending on March 12). The pipeline has already received approvals from BC's Ministry of Forests, Lands and Natural Resource Operations and the Oil and Gas Commission. Woodfibre LNG, meanwhile, is close to finalizing the purchase of the land for the facility from Western Forest Products (WEF-SO) (formerly the site of a pulp mill, and zoned for industrial use), a deal which was contingent on remediation of the site and granting of a certificate of compliance from BC's environment ministry (received in November). Various environmental and local groups (including the Squamish Council) are opposed to the project and pipeline, although the BC provincial government, which has ultimate jurisdiction on approval of the project, has made LNG development in general a top priority. Woodfibre LNG, a subsidiary of Singapore-based Pacific Oil & Gas Ltd. is expected to make a final investment decision by mid-year 2015.

### LNG Provides Upside To Fortis' Outlook

Fortis currently projects a total company-wide 5-year (2014-2018E) capex spend of \$9.3 billion, driving a rate base CAGR over the same period of ~7%. If these two projects are included, the capex spend is expected to rise to \$10.3 billion, driving a rate base CAGR of over 8%.

**Exhibit 7. LNG Drives \$1B Incremental Rate Base**

Source: Company reports and CIBC World Markets Inc.

We are now including a 75% probability that the Tilbury Phase 1B project proceeds, and a 50% probability the Woodfibre LNG project goes ahead (previously not included in our estimates), and are also updating our forecast to reflect the sale of the Properties division by mid-year (a strategic review process for a potential sale initially announced in September 2014). We believe the sale of the division, which generated 2013 EBITDA of \$80 million, could fetch up to \$850 million, which would be partially used to fund construction of the LNG projects and other capex, as well as to repay bridge debt/credit lines used in the UNS acquisition. We do not anticipate the need for a common equity issuance to finance the LNG projects.

We have reduced our 2015 and 2016 EPS estimates modestly, from \$2.02/\$2.23 to \$2.00/\$2.21, respectively to reflect the sale of the Properties division partially offset by higher FortisBC Energy earnings on the capex spent on the two LNG projects (with a full earnings contribution not expected until 2018 when both projects are in-service). Given the long-term positive impact of the LNG projects, we have revised our price target upwards from \$41 to \$42. While the stock is trading near its all-time high, we continue to see a positive, low-risk growth outlook for the company and maintain our Sector Outperformer rating.

## Price Target Calculation

Our \$42 price target (up from \$41 previously) is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' \$10 billion capital spending program (including acquisitions, and risk adjusted capital for LNG projects) through 2018. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 9.9x (utilizing a 2016E net debt of \$11.5 billion) and 19.0x 2016E P/E.

## Key Risks To Price Target

- Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.53E	\$1.63E
2015 Prior	--	--	--	--	\$2.02E
2015 Current	--	--	--	--	\$2.00E
2016 Prior	--	--	--	--	\$2.23E
2016 Current	--	--	--	--	\$2.21E

---

## Our DPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.31A	\$0.31A	\$0.31A	\$0.31A	\$1.24A
2014 Current	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2015 Prior	--	--	--	--	\$1.36E
2015 Current	--	--	--	--	\$1.36E
2016 Prior	--	--	--	--	\$1.50E
2016 Current	--	--	--	--	\$1.50E

---



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 02/11/2015:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$44.12, Sector Performer)

Western Forest Products Inc. (2a, 2c, 2e, 2g) (WEF-TSX, \$2.66, Sector Outperformer)

## Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

### Stock Prices as of 02/11/2015:

Hawaiian Electric Industries (HE-NYSE, US\$33.24, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

### Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.



**Key to Important Disclosure Footnotes: (Continued)**

- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and
- 9 commercial real estate business.

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 11 Feb 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	163	42.6%	Sector Outperformer (Buy)	154	94.5%
Sector Performer (Hold/Neutral)	172	44.9%	Sector Performer (Hold/Neutral)	170	98.8%
Sector Underperformer (Sell)	36	9.4%	Sector Underperformer (Sell)	30	83.3%
Restricted	11	2.9%	Restricted	11	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

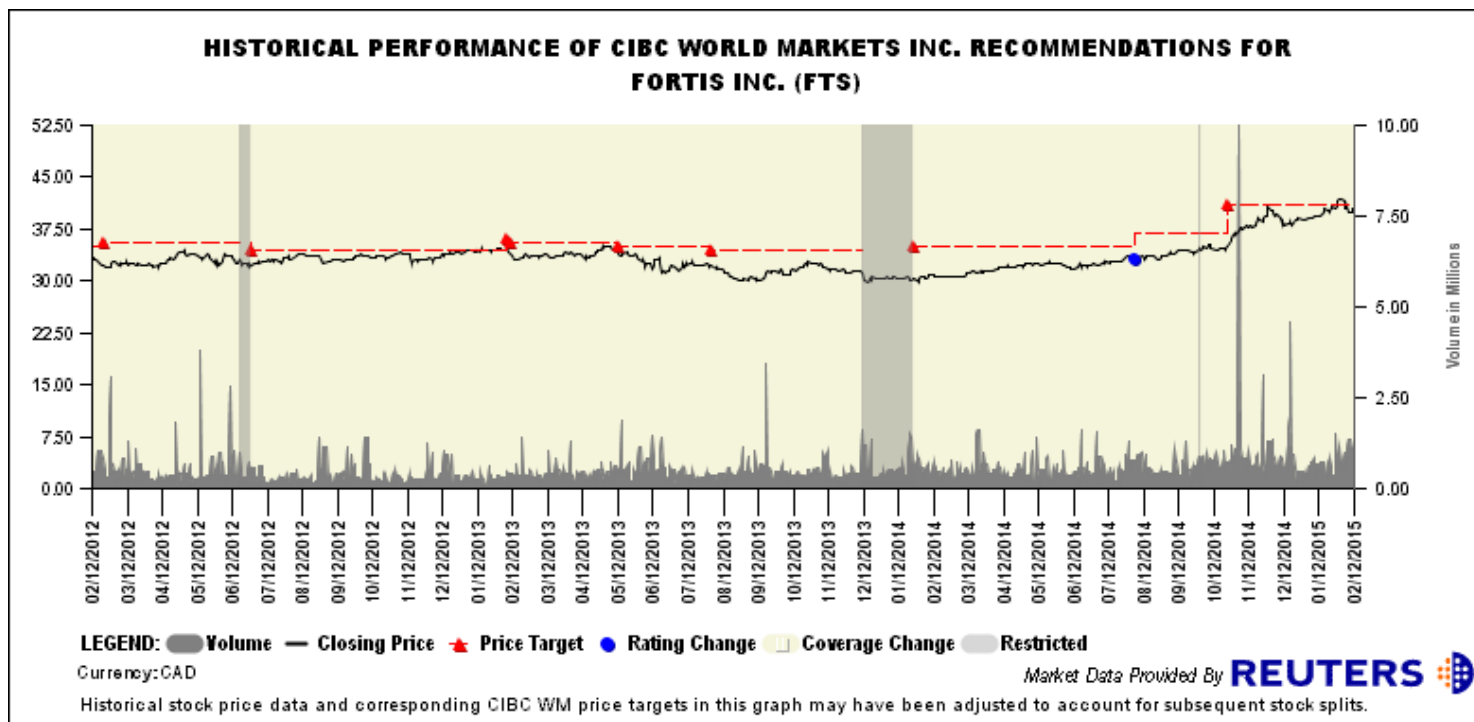
(as of 11 Feb 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	45.5%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	5	45.5%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem
08/04/2014	▲●	33.09	SO	37.00	Paul Lechem
09/29/2014	■	34.56	R	-	Paul Lechem
10/01/2014	■	34.57	SO	37.00	Paul Lechem
10/23/2014	▲	34.60	SO	41.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report

## Legal Disclaimer (Continued)

and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2015 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





## EARNINGS UPDATE

## Fortis Inc.

## Weak Q4, But Still Positive Outlook For 2015

## What's The Event

Fortis reported Q4/14 EPS of \$0.44; excluding one-time acquisition related costs for UNS, EPS were \$0.46, below both consensus (\$0.49) and CIBC (\$0.53). The Canadian regulated utilities were generally below expectations from mild weather and limited upside on allowed versus achieved ROEs at western Canadian utilities now operating under PBR (performance based rate setting) mechanisms. Central Hudson results were also weaker than expected due to storm restoration and other expenses.

## Implications

Nevertheless, we continue to view Fortis' outlook positively. We expect 2015 earnings to increase versus 2014 from: (1) a full-year's contribution from UNS Energy (acquired August 2014); (2) the end of the two-year rate freeze at Central Hudson (at mid-year 2015); (3) the completion of the Waneta Expansion project (expected in 'spring' 2015); (4) a forecast capex budget of \$2.2 billion, up ~25% versus 2014.

Additionally, we see other potential catalysts, such as: (1) the completion of the strategic review of the Properties business, expected by mid-year 2015, which could result in the sale of the division; and, (2) successful completion of LNG contracts to support further expansion (phase 1B) of the Tilbury LNG facility (a \$450 million capex opportunity for Fortis) and/or a positive final investment decision for the third party Woodfibre LNG facility (\$600 million).

Fortis provides a well-managed, diversified, low-risk (93% regulated utilities), modest growth (~7%+ rate base CAGR through 2019e) business which is relatively insulated from the current depressed commodity price environment. We maintain our Sector Outperformer rating and \$42 price target.

February 19, 2015

Pipelines, Utilities, &amp; Power

SECTOR OUTPERFORMER

MARKET WEIGHT

Stock Rating:

Sector Weighting:

## Key Ratios and Statistics

12-18 mo. Price Target	\$42.00
FTS-TSX (2/19/15)	\$39.57

Key Indices: Toronto, TSXUtils

52-week Range \$30.50-\$42.23

Shares Outstanding 276.0M

Float 276.0M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$10,881.8M

Dividend/Div Yield \$1.36 / 3.4%

Fiscal Year Ends December

Book Value \$24.89 per Shr

2015 ROE (E) 7.9%

LT Debt \$11.5B

Common Equity \$6.9B

Convertible Available Yes

EPS	2013	2014	2015	2016
Current	\$1.70A	\$1.56A	\$2.00E	\$2.18E
Prior		\$1.63E		\$2.21E

Estimates (Dec. 31)	2013	2014	2015	2016
Div Per Share-Curr	\$1.24A	\$1.28A	\$1.36E	\$1.50E
Div Per Share-Prior		\$1.28A		\$1.50E

Valuation (Dec. 31)				
P/E-Curr	23.3x	25.4x	19.8x	18.2x
P/E-Prior		24.3x		17.9x
Dividend Yield-Curr	3.1%	3.2%	3.4%	3.8%
Dividend Yield-Prior		3.2%		3.8%

## Company Description

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

15-134463 © 2015

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

**Fortis Inc.**

FTS - TSX 2/19/15

\$39.53

12- To 18- Month Price Target:

\$42.00

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

**Sector Outperformer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca

Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

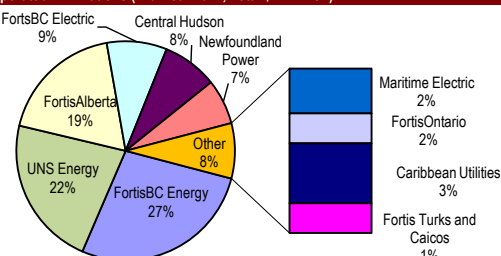
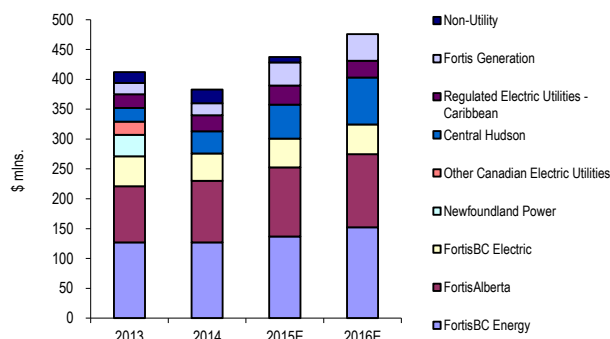
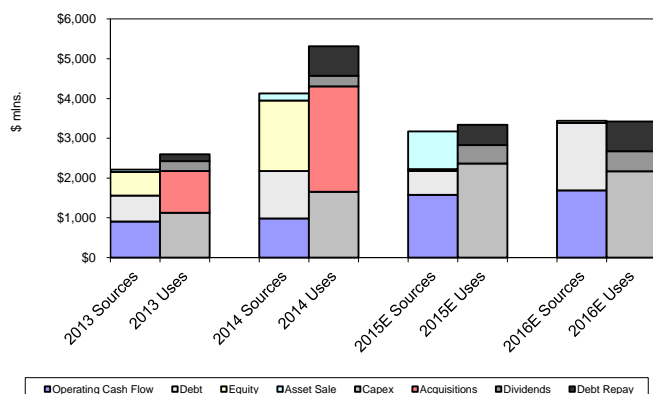
Market Data					Company Profile																																																																																				
Share Price	\$39.53	Net Debt		11,304	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation and real estate assets.																																																																																				
Shares Outstanding	276	Non Control Int.		421																																																																																					
Market Capitalization	10,910	Preferred Shares		1,820																																																																																					
		Enterprise Value		24,455	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.																																																																																				
Valuations																																																																																									
P/E	23.3x	2013	2014	2015E	2016E	Investment Thesis																																																																																			
EV/EBITDA	17.0x	23.3x	25.3x	19.8x	18.1x																																																																																				
		17.0x	15.6x	10.2x	9.9x																																																																																				
Pipeline And Utilities Sector Average																																																																																									
P/E	29.3x	2013	2014	2015E	2016E	Assets - Excl Corporate / Eliminations (Mid-Year 2014, Total \$14 Billion)																																																																																			
EV/EBITDA	15.2x	29.3x	26.7x	25.6x	24.4x																																																																																				
		15.2x	13.4x	11.8x	11.0x																																																																																				
Other Data																																																																																									
Dividend Per Share	\$1.24	2013	2014	2015E	2016E	<table border="1"><caption>Ownership Breakdown (Mid-Year 2014)</caption><thead><tr><th>Entity</th><th>Percentage</th></tr></thead><tbody><tr><td>FortisBC Electric</td><td>9%</td></tr><tr><td>Central Hudson</td><td>8%</td></tr><tr><td>Newfoundland Power</td><td>7%</td></tr><tr><td>Other</td><td>8%</td></tr><tr><td>FortisBC Energy</td><td>27%</td></tr><tr><td>UNS Energy</td><td>22%</td></tr><tr><td>FortisAlberta</td><td>19%</td></tr><tr><td>Maritime Electric</td><td>2%</td></tr><tr><td>FortisOntario</td><td>2%</td></tr><tr><td>Caribbean Utilities</td><td>3%</td></tr><tr><td>Fortis Turks and Caicos</td><td>1%</td></tr></tbody></table>				Entity	Percentage	FortisBC Electric	9%	Central Hudson	8%	Newfoundland Power	7%	Other	8%	FortisBC Energy	27%	UNS Energy	22%	FortisAlberta	19%	Maritime Electric	2%	FortisOntario	2%	Caribbean Utilities	3%	Fortis Turks and Caicos	1%																																																								
Entity	Percentage																																																																																								
FortisBC Electric	9%																																																																																								
Central Hudson	8%																																																																																								
Newfoundland Power	7%																																																																																								
Other	8%																																																																																								
FortisBC Energy	27%																																																																																								
UNS Energy	22%																																																																																								
FortisAlberta	19%																																																																																								
Maritime Electric	2%																																																																																								
FortisOntario	2%																																																																																								
Caribbean Utilities	3%																																																																																								
Fortis Turks and Caicos	1%																																																																																								
Dividend Yield	3.1%	\$1.24	\$1.28	\$1.36	\$1.50																																																																																				
Payout Ratio	73.0%	3.1%	3.2%	3.4%	3.8%																																																																																				
Book Value Per Share	\$22.38	73.0%	81.8%	68.0%	68.7%																																																																																				
Price / Book Value	1.8x	\$22.38	\$24.89	\$25.60	\$26.35																																																																																				
Cash Per Share	\$0.36	1.8x	1.6x	1.5x	1.5x																																																																																				
Debt / Total Capital	55.0%	\$0.36	\$1.02	\$0.25	\$0.29																																																																																				
Net Debt/EBITDA	5.4x	55.0%	55.9%	55.5%	56.8%																																																																																				
		5.4x	7.2x	4.8x	4.8x																																																																																				
Income Statement					Segmented Earnings (Exc. Corporate)																																																																																				
FortisBC Energy	127	2013	2014	2015E	2016E	<table border="1"><caption>Segmented Earnings (Exc. Corporate) - \$ mils.</caption><thead><tr><th>Year</th><th>Non-Utility</th><th>Fortis Generation</th><th>Regulated Electric Utilities - Caribbean</th><th>Central Hudson</th><th>Other Canadian Electric Utilities</th><th>Newfoundland Power</th><th>FortisBC Electric</th><th>FortisAlberta</th><th>FortisBC Energy</th></tr></thead><tbody><tr><td>2013</td><td>127</td><td>94</td><td>50</td><td>36</td><td>22</td><td>23</td><td>0</td><td>18</td><td>(68)</td></tr><tr><td>2014</td><td>127</td><td>103</td><td>46</td><td>0</td><td>0</td><td>37</td><td>60</td><td>23</td><td>(150)</td></tr><tr><td>2015E</td><td>137</td><td>116</td><td>48</td><td>0</td><td>0</td><td>57</td><td>186</td><td>32</td><td>(134)</td></tr><tr><td>2016E</td><td>152</td><td>122</td><td>50</td><td>0</td><td>0</td><td>79</td><td>197</td><td>28</td><td>(134)</td></tr></tbody></table>				Year	Non-Utility	Fortis Generation	Regulated Electric Utilities - Caribbean	Central Hudson	Other Canadian Electric Utilities	Newfoundland Power	FortisBC Electric	FortisAlberta	FortisBC Energy	2013	127	94	50	36	22	23	0	18	(68)	2014	127	103	46	0	0	37	60	23	(150)	2015E	137	116	48	0	0	57	186	32	(134)	2016E	152	122	50	0	0	79	197	28	(134)																														
Year	Non-Utility	Fortis Generation	Regulated Electric Utilities - Caribbean	Central Hudson	Other Canadian Electric Utilities					Newfoundland Power	FortisBC Electric	FortisAlberta	FortisBC Energy																																																																												
2013	127	94	50	36	22					23	0	18	(68)																																																																												
2014	127	103	46	0	0					37	60	23	(150)																																																																												
2015E	137	116	48	0	0					57	186	32	(134)																																																																												
2016E	152	122	50	0	0					79	197	28	(134)																																																																												
FortisAlberta	94	103	116	122																																																																																					
FortisBC Electric	50	46	48	50																																																																																					
Newfoundland Power	36	0	0	0																																																																																					
Other Canadian Electric Utilities	22	0	0	0																																																																																					
Central Hudson	23	37	57	79																																																																																					
UNS Energy	0	60	186	197																																																																																					
Regulated Electric Utilities - Caribbean	23	27	32	28																																																																																					
Fortis Generation	19	20	39	45																																																																																					
Non-Utility	18	23	9	0																																																																																					
Corporate	(68)	(150)	(134)	(134)																																																																																					
Operating Earnings																																																																																									
Unusual Items	9	344	353	553	606																																																																																				
Reported Earnings	353	9	(36)	0	0																																																																																				
Operating EPS																																																																																									
Reported EPS	\$1.70	\$1.56	\$2.00	\$2.18																																																																																					
Shares Outstanding	\$1.74	\$1.41	\$2.00	\$2.18																																																																																					
EBITDA	203	226	277	278																																																																																					
	1,439	1,566	2,425	2,605																																																																																					
Cash Flow																																																																																									
Earnings (incl. pref share dividends)	2013	2014	2015E	2016E	Major Sources, Uses Of Cash																																																																																				
Depreciation and Amortization	420	390	633	686																																																																																					
Total Operating Cash Flow	542	688	942	1,002																																																																																					
Capital Expenditures	906	982	1,574	1,688																																																																																					
Dividends	1,165	1,725	2,365	2,170																																																																																					
Net Long Term Debt Proceeds	248	266	467	507																																																																																					
	480	450	95	953																																																																																					
Balance Sheet																																																																																									
Cash & Cash Equivalents	2013	2014	2015E	2016E	<table border="1"><caption>Major Sources, Uses Of Cash - \$ mils.</caption><thead><tr><th>Year</th><th>Operating Cash Flow</th><th>Debt</th><th>Equity</th><th>Asset Sale</th><th>Capex</th><th>Acquisitions</th><th>Dividends</th><th>Debt Repay</th></tr></thead><tbody><tr><td>2013 Sources</td><td>1,439</td><td>203</td><td>226</td><td>277</td><td>278</td><td colspan="3"></td></tr><tr><td>2013 Uses</td><td>1,165</td><td>1,725</td><td>2,365</td><td>2,170</td><td colspan="4"></td></tr><tr><td>2014 Sources</td><td>1,566</td><td>420</td><td>390</td><td>633</td><td>686</td><td colspan="3"></td></tr><tr><td>2014 Uses</td><td>906</td><td>982</td><td>1,574</td><td>1,688</td><td colspan="4"></td></tr><tr><td>2015E Sources</td><td>2,425</td><td>480</td><td>450</td><td>95</td><td>953</td><td colspan="3"></td></tr><tr><td>2015E Uses</td><td>1,165</td><td>1,725</td><td>2,365</td><td>2,170</td><td colspan="4"></td></tr><tr><td>2016E Sources</td><td>2,605</td><td>480</td><td>450</td><td>95</td><td>953</td><td colspan="3"></td></tr><tr><td>2016E Uses</td><td>1,165</td><td>1,725</td><td>2,365</td><td>2,170</td><td colspan="4"></td></tr></tbody></table>				Year	Operating Cash Flow	Debt	Equity	Asset Sale	Capex	Acquisitions	Dividends	Debt Repay	2013 Sources	1,439	203	226	277	278				2013 Uses	1,165	1,725	2,365	2,170					2014 Sources	1,566	420	390	633	686				2014 Uses	906	982	1,574	1,688					2015E Sources	2,425	480	450	95	953				2015E Uses	1,165	1,725	2,365	2,170					2016E Sources	2,605	480	450	95	953				2016E Uses	1,165	1,725	2,365	2,170				
Year	Operating Cash Flow	Debt	Equity	Asset Sale					Capex	Acquisitions	Dividends	Debt Repay																																																																													
2013 Sources	1,439	203	226	277					278																																																																																
2013 Uses	1,165	1,725	2,365	2,170																																																																																					
2014 Sources	1,566	420	390	633					686																																																																																
2014 Uses	906	982	1,574	1,688																																																																																					
2015E Sources	2,425	480	450	95					953																																																																																
2015E Uses	1,165	1,725	2,365	2,170																																																																																					
2016E Sources	2,605	480	450	95					953																																																																																
2016E Uses	1,165	1,725	2,365	2,170																																																																																					
Utility Capital Assets / Income Properties	72	230	68	82																																																																																					
Total Assets	12,267	17,816	18,339	19,557																																																																																					
Current Liabilities	17,908	26,628	26,939	28,121																																																																																					
Debt (incl. Current and Short Term Borrowings)	2,084	2,684	2,684	2,684																																																																																					
Future Income Taxes	7,788	11,534	11,629	12,582																																																																																					
Non Controlling Interests	(2)	23	0	0																																																																																					
Preferred Shares	375	421	411	401																																																																																					
Shareholders' Equity	1,229	1,820	1,820	1,820																																																																																					
Total Shareholders' Equity And Liabilities	6,001	8,691	8,917	9,156																																																																																					
	17,908	26,628	26,939	28,121																																																																																					

**Company Profile**

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation and real estate assets.

**Investment Thesis**

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.

**Assets - Excl Corporate / Eliminations (Mid-Year 2014, Total \$14 Billion)****Segmented Earnings (Exc. Corporate)****Major Sources, Uses Of Cash**

Source: Company reports and CIBC World Markets Inc.

## Q4 Weaker Than Expected

Fortis (FTS-SO) reported Q4/2014 EPS of \$0.44; excluding one-time costs related to the UNS acquisition, EPS were \$0.46. These results were below expectations (\$0.49 consensus, \$0.53 CIBC), especially at the western Canadian utilities (which had limited upside on achieved ROE versus the base case under the PBR formulas) and at Central Hudson due to storm restoration and other expenses.

EPS were also lower on a Y/Y basis due to the issuance of 58.2 million shares in October 2014 on completion of the UNS acquisition and conversion of the debentures issued to fund the transaction.

On a full-year basis, EPS were \$1.56 versus \$1.70 in 2013, reflecting the costs of the UNS debentures issued in January 2014 versus the partial-year contribution of the acquisition starting in August.

### Exhibit 1. Q4/14 Results (\$ mlns., except per share)

Segmented Earnings	Q4/14A	Q4/14E	Q4/13A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	49	59	50	Lower-than-expected earnings above allowed ROE
FortisAlberta	25	27	18	Y/Y growth due to customer growth and timing of operating expenses
FortisBC Electric	12	16	13	Lower-than-expected earnings above allowed ROE
Eastern Canadian Utilities	14	17	14	
Central Hudson	4	10	11	Higher storm restoration and other non-recurring expenses
UNS Energy	23	17	0	Stronger-than-expected in first year of operation (acquired in August 2014)
Regulated Electric Utilities – Caribbean	6	10	8	
Total Regulated Utilities	133	156	114	
<b>Non-regulated Operations</b>				
Fortis Generation	4	3	6	
Non-Utility	7	4	1	Higher-than-expected Fortis Properties earnings
Total Non-regulated Operations	11	7	7	
Corporate	(26)	(27)	(19)	Higher Y/Y finance costs related to UNS acquisition
<b>Operating Earnings For Common</b>	<b>118</b>	<b>136</b>	<b>102</b>	
Unusual Items	(5)	0	(4)	One-time acquisition costs
Reported Earnings	113	136	98	
Weighted Average Shares Outstanding (mlns.)	258	255	213	
<b>Operating EPS</b>	<b>0.46</b>	<b>0.53</b>	<b>0.48</b>	
Reported EPS	0.44	0.53	0.46	
Dividend Per Share	0.32	0.32	0.31	
Payout Ratio	70.1%	60.0%	64.6%	

Source: CIBC World Markets Inc.

---

## Positive Outlook For 2015

Nevertheless, we view 2014 as the low point for Fortis' EPS, and expect solid growth from here, driven by a number of factors:

- A full-year contribution from UNS Energy, acquired in August 2014. Furthermore, as noted above, 2014 was further impacted by the issuance of \$1.8 billion in convertible debentures in January 2014 to fund the transaction, without a commensurate contribution from UNS until closing.
- The end of the two-year rate freeze at Central Hudson, effective July 1, 2015. Fortis agreed to the rate freeze as part of the regulatory approval required for the acquisition in June 2013. Furthermore, Fortis committed to US\$215 million in capex during this rate freeze period, on which the company is earning no returns until the rate freeze ends. Fortis submitted a regulatory filing in July 2014 seeking to increase rates on expiry of the rate freeze; public hearings are expected in March/April 2015, with a settlement proposal expected to go to the regulator for consideration and approval in June 2015.
- The completion of the Waneta Expansion project, a \$900 million hydro project in BC, expected to be completed in 'spring' 2015. As a non-regulated investment, Fortis earns no returns on the project (in which it holds a 51% interest) until it enters operation.
- A \$2.15 billion capital budget for 2015, up 25% versus \$1.73 billion in 2014. Of this, \$684 million (32%) is expected to be spent at UNS Energy (including \$143 million on an increased interest in the Springerville 1 coal plant and related coal handling facilities and \$92 million on a transmission project), \$417 million (19%) is expected to be spent at FortisAlberta, and \$385 million (18%) is expected to be spent at FortisBC Energy (\$170 million on expansion of the Tilbury LNG plant).

These factors are expected to drive 28% Y/Y EPS growth in 2015 (to \$2.00).

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2014A	2015E		2016E	
		Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	127	149	137	165	152
FortisAlberta	103	113	116	118	122
FortisBC Electric	46	56	48	58	50
Eastern Canadian Utilities	60	64	63	68	67
Central Hudson	37	55	57	76	79
UNS Energy	60	180	186	192	197
Regulated Electric Utilities – Caribbean	27	32	32	29	28
Total Regulated Utilities	460	649	639	706	695
<b>Non-regulated Operations</b>					
Fortis Generation	20	35	39	43	45
Non-Utility	23	9	9	0	0
Total Non-regulated Operations	43	44	48	43	45
Corporate	(150)	(144)	(134)	(139)	(134)
<b>Operating Earnings For Common</b>	<b>353</b>	<b>549</b>	<b>553</b>	<b>610</b>	<b>606</b>
Unusual Items	(36)	0	0	0	0
Reported Earnings	317	549	553	610	606
Weighted Average Shares Outstanding (mlns.)	226	275	277	276	278
<b>Operating EPS</b>	<b>1.56</b>	<b>2.00</b>	<b>2.00</b>	<b>2.21</b>	<b>2.18</b>
Reported EPS	1.41	2.00	2.00	2.21	2.18
Dividend Per Share	1.28	1.36	1.36	1.50	1.50
Payout Ratio	81.8%	68.1%	68.0%	68.0%	68.7%

Source: CIBC World Markets Inc.

**Further Catalysts**

We also see two major areas of further opportunity:

- **BC LNG:** As discussed in our February 11<sup>th</sup> report “LNG To The Aloha State”, Fortis is pursuing numerous investments related to LNG export facilities in BC. There is one such expansion currently underway, the \$400 million phase 1A expansion of its own Tilbury LNG facility in Delta, BC, to serve internal BC requirements. A subsequent \$450 million phase 1B expansion is in development, to serve offshore needs (currently with a conditional contract with Hawaiian Electric (HE-NYSE), pending a decision from the Hawaiian regulator, expected by mid-year 2015). Fortis is also in development on a \$600 million expansion of its gas pipeline infrastructure to serve a proposed third party LNG facility in Squamish (Woodfibre LNG), with a final investment decision on that project expected by mid-year 2015. The increased gas volumes required for these facilities, if they proceed, would also likely drive investment to expand capacity on Fortis’ gas transmission pipeline infrastructure both on its Coastal Transmission system (~\$200 million) as well as on its Southern Crossing pipeline (~\$500 million).
- **Completion of the strategic review of Fortis Properties,** the company’s non-regulated real-estate division which owns 23 hotels and 2.8 million square feet of commercial real estate. The company announced in September 2014 that it was pursuing a strategic review of these operations including a potential sale; the process is ongoing with the company hopeful of an

outcome in Q2/2015. We believe the sale of the division would be partially used to fund construction of the LNG projects and other capex, as well as to repay bridge debt/credit lines used in the UNS acquisition.

Fortis currently forecasts a 6.5% rate base CAGR through 2019 on its base plan. If the LNG opportunities come to fruition, that would increase the growth rate to a 7.5% CAGR over that period. We have included risk-weighted contributions from the Tilbury 1B and Woodfibre projects in our outlook, but see further upside if these projects, and related gas transmission infrastructure, were to proceed.

Overall, despite the soft Q4 results, we see little change to the outlook, and maintain our Sector Outperformer rating and \$42 price target.

---

## Price Target Calculation

Our \$42 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$9.5 billion capital spending program (including acquisitions, and risk adjusted capital for LNG projects) through 2019. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 10.1x (utilizing a 2016E net debt of \$12.5 billion) and 19.2x 2016E P/E.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings estimates by \$0.01/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Prior	\$0.65A	\$0.22A	\$0.22A	\$0.53E	\$1.63E
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.46A	\$1.56A
2015 Current	\$0.62E	\$0.47E	\$0.43E	\$0.48E	\$2.00E
2016 Prior	--	--	--	--	\$2.21E
2016 Current	--	--	--	--	\$2.18E

## Our DPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.31A	\$0.31A	\$0.31A	\$0.31A	\$1.24A
2014 Prior	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2014 Current	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2015 Current	\$0.34E	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2016 Prior	--	--	--	--	\$1.50E
2016 Current	--	--	--	--	\$1.50E



## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 02/19/2015:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$40.78, Sector Performer)

## Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

### Stock Prices as of 02/19/2015:

Hawaiian Electric Industries (HE-NYSE, US\$33.60, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

### Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

**Key to Important Disclosure Footnotes: (Continued)**

- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and
- 9 commercial real estate business.

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 19 Feb 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	164	42.8%	Sector Outperformer (Buy)	155	94.5%
Sector Performer (Hold/Neutral)	168	43.9%	Sector Performer (Hold/Neutral)	166	98.8%
Sector Underperformer (Sell)	38	9.9%	Sector Underperformer (Sell)	32	84.2%
Restricted	12	3.1%	Restricted	12	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

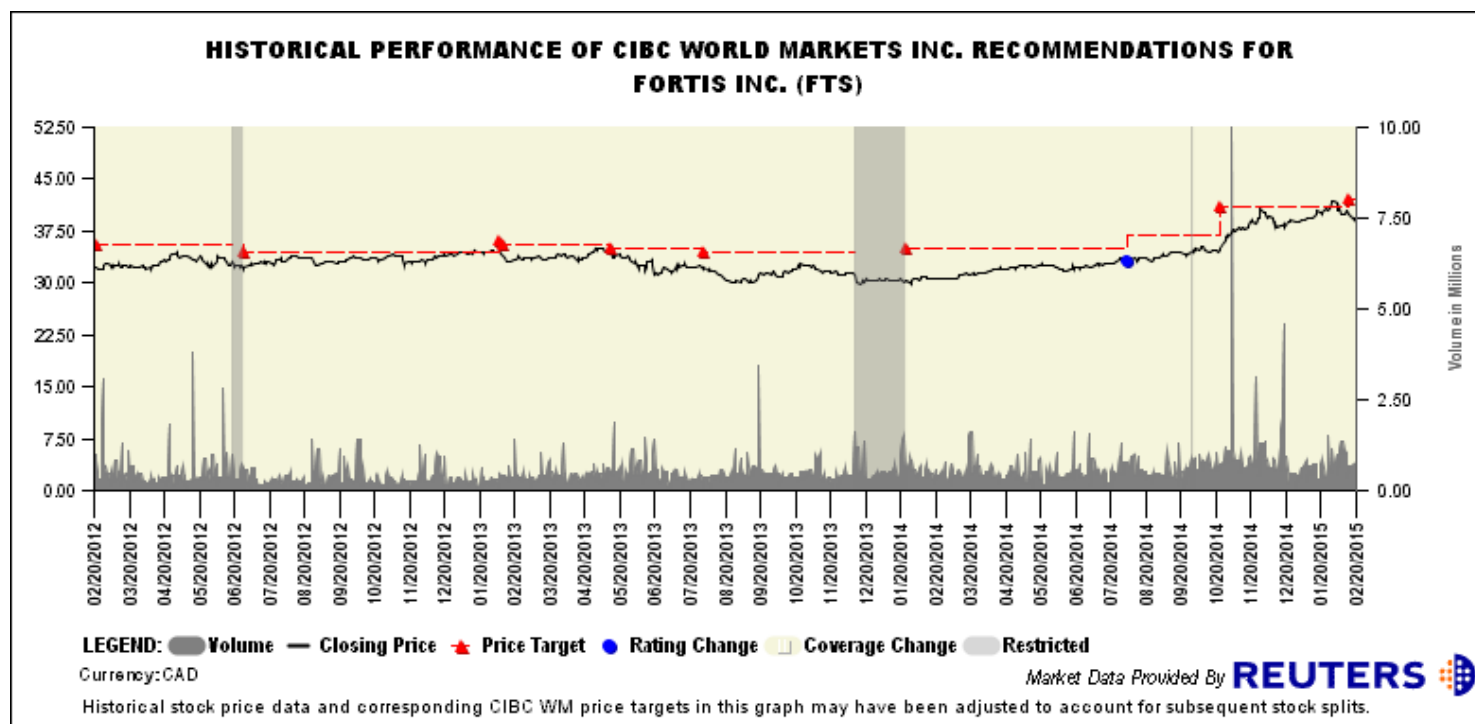
(as of 19 Feb 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	45.5%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	5	45.5%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/22/2012	▲	32.38	SP	35.50	Paul Lechem
06/19/2012	■	33.08	R	-	Paul Lechem
06/28/2012	■	32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem
08/04/2014	▲●	33.09	SO	37.00	Paul Lechem
09/29/2014	■	34.56	R	-	Paul Lechem
10/01/2014	■	34.57	SO	37.00	Paul Lechem
10/23/2014	▲	34.60	SO	41.00	Paul Lechem
02/11/2015	▲	40.41	SO	42.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report

## Legal Disclaimer (Continued)

and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2015 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.





## COMPANY UPDATE

# Fortis Inc.

## Investor Meetings - Leveraging The Platform

### What's The Event

We recently had the opportunity to attend a number of meetings between Fortis management (Karl Smith, CFO and John Walker, EVP Western Canadian Operations) and institutional investors. The key messages that we took away were:

- (1) With completion of the Central Hudson and UNS Energy acquisitions in the U.S., management's attention has now refocused on internal opportunities.
- (2) The core business is healthy and growing.
- (3) Major regulatory issues are largely resolved.
- (4) There is upside to the base case from a number of regional opportunities, the most immediate of which is in B.C. (LNG related).
- (5) Operations are expected to be funded through internally generated cash flow and debt, with no equity issuances (other than through the DRIP) anticipated; the sale proceeds from the Properties business will be used to repay outstanding debt from the UNS acquisition.

The main events to look out for over the coming months are: regulatory decisions on allowed rates of return in Alberta (Q1), New York (Q2) and B.C. (likely Q4); the completion of the sales process for Fortis Properties (possibly by mid-year); and regulatory and/or commercial decisions on the B.C. LNG projects (possibly by mid-year, although more likely by year end).

### Implications

We see no changes to the outlook as we continue to view Fortis as a well-managed, low-risk, moderate-growth business, with incremental upside if certain regional initiatives come to fruition. We maintain our Sector Outperformer rating and \$42 price target.

March 3, 2015

### Pipelines, Utilities, & Power

**SECTOR OUTPERFORMER**

**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

### Key Ratios and Statistics

12-18 mo. Price Target	\$42.00
FTS-TSX (3/3/15)	\$39.25

Key Indices: Toronto, TSX/Utils

52-week Range \$30.51-\$42.23

Shares Outstanding 276.0M

Float 276.0M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$10,833.0M

Dividend/Div Yield \$1.36 / 3.5%

Fiscal Year Ends December

Book Value \$24.89 per Shr

2015 ROE (E) 7.9%

LT Debt \$11.5B

Common Equity \$6.9B

Convertible Available Yes

EPS	2013	2014	2015	2016
Current	\$1.70A	\$1.56A	\$2.00E	\$2.18E
Estimates (Dec. 31)	2013	2014	2015	2016
Div Per Share-Curr	\$1.24A	\$1.28A	\$1.36E	\$1.50E
Valuation (Dec. 31)				
P/E-Curr	23.1x	25.2x	19.6x	18.0x
Dividend Yield-Curr	3.2%	3.3%	3.5%	3.8%

### Company Description

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

15-134739 © 2015

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

**Fortis Inc.**

FTS - TSX 3/3/15

\$39.25

12- To 18- Month Price Target:

\$42.00

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

**Sector Outperformer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca

Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

Market Data					Company Profile				
Share Price	\$39.25	Net Debt		11,304	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation and real estate assets.				
Shares Outstanding	276	Non Control Int.		421					
Market Capitalization	10,833	Preferred Shares		1,820					
		Enterprise Value		24,378					
Valuations					Investment Thesis				
P/E	23.1x	2013	2014	2015E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.				
EV/EBITDA	16.9x	2013	2014	2015E					
		2013	2014	2015E					
P/E	30.2x	2013	2014	2015E					
EV/EBITDA	15.3x	2013	2014	2015E					
		2013	2014	2015E					
Dividend Per Share	\$1.24	\$1.28	\$1.36	\$1.50					
Dividend Yield	3.2%	3.3%	3.5%	3.8%					
Payout Ratio	73.0%	81.8%	68.0%	68.7%					
Book Value Per Share	\$22.38	\$24.89	\$25.60	\$26.35					
Price / Book Value	1.8x	1.6x	1.5x	1.5x					
Cash Per Share	\$0.36	\$1.02	\$0.25	\$0.29					
Debt / Total Capital	55.0%	55.9%	55.5%	56.8%					
Net Debt/EBITDA	5.4x	7.2x	4.8x	4.8x					
Income Statement					Assets - Excl Corporate / Eliminations (Mid-Year 2014, Total \$14 Billion)				
FortisBC Energy	127	127	137	152					
FortisAlberta	94	103	116	122					
FortisBC Electric	50	46	48	50					
Newfoundland Power	36	0	0	0					
Other Canadian Electric Utilities	22	0	0	0					
Central Hudson	23	37	57	79					
UNS Energy	0	60	186	197					
Regulated Electric Utilities - Caribbean	23	27	32	28					
Fortis Generation	19	20	39	45					
Non-Utility	18	23	9	0					
Corporate	(68)	(150)	(134)	(134)					
Operating Earnings	344	353	553	606					
Unusual Items	9	(36)	0	0					
Reported Earnings	353	317	553	606					
Operating EPS	\$1.70	\$1.56	\$2.00	\$2.18					
Reported EPS	\$1.74	\$1.41	\$2.00	\$2.18					
Shares Outstanding	203	226	277	278					
EBITDA	1,439	1,566	2,425	2,605					
Cash Flow					Segmented Earnings (Exc. Corporate)				
Earnings (incl. pref share dividends)	420	390	633	686					
Depreciation and Amortization	542	688	942	1,002					
Total Operating Cash Flow	906	982	1,574	1,688					
Capital Expenditures	1,165	1,725	2,365	2,170					
Dividends	248	266	467	507					
Net Long Term Debt Proceeds	480	450	95	953					
Balance Sheet					Major Sources, Uses Of Cash				
Cash & Cash Equivalents	72	230	68	82					
Utility Capital Assets / Income Properties	12,267	17,816	18,339	19,557					
Total Assets	17,908	26,628	26,939	28,121					
Current Liabilities	2,084	2,684	2,684	2,684					
Debt (incl. Current and Short Term Borrowings)	7,788	11,534	11,629	12,582					
Future Income Taxes	(2)	23	0	0					
Non Controlling Interests	375	421	411	401					
Preferred Shares	1,229	1,820	1,820	1,820					
Shareholders' Equity	6,001	8,691	8,917	9,156					
Total Shareholders' Equity And Liabilities	17,908	26,628	26,939	28,121					

Source: Company reports and CIBC World Markets Inc.

We recently had the opportunity to accompany Fortis (FTS-SO) management (CFO Karl Smith, EVP Western Canadian Operations John Walker) to a number of meetings with institutional investors. The key messages that we took away were: (1) following completion of the U.S. acquisitions, management's attention has refocused on internal operations, which are healthy and growing, with major regulatory issues now largely resolved; (2) there is upside to the base business from regional opportunities, the nearest-term one in B.C. (LNG related); and, (3) operations are expected to be funded through internally generated cash flow, the potential sale of the Fortis Properties business and debt, with no equity issuances currently anticipated. We provide further details below.

### **Focus Shifting Back To Organic Growth, For Now**

With the acquisitions of Central Hudson and UNS Energy now complete, the company's short- to mid-term focus has shifted back to organic growth in order to leverage the opportunities within the existing footprint (although acquisitions still remain within the longer-term plan).

The additions of Central Hudson and UNS Energy establish a couple of beachheads in the U.S. market, which is largely populated by investor-owned utilities (although the number of these is shrinking as the market continues to consolidate). By contrast, the majority of utilities in Canada are owned by provincial governments or crown corporations, with few opportunities to acquire. As such, Fortis has expanded into the U.S. to provide future opportunities for organic investment (more on this below), as well as to diversify its business.

For instance, at year-end 2012 (prior to either U.S. acquisition), the company had roughly half its assets (FortisBC gas and electric) in British Columbia, which carried inherent regulatory and political risks given high exposure to a single region. By year-end 2014 (including both U.S. acquisitions), the B.C. utilities represented 29% of total assets, with the U.S. operations comprising 38% of the total.

### **Major Regulatory Issues Largely Settled, For Now**

The company has had a very active regulatory calendar over the last few years. At present, management views the regulatory outlook as more settled. Longer-term agreements are in place in the U.S. operations, and major changes in the regulatory regimes in Alberta and B.C. [following implementation of Performance Base Ratemaking (PBR) mechanisms] have been made, with further changes now "fine-tuning."

- **UNS Energy:** UNS Energy's operating units – Tuscon Electric Power (TEP), UNS Electric and UNS Gas – are operating under rates established in 2013, 2014 and 2012, respectively. The rate orders provide for returns on equity of 10.0%, 9.5% and 9.75% on equity thicknesses of 43.5%, 52.6% and 50.8%, respectively. These rates are expected to remain in place through 2016.
- **Central Hudson:** Central Hudson is currently operating under rates established in July 2014 with a 10.0% ROE on 48% equity. Fortis filed a Joint Settlement Proposal in February 2015 requesting 9.0% ROE on 48% equity for a three-year period commencing July 1, 2015. All parties have agreed to the terms of this settlement, which is expected to go to the regulator in June for consideration and approval.
- **FortisBC Energy and FortisBC Electric:** FortisBC Energy, as the province's "benchmark" utility, off which all other utilities rates are set, is operating under rates established January 1, 2015 with an 8.75% ROE and 38.5% equity. Fortis will file an application for review of these parameters in late 2015 to determine rates for 2016. Given interest rates have declined further

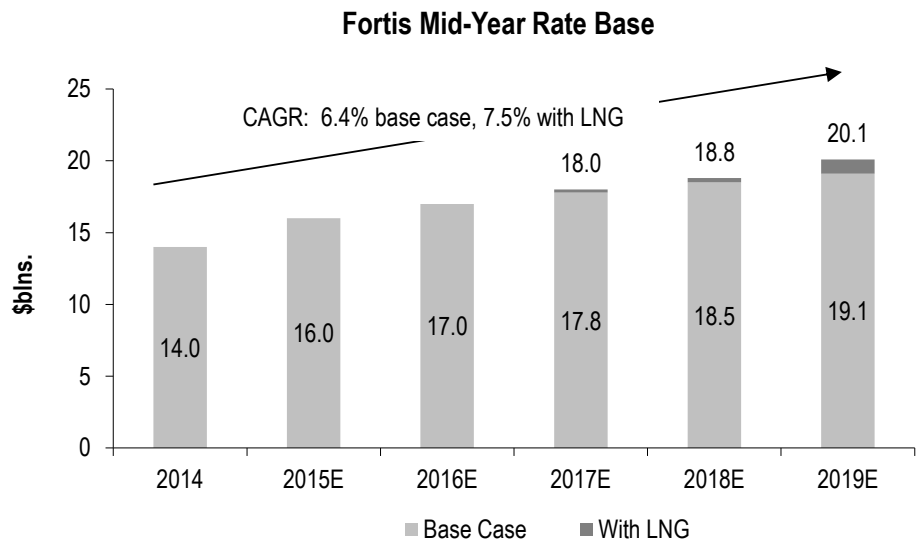
in 2015, there is potential downside risk to FortisBC Energy's allowed ROE, and given it is the benchmark, for all other B.C. utilities, although we expect any reduction to be modest (~25 bps).

- FortisAlberta:** FortisAlberta is operating under interim rates (8.75% ROE on 41% equity) pending the outcome of a Generic Cost of Capital (GCOC) proceeding expected before the end of Q1/15. The GCOC will set the ROE/equity thickness for 2013, 2014 and potentially 2015. Fortis management does not expect significant changes to the interim rates. A decision is also expected in Q1/15 on the Capital Tracker Application which provides a recovery mechanism above those returns allowed under the current PBR mechanism.

### Organic Investment Drives Base Case Mid-to-high Single-digit Growth

As the company has laid out previously, the base-case 2015E-2019E capital plan totals \$9 billion (i.e., an average of \$1.8 billion annually), driving a rate base CAGR (2014-2019E) of 6.4%. If certain LNG-related investments in B.C. come to fruition (a further \$1 billion capex), the rate-base CAGR rises to 7.5%.

**Exhibit 1. Forecast Mid-year Rate Base (\$ blns.)**



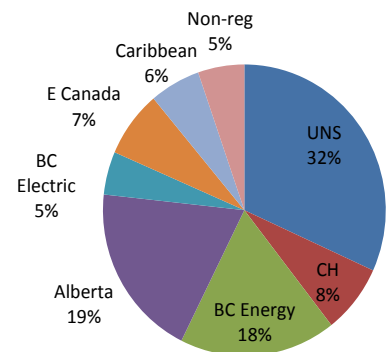
Source: Company reports and CIBC World Markets Inc.

The spending profile is skewed more to the early years, with \$2.2 billion of forecast capex in 2015 dropping to \$1.5 billion by 2019. About 70% of capital expenditures are related to maintenance of the existing asset base; the remainder is directed to growth projects. However, of these, there are few major projects, and the investments are reasonably well diversified across segments. We therefore see few risks associated with the base-case outlook.

**Exhibit 2. Major 2015 Projects**

Segment	Project	Amount (\$mlns.)
UNS	Springerville 1	55
	Springerville Coal Handling	88
	Pinal Transmission	92
BC Energy	Tilbury LNG	170
Alberta	Pole Management	41
Caribbean	Generation	58
Non-reg	Waneta Expansion	76

Source: Company reports and CIBC World Markets Inc.

**Exhibit 3. Capex By Segment****F2015 Capex By Segment**

Source: Company reports and CIBC World Markets Inc.

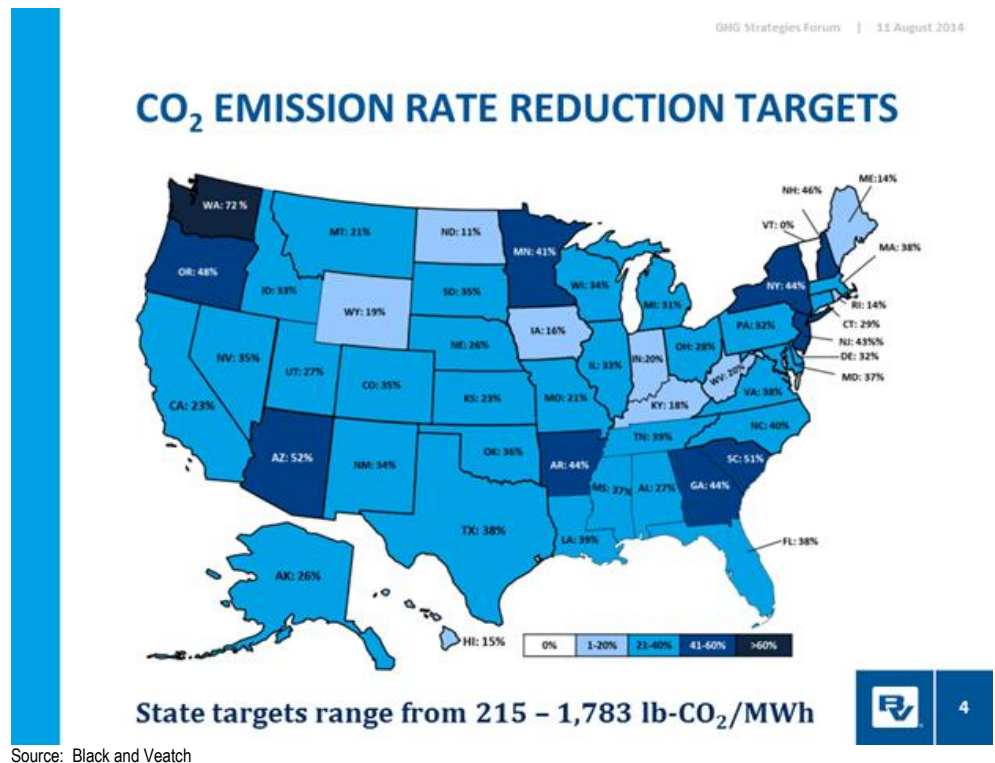
**Potential Upside From Regional Opportunities**

The base-case outlook does not include the potential upside from large-scale regional opportunities. The nearest-term such initiative is in B.C., related to liquefied natural gas (LNG) projects in the province, but Fortis also sees longer-term opportunities in Arizona (UNS Energy) related to retirement and replacement of coal power-generating facilities, and in New York (Central Hudson) related to gas and electric transmission projects. If the B.C. LNG opportunities come to fruition, there will be a further \$1 billion of capex required, contributing to a 7.5% rate base CAGR through 2019, about 1% higher growth than the base-case scenario (Exhibit 1). We discuss a few of these regional opportunities below.

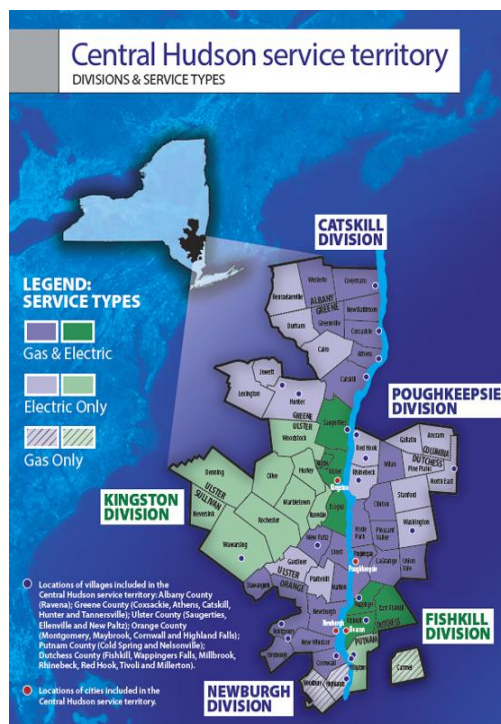
- B.C. LNG:** Management discussed at length the investment opportunities related to B.C. LNG. We published a report on this topic on February 11: "[LNG To The Aloha State.](#)" There are two separate opportunities: (1) expansion of the company's own Tilbury LNG facilities located on the Fraser River in Delta, just south of Vancouver. Phase 1A of this expansion, currently underway and included in the base-case outlook, involves expansion of storage and liquefaction to serve the B.C. transportation industry (trucks, ferries, mining). Phase 1B (approximately ~\$450 million) would be a further expansion of liquefaction capabilities, to serve the export market [a conditional contract has been signed with Hawaiian Electric (HE-NYSE), with approval expected later this year]. (2) Expansion of a gas pipeline and related compression infrastructure (at a cost of ~\$600 million) to serve a proposed third-party LNG export facility (Woodfibre) in Squamish. The Woodfibre project is awaiting final environmental approvals and is expected to reach a final investment decision later this year. Both projects are supported by the B.C. provincial government which views them as key components (and early signs of success) of its initiatives to foster investment in LNG projects in the province.
- Arizona:** UNS Energy generates ~60% of its energy from coal-fired generation facilities, with renewables (solar) comprising only about 1% of the mix (gas and oil making up the remainder). In June 2014, the U.S. Environmental Protection Agency (EPA) announced carbon emission regulations under a proposed Clean Power Plan, targeting a 30% nation-wide reduction in CO<sub>2</sub> emissions by 2030. The plan called for state-by-state targets; with Arizona so heavily dependent on coal-fired generation, the plan called for a 52% reduction in Arizona emissions. The Clean Power Plan was initially expected to be finalized by mid-2015; we believe this is likely to be delayed given the difficulties and costs of implementation. Nevertheless,

regardless of the final requirements of the plan, it is clear that significant investments need to be made to reduce emissions in Arizona. We expect UNS to take part in the long-term investment to replace coal-fired facilities with gas and/or renewables (both utility scale and distributed), although we await finalization of the EPA plan to see of what magnitude and over what timeframe these investments will need to be made.

#### Exhibit 4. Proposed CO<sub>2</sub> Emissions Reduction Targets, By State



- New York:** Fortis' operations in New York state, through the acquired Central Hudson (CH) operations, extend along the Hudson River Valley, from the northern outskirts of New York City to the southern outskirts of Albany. The location is beneficial, located in a region that has transmission constraints, both electric (north to south) and gas (west to east).

**Exhibit 5. CH Service Territory**

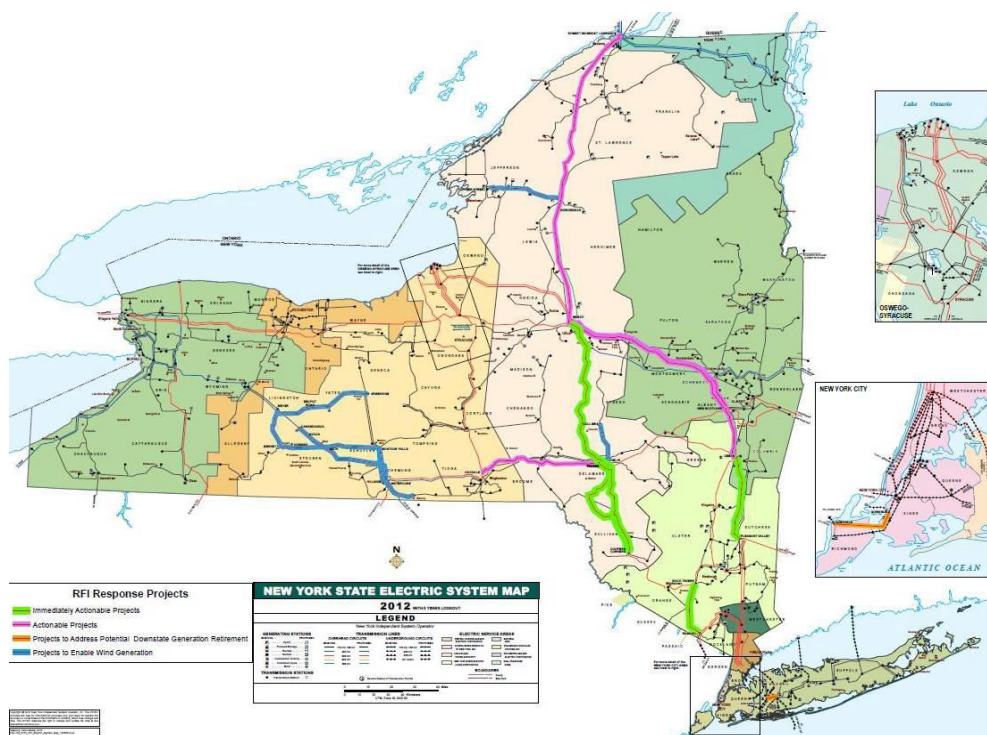
Source: Company reports

Fortis is pursuing electric transmission opportunities through a partnership (New York Transco) with the other major transmission owners in the state, Con Edison (ED-NYSE), New York Power Authority, Long Island Power Authority, New York State Electric and Gas Co., and Niagara Mohawk Power (NMK.C-NYSE). Fortis has a 6% stake in the partnership. The partnership has identified a number of projects aimed at alleviating electric transmission congestion in the state, whereby power generators in the northern and western parts of the state (including renewable generation) are constrained in exporting excess energy to the heavy load in the southeastern region.

The partnership has identified several projects to de-constrain transmission, initially pursuing five of these, representing a total investment of ~US\$0.9 billion (~US\$50 million to Fortis). The broader opportunity set proposed by the partnership totals about US\$3 billion, representing further long-term potential investment.



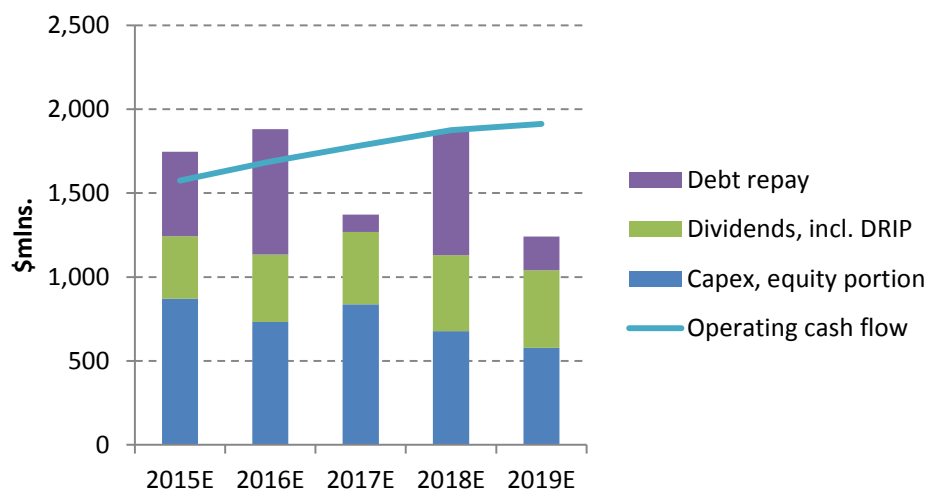
## Exhibit 6. New York Transco Projects



Additionally, Fortis sees opportunity to utilize its right of ways to build out gas pipeline infrastructure to transport gas from the Marcellus region to the west in Pennsylvania to the population load centers in New England to the east. We view this opportunity as less well developed than the electric transmission initiatives Fortis is pursuing through New York Transco; if it were to proceed, we expect it would do so in partnership with a gas pipeline company with existing infrastructure in the region [e.g., Spectra Energy (SE-SP), Kinder Morgan (KMI-NYSE)].

## Growth Financeable From Cash Flows (And Sale Of Fortis Properties)

With the inclusion of the two acquired U.S. utilities, we expect Fortis to generate strong operating cash flow. We believe this should be roughly sufficient to fund the company's primary cash needs over the forecast horizon, on average, although spending could exceed operating cash flow in certain years. In 2015, we estimate operating cash flow of ~\$1.6 billion, slightly below the \$1.8 billion required to fund dividends (~\$0.4 billion, including DRIP proceeds), debt repayment (\$0.5 billion), and the equity funded portion (at an assumed 40% ratio) of capex (\$0.9 billion). However, over the five-year forecast, we estimate cash flow on average to exceed requirements. In any event, the company does not currently foresee the need for further equity issuance (beyond the DRIP program) to fund its capital program. As such, rate base growth should translate roughly into comparable EPS (and ultimately dividend per share) growth.

**Exhibit 7. Cash Flow Appears Sufficient To Support Major Requirements****Major Cash Sources, Uses**

Source: CIBC World Markets Inc.

The company is also in the process of selling its Properties division, and hopes to conclude the process by mid-year. The company has already received preliminary bids. While management declined to comment on the expected sale price, it noted that the Properties book value is ~\$700 million, and it hopes to exceed this figure. The proceeds are likely to be used to retire outstanding debt of ~\$750 million not yet termed out from the UNS acquisition.

**Summary**

In summary, management's comments were consistent with those laid out at various investor events over the past year: with the completion of the U.S. acquisitions, the company is focused on executing on a sizable base-case program of organic development, with possible upside, likely fully fundable from internally generated cash flow (plus incremental debt). We continue to view Fortis as a well-managed, low-risk, modest-growth business, with good visibility into mid- to high-single-digit rate base, and likely dividend per share, growth over the coming several years. We maintain our Sector Outperformer rating and \$42 price target.

**Price Target Calculation**

Our \$42 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$9.5 billion capital spending program (including acquisitions, and risk-adjusted capital for LNG projects) through 2019. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 10.1x (utilizing a 2016E net debt of \$12.5 billion) and 19.2x 2016E P/E.

**Key Risks To Price Target**

- Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) proceedings taking place in Alberta and B.C.

- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risks:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).

## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.46A	\$1.56A
2015 Current	\$0.62E	\$0.47E	\$0.43E	\$0.48E	\$2.00E
2016 Current	--	--	--	--	\$2.18E

## Our DPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.31A	\$0.31A	\$0.31A	\$0.31A	\$1.24A
2014 Current	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2015 Current	\$0.34E	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2016 Current	--	--	--	--	\$1.50E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 03/03/2015:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$39.54, Sector Performer)

Spectra Energy Corp (2g) (SE-NYSE, US\$35.32, Sector Performer)

## Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:

### Stock Prices as of 03/03/2015:

Consolidated Edison (ED-NYSE, US\$62.17, Not Rated)

Hawaiian Electric Industries (HE-NYSE, US\$32.63, Not Rated)



**Companies Mentioned in this Report that Are Not Covered by CIBC World Markets Inc.:  
(Continued)**

**Stock Prices as of 03/03/2015:**

Kinder Morgan, Inc. (KMI-NYSE, US\$41.09, Not Rated)

Niagara Mohawk Power Corporation (NMK.C-NYSE, US\$94.80, Not Rated)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and  
9 commercial real estate business.



## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 03 Mar 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	160	41.8%	Sector Outperformer (Buy)	152	95.0%
Sector Performer (Hold/Neutral)	168	43.9%	Sector Performer (Hold/Neutral)	166	98.8%
Sector Underperformer (Sell)	41	10.7%	Sector Underperformer (Sell)	34	82.9%
Restricted	13	3.4%	Restricted	13	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

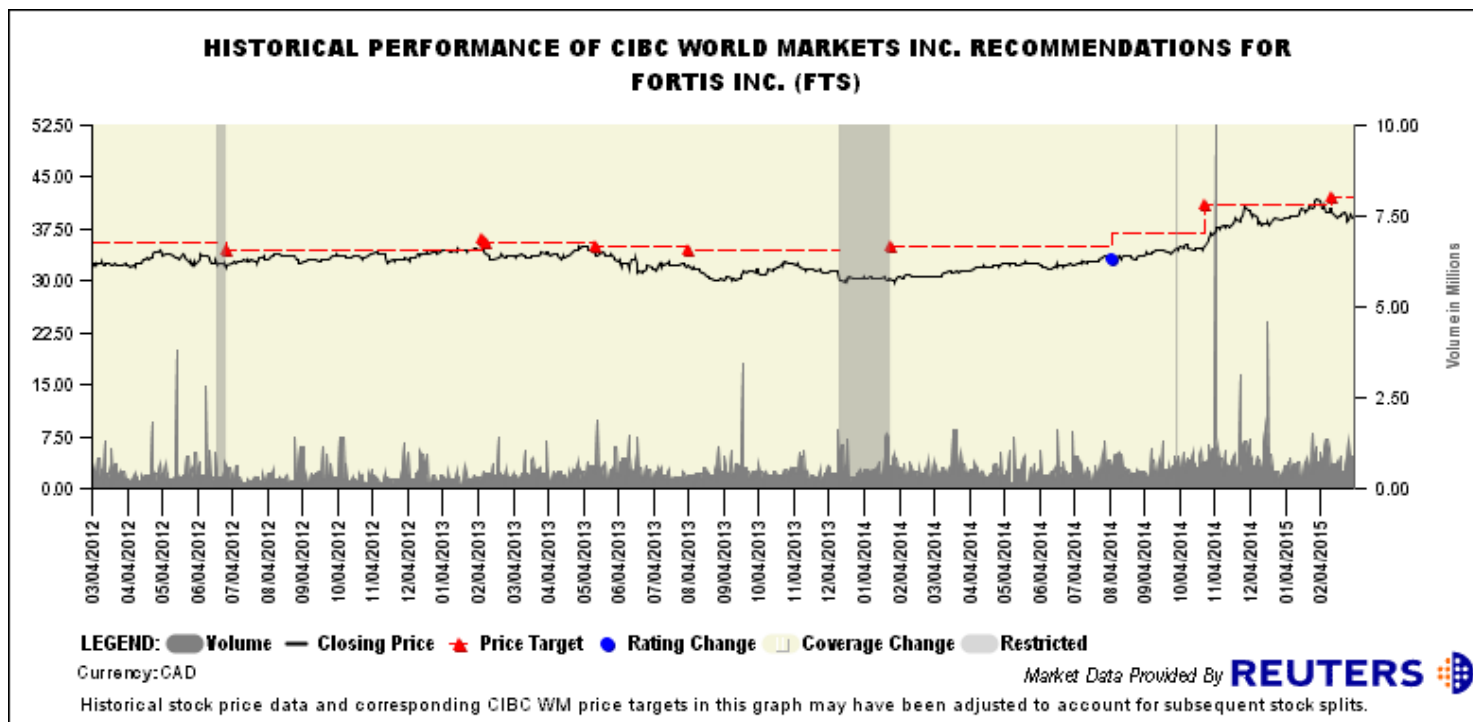
(as of 03 Mar 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	36.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	5	45.5%	Sector Performer (Hold/Neutral)	5	100.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	1	9.1%	Restricted	1	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
06/19/2012		33.08	R	-	Paul Lechem
06/28/2012		32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013		31.19	R	-	Paul Lechem
01/24/2014		30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem
08/04/2014	▲ ●	33.09	SO	37.00	Paul Lechem
09/29/2014		34.56	R	-	Paul Lechem
10/01/2014		34.57	SO	37.00	Paul Lechem
10/23/2014	▲	34.60	SO	41.00	Paul Lechem
02/11/2015	▲	40.41	SO	42.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report

## Legal Disclaimer (Continued)

and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2015 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.


**EARNINGS UPDATE**

# Fortis Inc.

## Negative Alberta Cost Of Capital Decision; Modest Impact To EPS

### What's Changed

The Alberta Utilities Commission (AUC) released its 2013-2015 Generic Cost of Capital (GCOC) decision for utilities operating in Alberta. The AUC reduced its generic allowed return on equity (ROE) from 8.75% to 8.30%.

The AUC cited the improvement in global financial market and economic conditions since the prior GCOC proceeding (2011), along with the current environment of historically low interest rates as warranting a decline in the allowed ROE. The AUC stated that in the current environment, the expected return from the overall stock market may have declined, and hence the required return for low-risk utilities has also fallen below long-term averages. The AUC also reduced the common equity ratios for the majority of utilities in the province by 1% citing a lower equity requirement to maintain the targeted A-range credit metrics than previously observed. For FortisAlberta, the common equity ratio declines from 41% to 40%.

### Implications

We estimate that the AUC decision will reduce Fortis' annual EPS by ~\$0.025. The decision, however, is retroactive to 2013, meaning 2015 (specifically Q1) will see the impact of the previous two years (Fortis had been booking earnings at 8.75% ROE/41% equity pending the decision). As a result, we have reduced our 2015E and 2016E EPS from \$2.00/\$2.18 to \$1.93/\$2.15, respectively.

We also note that Fortis' BC utilities are scheduled for a review of their allowed ROE and common equity ratio (FortisBC Energy currently at 8.75% and 38.5%, respectively), with an application to be filed with the BCUC by November 30, 2015 to determine the benchmark for 2016. We estimate the impact of a 45 bps reduction in BC allowed ROEs would lower Fortis' EPS by ~\$0.03.

While lower allowed returns are an obvious negative for a regulated utility, we note that the annual impact on EPS from the AUC ruling is <2% of EPS. We continue to view Fortis as a well-managed, low-risk, modest-growth business, with good visibility into mid- to high-single-digit growth over the coming several years. Maintain SO rating and \$42 PT.

March 25, 2015

**Pipelines, Utilities, & Power**

**SECTOR OUTPERFORMER**

**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

### Key Ratios and Statistics

12-18 mo. Price Target	\$42.00
FTS-TSX (3/25/15)	\$39.80

Key Indices: Toronto, TSXUtils

52-week Range	\$31.11-\$42.23
Shares Outstanding	276.0M
Float	276.0M Shrs
Avg. Daily Trading Vol.	459,853
Market Capitalization	\$10,984.8M
Dividend/Div Yield	\$1.36 / 3.4%
Fiscal Year Ends	December
Book Value	\$24.89 per Shr
2015 ROE (E)	7.6%
LT Debt	\$11.5B
Common Equity	\$6.9B
Convertible Available	Yes

EPS	2013	2014	2015	2016
Current	\$1.70A	\$1.56A	\$1.93E	\$2.15E
Prior			\$2.00E	\$2.18E
Estimates (Dec. 31)	2013	2014	2015	2016
Div Per Share-Curr	\$1.24A	\$1.28A	\$1.36E	\$1.50E
Div Per Share-Prior			\$1.36E	\$1.50E
Valuation (Dec. 31)				
P/E-Curr	23.4x	25.5x	20.6x	18.5x
P/E-Prior			19.9x	18.3x
Dividend Yield-Curr	3.1%	3.2%	3.4%	3.8%
Dividend Yield-Prior			3.4%	3.8%

### Company Description

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

15-135162 © 2015

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



# Fortis Inc.

FTS - TSX 3/25/15

12- To 18- Month Price Target:

Pipelines, Utilities & Power

Sector Weighting:

Market Weight

\$39.80

\$42.00

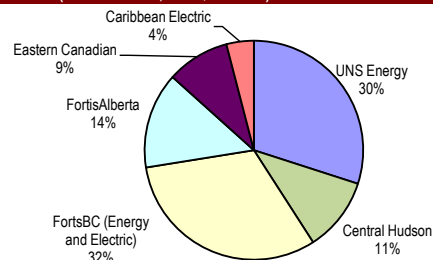
# Sector Outperformer

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca  
Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

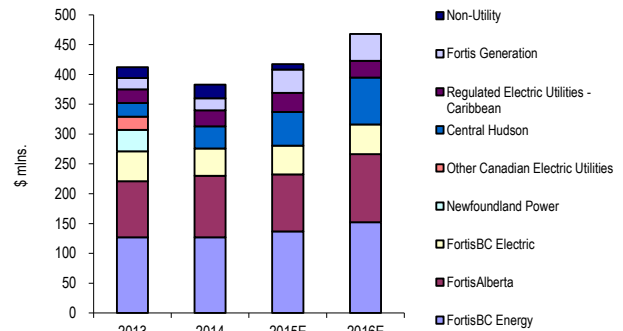
Market Data					Company Profile				
Share Price	\$39.80	Net Debt		11,304	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation and real estate assets.				
Shares Outstanding	276	Non Control Int.		421					
Market Capitalization	10,985	Preferred Shares		1,820					
		Enterprise Value		24,530					
Valuations					Investment Thesis				
P/E	23.4x	2013	2014	2015E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.				
EV/EBITDA	17.0x	2013	2014	2015E					
		2013	2014	2015E					
P/E	28.7x	2013	2014	2015E					
EV/EBITDA	15.0x	2013	2014	2015E					
		2013	2014	2015E					
Dividend Per Share	\$1.24	2013	2014	2015E					
Dividend Yield	3.1%	2013	2014	2015E					
Payout Ratio	73.0%	2013	2014	2015E					
Book Value Per Share	\$22.38	2013	2014	2015E					
Price / Book Value	1.8x	2013	2014	2015E					
Cash Per Share	\$0.36	2013	2014	2015E					
Debt / Total Capital	55.0%	2013	2014	2015E					
Net Debt/EBITDA	5.4x	2013	2014	2015E					
		2013	2014	2015E					
FortisBC Energy	127	2013	2014	2015E					
FortisAlberta	94	2013	2014	2015E					
FortisBC Electric	50	2013	2014	2015E					
Newfoundland Power	36	2013	2014	2015E					
Other Canadian Electric Utilities	22	2013	2014	2015E					
Central Hudson	23	2013	2014	2015E					
UNS Energy	0	2013	2014	2015E					
Regulated Electric Utilities - Caribbean	23	2013	2014	2015E					
Fortis Generation	19	2013	2014	2015E					
Non-Utility	18	2013	2014	2015E					
Corporate	(68)	2013	2014	2015E					
Operating Earnings	344	2013	2014	2015E					
Unusual Items	9	2013	2014	2015E					
Reported Earnings	353	2013	2014	2015E					
Operating EPS	\$1.70	2013	2014	2015E					
Reported EPS	\$1.74	2013	2014	2015E					
Shares Outstanding	203	2013	2014	2015E					
EBITDA	1,439	2013	2014	2015E					
		2013	2014	2015E					
Earnings (incl. pref share dividends)	420	2013	2014	2015E					
Depreciation and Amortization	542	2013	2014	2015E					
Total Operating Cash Flow	906	2013	2014	2015E					
Capital Expenditures	1,165	2013	2014	2015E					
Dividends	248	2013	2014	2015E					
Net Long Term Debt Proceeds	480	2013	2014	2015E					
		2013	2014	2015E					
Cash & Cash Equivalents	72	2013	2014	2015E					
Utility Capital Assets / Income Properties	12,267	2013	2014	2015E					
Total Assets	17,908	2013	2014	2015E					
Current Liabilities	2,084	2013	2014	2015E					
Debt (incl. Current and Short Term Borrowings)	7,788	2013	2014	2015E					
Future Income Taxes	(2)	2013	2014	2015E					
Non Controlling Interests	375	2013	2014	2015E					
Preferred Shares	1,229	2013	2014	2015E					
Shareholders' Equity	6,001	2013	2014	2015E					
Total Shareholders' Equity And Liabilities	17,908	2013	2014	2015E					

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.

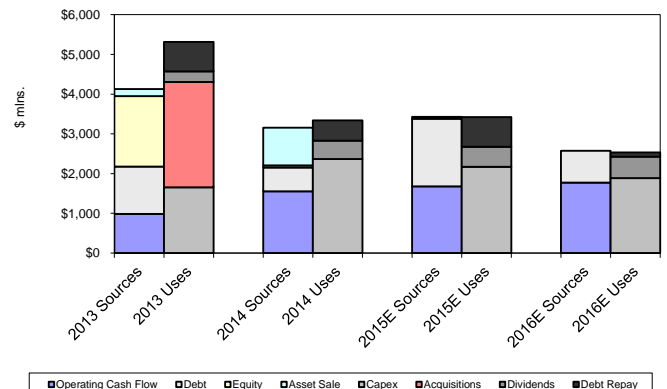
## Utility Rate Base (Mid-Year 2015E, Total \$25 Billion)



## Segmented Earnings (Exc. Corporate)



## Major Sources, Uses Of Cash



Source: Company reports and CIBC World Markets Inc.

---

## Price Target Calculation

Our \$42 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$9.5 billion capital spending program (including acquisitions, and risk-adjusted capital for LNG projects) through 2019. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 10.2x (utilizing a 2016E net debt of \$12.5 billion) and 19.5x 2016E P/E.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) and generic cost of capital (GCOC) proceedings in Alberta and B.C.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.01/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns. Clearly, the Waneta Expansion project is the largest construction project that the company is undertaking (with the company funding 51% of the total \$900 million cost). Fortis and its partners have signed a fixed-price design-build contract with SNC-Lavalin (SNC-SP) in order to mitigate construction risk, but ultimate construction and financing risks lie with the Waneta Expansion consortium (i.e., Fortis and partners).



## Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.46A	\$1.56A
2015 Prior	\$0.62E	\$0.47E	\$0.43E	\$0.48E	\$2.00E
2015 Current	\$0.57E	\$0.47E	\$0.43E	\$0.47E	\$1.93E
2016 Prior	--	--	--	--	\$2.18E
2016 Current	--	--	--	--	\$2.15E

## Our DPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.31A	\$0.31A	\$0.31A	\$0.31A	\$1.24A
2014 Current	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2015 Prior	\$0.34E	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2015 Current	\$0.34E	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2016 Prior	--	--	--	--	\$1.50E
2016 Current	--	--	--	--	\$1.50E

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 03/25/2015:

SNC-Lavalin Group Inc. (2g, 7) (SNC-TSX, \$40.95, Sector Performer)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 1a CIBC WM Corp. makes a market in the securities of this company
- 1b CIBC WM Corp. makes a market in the securities of this company
- 1c CIBC WM Corp. makes a market in the securities of this company
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and
- 9 commercial real estate business.

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 25 Mar 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	150	41.4%	Sector Outperformer (Buy)	144	96.0%
Sector Performer (Hold/Neutral)	162	44.8%	Sector Performer (Hold/Neutral)	157	96.9%
Sector Underperformer (Sell)	37	10.2%	Sector Underperformer (Sell)	34	91.9%
Restricted	12	3.3%	Restricted	12	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

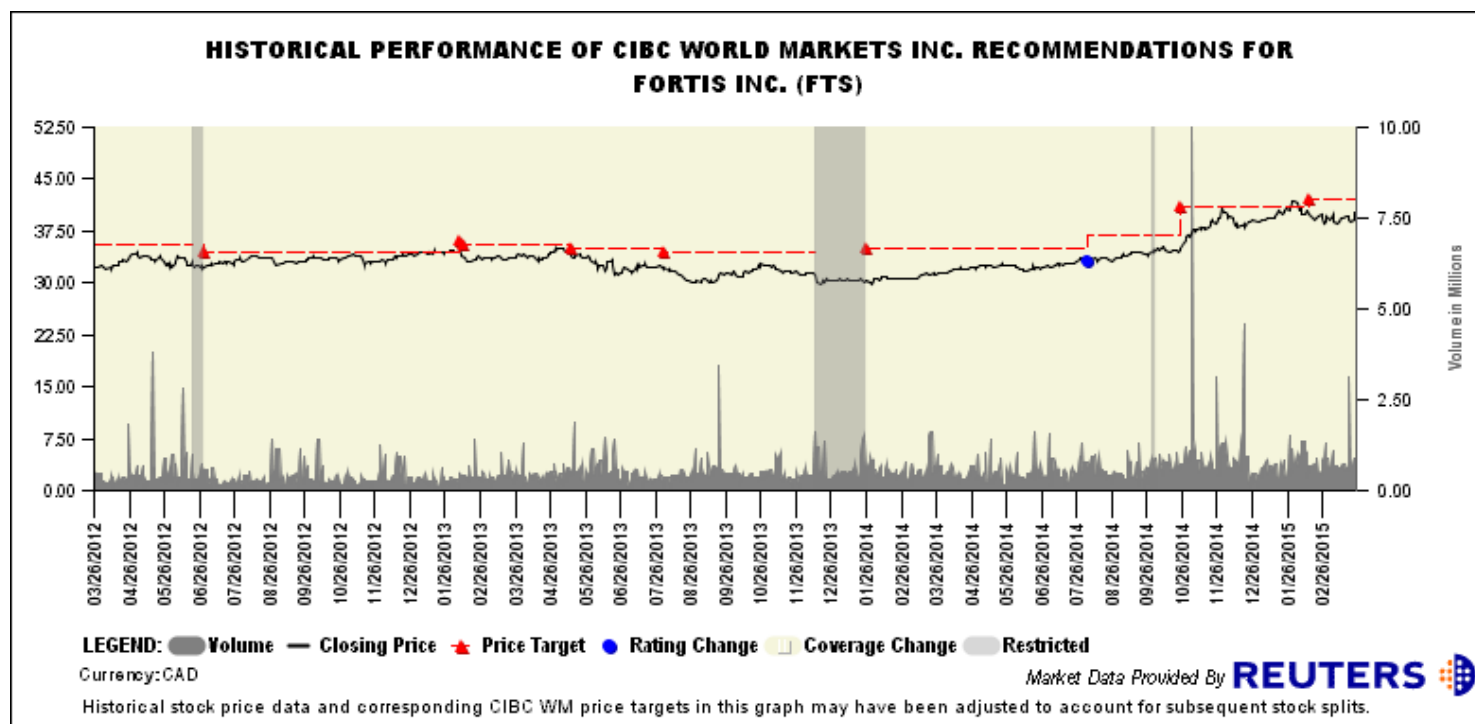
(as of 25 Mar 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	36.4%	Sector Outperformer (Buy)	4	100.0%
Sector Performer (Hold/Neutral)	4	36.4%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	3	27.3%	Restricted	3	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
06/19/2012		33.08	R	-	Paul Lechem
06/28/2012		32.09	SP	35.50	Paul Lechem
06/28/2012		32.09	SP	34.50	Paul Lechem
02/04/2013		34.47	SP	36.00	Paul Lechem
02/08/2013		33.78	SP	35.50	Paul Lechem
05/13/2013		34.21	SP	35.00	Paul Lechem
08/02/2013		32.15	SP	34.50	Paul Lechem
12/11/2013		31.19	R	-	Paul Lechem
01/24/2014		30.31	SP	34.50	Paul Lechem
01/24/2014		30.31	SP	35.00	Paul Lechem
08/04/2014		33.09	SO	37.00	Paul Lechem
09/29/2014		34.56	R	-	Paul Lechem
10/01/2014		34.57	SO	37.00	Paul Lechem
10/23/2014		34.60	SO	41.00	Paul Lechem
02/11/2015		40.41	SO	42.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are

## Legal Disclaimer (Continued)

subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2015 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.




**EARNINGS UPDATE**

# Fortis Inc.

## Q1 Beat On Positive AUC Decision And FX Gains

### What's The Event

Fortis released Q1/2015 adjusted EPS of \$0.65, ahead of consensus \$0.62 / CIBC \$0.57. Fortis' earnings exclude the retroactive impact/benefit of two regulatory decisions in Alberta - a positive Capital Tracker decision and a negative ROE/equity thickness decision - which combined would have had a \$10 million benefit in the quarter. The outperformance in the quarter versus our expectation reflects our Q1 estimate including the negative impact of the reduction in ROE/equity thickness (although not the benefit of the Capital Tracker decision) for the entire FortisAlberta rate base for the retroactive and current periods; in reality, the lower ROE/equity thickness only applied to ~5-10% of rate base governed by the Capital Tracker mechanism.

Otherwise, the company's results had a number of puts and takes but were roughly as expected: a lower-than-expected contribution from UNS given significant seasonality in the business (Q2/Q3 strongest); a higher-than-expected contribution from FortisBC Energy due to the termination of a revenue stabilization mechanism (Q1 stronger); a higher-than-expected contribution from FortisBC Electric due to timing of regulatory deferrals; lower contributions from non-regulated Generation (lower rainfall) and Properties (costs of strategic review).

### Implications

Q1 marked a solid start to what we view as a strong year for Fortis. The company is expected to benefit in 2015 from: a full year contribution from UNS, the end of the rate freeze at Central Hudson, the start-up of the Waneta Expansion, and \$2.2 billion in capex. Fortis has a 5-year capex program totalling \$9 billion, with a further \$1 billion from potential LNG-export related projects in BC which are expected to be sanctioned by year-end. This capex drives 6.5%-7.5% rate base CAGR through 2019.

We remain positive on Fortis given the company's solid growth outlook (with potential upside) and low-risk regulated business model. We see little material change to our outlook and maintain our Sector Outperformer rating and \$42 price target.

May 5, 2015

**Pipelines, Utilities, & Power**
**SECTOR OUTPERFORMER**
**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

**Key Ratios and Statistics**

12-18 mo. Price Target	\$42.00
FTS-TSX (5/5/15)	\$38.76

Key Indices: Toronto, TSXUtils

52-week Range \$31.26-\$42.23

Shares Outstanding 277.5M

Float 277.5M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$10,697.8M

Dividend/Div Yield \$1.36 / 3.5%

Fiscal Year Ends December

Book Value \$26.39 per Shr

2015 ROE (E) 7.8%

LT Debt \$12.2B

Common Equity \$7.3B

Convertible Available Yes

EPS	2013	2014	2015	2016
Current	\$1.70A	\$1.56A	\$1.97E	\$2.16E
Prior			\$1.93E	\$2.15E

Estimates (Dec. 31)	2013	2014	2015	2016
Div Per Share-Curr	\$1.24A	\$1.28A	\$1.36E	\$1.50E
Div Per Share-Prior			\$1.36E	\$1.50E

Valuation (Dec. 31)				
P/E-Curr	22.8x	24.8x	19.7x	17.9x
P/E-Prior			20.1x	18.0x
Dividend Yield-Curr	3.2%	3.3%	3.5%	3.9%
Dividend Yield-Prior			3.5%	3.9%

**Company Description**

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation and real estate assets.

[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

15-135807 © 2015

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

**Fortis Inc.**

FTS - TSX 5/5/15

\$38.89

12- To 18- Month Price Target:

\$42.00

Pipelines, Utilities &amp; Power

Sector Weighting:

Market Weight

**Sector Outperformer**

Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca

Osvaldo Matias, CFA (416-956-6428) Osvaldo.Matias@cibc.ca

Market Data					Company Profile				
Share Price	\$38.89	Net Debt		11,882	Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation and real estate assets.				
Shares Outstanding	278	Non Control Int.		434					
Market Capitalization	10,792	Preferred Shares		1,820					
		Enterprise Value		24,928					
Valuations					Investment Thesis				
P/E	22.9x	2013	2014	2015E	Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.				
EV/EBITDA	17.3x								
Pipeline And Utilities Sector Average									
P/E	29.8x	2013	2014	2015E					
EV/EBITDA	15.5x								
Other Data					Utility Rate Base (Mid-Year 2015E, Total \$25 Billion)				
Dividend Per Share	\$1.24	2013	2014	2015E					
Dividend Yield	3.2%								
Payout Ratio	73.0%								
Book Value Per Share	\$22.38								
Price / Book Value	1.7x								
Cash Per Share	\$0.36								
Debt / Total Capital	55.0%								
Net Debt/EBITDA	5.4x								
Income Statement					Segmented Earnings (Exc. Corporate)				
FortisBC Energy	127	2013	2014	2015E					
FortisAlberta	94								
FortisBC Electric	50								
Newfoundland Power	36								
Other Canadian Electric Utilities	22								
Central Hudson	23								
UNS Energy	0								
Regulated Electric Utilities - Caribbean	23								
Fortis Generation	19								
Non-Utility	18								
Corporate	(68)								
<b>Operating Earnings</b>	<b>344</b>								
Unusual Items	9								
Reported Earnings	353								
<b>Operating EPS</b>	<b>\$1.70</b>								
Reported EPS	\$1.74								
Shares Outstanding	203								
EBITDA	1,439								
Cash Flow					Major Sources, Uses Of Cash				
Earnings (incl. pref share dividends)	420	2013	2014	2015E					
Depreciation and Amortization	542								
Total Operating Cash Flow	906								
Capital Expenditures	1,165								
Dividends	248								
Net Long Term Debt Proceeds	480								
<b>Balance Sheet</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>					
Cash & Cash Equivalents	72								
Utility Capital Assets / Income Properties	12,267								
Total Assets	17,908								
Current Liabilities	2,084								
Debt (incl. Current and Short Term Borrowings)	7,788								
Future Income Taxes	(2)								
Non Controlling Interests	375								
Preferred Shares	1,229								
Shareholders' Equity	6,001								
Total Shareholders' Equity And Liabilities	17,908								

Source: Company reports and CIBC World Markets Inc.

---

## Q1 Beat

Fortis (FTS-SO) reported Q1/2015 adjusted EPS of \$0.65, ahead of consensus \$0.62/CIBC \$0.57 estimates. The main variances from our estimate were as follows:

### AUC Decisions

- The company received a positive regulatory decision from the Alberta Utilities Commission (AUC) in March related to Fortis' Capital Tracker Applications. These Capital Tracker Applications were necessitated as Alberta's Performance Based Rate-setting (PBR) framework did not adequately compensate Fortis for the level of capex required in the province. The AUC issued a decision in March which now provides for Fortis to earn on "substantially all" of its allowed capex, and is also retroactive for 2013-2014.
- The benefit of the AUC decision on the Capital Tracker Application more than offset a negative decision from the AUC in March which reduced Fortis' allowed ROE from 8.75% to 8.3% and equity thickness from 41% to 40%, both retroactive to 2013. However, the negative impact of these lower returns/equity thickness is significantly limited by the PBR framework, with the company only seeing the full impact in 2018 when the PBR parameters are re-based.

The combination of these two decisions resulted in a \$10 million gain in the quarter related to retroactive periods (2013-2014), which Fortis excluded from its adjusted results. The outperformance in the quarter versus our expectation reflects our Q1 estimate including the negative impact of the reduction in ROE/equity thickness (although not the benefit of the Capital Tracker decision) for the entire FortisAlberta rate base for the retroactive and current periods; in reality, the lower ROE/equity thickness only applied to ~5-10% of rate base governed by the Capital Tracker mechanism.

### Cessation of BC Energy Rate Stabilization Mechanism

Following amalgamation of FortisBC Energy's three utilities [FortisBC Energy, FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler)] in December 2014, the combined utility no longer receives the benefit of a rate stabilization mechanism which historically smoothed revenues due to seasonal differences. As a result, FortisBC Energy is now expected to see more seasonal variation in its results (Q1/Q4 higher, Q2/Q3 lower), although should not be impacted on an annual basis.

### UNS Seasonality

UNS Energy, acquired in August 2014, despite generating \$20 million in earnings in Q1, had a \$0.13 negative impact on EPS when factoring in the financing costs (and equity dilution) associated with the acquisition. UNS, based in Arizona, is a highly seasonal utility, with ~75% of earnings generated in Q2/Q3. The acquisition is expected to be accretive on a full-year basis.

### FX Benefit

With the UNS and Central Hudson acquisitions, Fortis now has 40% of total assets in the US. The lower Canadian dollar resulted in Central Hudson generating ~\$3 million of incremental earnings y/y due to favourable FX. Across both US utilities each 5% change in the US/Canadian dollar exchange rate has an approximate \$0.04 EPS impact on annual earnings.

**Exhibit 1. Q1/15 Results (\$ mlns., except per share)**

Segmented Earnings	Q1/15A	Q1/15E	Q1/14A	Comments
<b>Regulated Utilities</b>				
FortisBC Energy	88	82	79	Higher-than-expected due to timing of regulatory deferred revenues
FortisAlberta	31	13	25	Actual excludes prior period capital tracker and GCOC adjustment (estimate included prior period adjustments).
FortisBC Electric	23	19	18	Higher-than-expected due to timing of regulatory deferred revenues
Eastern Canadian Utilities	19	17	17	
Central Hudson	22	20	18	
UNS Energy	20	25	0	Seasonally weaker-than-expected
Regulated Electric Utilities – Caribbean	5	4	5	
Total Regulated Utilities	208	179	162	
<b>Non-regulated Operations</b>				
Fortis Generation	3	6	6	Lower production due to lower rainfall
Non-Utility	(2)	1	0	Lower earnings due to strategic review costs and higher finance charges
Total Non-regulated Operations	1	7	6	
Corporate	(30)	(30)	(30)	
<b>Operating Earnings For Common</b>	<b>179</b>	<b>156</b>	<b>138</b>	
Unusual Items	19	0	5	FortisAlberta prior period capital tracker adjustment, FX gain on expropriated asset held on balance sheet
Reported Earnings	198	156	143	
Weighted Average Shares Outstanding (mlns.)	277	276	214	
<b>Operating EPS</b>	<b>0.65</b>	<b>0.57</b>	<b>0.65</b>	
Reported EPS	0.72	0.57	0.67	
Dividend Per Share	0.34	0.34	0.32	
Payout Ratio	52.6%	60.1%	49.5%	

Source: CIBC World Markets Inc. and company reports.

**Q1 A Solid Start To A Strong 2015**

While Q1 results beat estimates, we note that EPS were roughly flat y/y due to the headwind of UNS Energy this year (a \$0.13/share impact) which was not present last Q1 (acquired August 2014). However, on a full year basis, we expect strong y/y EPS growth in 2015 versus 2014 for the following reasons:

**Waneta Expansion In Service**

Fortis completed the Waneta Expansion project in April, on budget and six weeks ahead of schedule. Fortis owns 51% of the \$900 million / 335 MW expansion. All the energy and capacity from the expansion will be sold to BC Hydro and FortisBC Electric under 40 year contracts. As the project is non-regulated it generated no earnings until entering service.

**Full Year Benefit Of UNS Energy**

The acquisition of UNS was completed in August 2014, although Fortis issued \$1.8 billion in convertible debentures in January 2014 to pre-finance the transaction. This significantly impacted 2014 results. UNS is expected to be accretive to 2015 earnings.

## **End Of Rate Freeze At Central Hudson**

On acquisition of Central Hudson in mid-2013, Fortis committed to invest US\$215 million in capex during a two-year rate freeze ending June 30, 2015. Upon expiry of this rate freeze Fortis will be able to start earning returns on this capex. Fortis has filed a Joint Settlement Proposal that provides for new rates at Central Hudson for a three-year period starting July 1, 2015; the company is seeking 9% ROE on 48% equity. This is notionally down from current allowed 10% ROE, but given the rate freeze, Central Hudson is in effect earning closer to 9%. The new agreement also provides for earnings sharing in excess of the allowed 9% ROE under an incentive earnings mechanism.

## **Sale of Non-Regulated Assets**

Fortis announced it was initiating a strategic review of its non-regulated properties business in September 2014. The company owned these non-regulated assets at the corporate (i.e., holdco) level in order to generate taxable income with which it could offset the taxable losses from its corporate costs which otherwise would go unutilized. With the start-up of the non-regulated Waneta Expansion, Fortis now has an asset in a related business which generates taxable income, and no longer has a need to own assets in unrelated areas to its core business. As such, Fortis is looking to sell its properties business; the process continues, with management expecting to make an announcement on the outcome of the strategic review in Q2. The assets under review have a book value of ~\$700 million. Separately, in March, Fortis reached an agreement to sell its small non-regulated hydro facilities in New York and Ontario, with completion of the transactions expected in Q2 and H2, respectively. These facilities have a book value of ~\$30 million.

## **Headwinds From Regulatory Decisions**

The impact of the AUC decision on lower allowed ROE/equity thickness has a modest negative impact on FortisAlberta's operations. The impact, however, is effectively phased in over the coming years as the lower ROE/equity thickness applies only to new capital applied for since performance based regulation (PBR) came into effect in 2013, with only 10-15% of revenue expected to be impacted in 2015. The full impact of the decision (i.e. 8.3% ROE/40% equity thickness on the entire rate base) would apply after the end of the current PBR term at the end of 2017. We note, however, that the AUC has initiated a 2016 GCOC proceeding with the possibility of the allowed ROE and equity thickness changing again before 2018.

The changes to our estimates mainly reflect Q1 results, higher expectations for FortisAlberta given we had previously applied the new (lower) allowed ROE/equity ratio to the entire rate base versus a small portion now, partially offset by lower Fortis Generation earnings given the sale of the facilities in New York and Ontario. As a result of these changes, our 2015 and 2016 EPS estimates increase from \$1.93 and \$2.15 to \$1.97 and \$2.16, respectively.

**Exhibit 2. Summary Financial Forecast (\$ mlns., except per share)**

Segmented Earnings	2014A	2015E		2016E	
		Previous	Current	Previous	Current
<b>Regulated Utilities</b>					
FortisBC Energy	127	137	137	152	152
FortisAlberta	103	96	111	114	119
FortisBC Electric	46	48	49	50	51
Eastern Canadian Utilities	60	63	64	67	68
Central Hudson	37	56	56	78	78
UNS Energy	60	183	183	196	196
Regulated Electric Utilities – Caribbean	27	32	32	28	28
Total Regulated Utilities	460	615	632	686	693
<b>Non-regulated Operations</b>					
Fortis Generation	20	39	36	45	42
Non-Utility	23	9	7	0	0
Total Non-regulated Operations	43	48	43	45	42
Corporate	(150)	(129)	(129)	(134)	(134)
<b>Operating Earnings For Common</b>	<b>353</b>	<b>534</b>	<b>546</b>	<b>597</b>	<b>601</b>
Unusual Items	(36)	0	19	0	0
Reported Earnings	317	534	565	597	601
Weighted Average Shares Outstanding (mlns.)	226	277	278	278	279
<b>Operating EPS</b>	<b>1.56</b>	<b>1.93</b>	<b>1.97</b>	<b>2.15</b>	<b>2.16</b>
Reported EPS	1.41	1.93	2.04	2.15	2.16
Dividend Per Share	1.28	1.36	1.36	1.50	1.50
Payout Ratio	81.8%	70.5%	69.1%	69.8%	69.6%

Source: CIBC World Markets Inc.

**Maintain SO Rating**

Overall, despite the several puts and takes in the quarter, we see no material change to our outlook. We expect 2015 results to be up significantly versus 2014, and the company's \$9 billion capex program to drive rate base growth through 2019 (a 6.5% CAGR). Fortis is also pursuing a further \$1 billion of projects in BC related to LNG export facilities which are expected to be sanctioned by year-end (supporting upside to 7.5% rate base CAGR through 2019). We view the company's solid growth outlook, low risk, and potential upside (from LNG) as key drivers of the stock while valuations are in line with peers [18.0x 2016E EPS/9.9x 2016E EBITDA compared to Emera (EMA-SP) at 17.4x/12.2x and Canadian Utilities (CU-SP) at 16.5x/10.1x], and as such maintain our Sector Outperformer rating and \$42 price target.

**Price Target Calculation**

Our \$42 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$9.5 billion capital spending program (including acquisitions, and risk adjusted capital for LNG projects) through 2019. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 10.2x (utilizing a 2016E net debt of \$12.5 billion) and 19.5x 2016E P/E.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) and generic cost of capital (GCOC) proceedings in Alberta and B.C.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion will be more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a 5% change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.04/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns.



## Our EPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.46A	\$1.56A
2015 Prior	\$0.57E	\$0.44E	\$0.41E	\$0.52E	\$1.93E
2015 Current	\$0.65A	\$0.43E	\$0.40E	\$0.49E	\$1.97E
2016 Prior	--	--	--	--	\$2.15E
2016 Current	--	--	--	--	\$2.16E

---

## Our DPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.31A	\$0.31A	\$0.31A	\$0.31A	\$1.24A
2014 Current	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2015 Prior	\$0.34E	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2015 Current	\$0.34A	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2016 Prior	--	--	--	--	\$1.50E
2016 Current	--	--	--	--	\$1.50E

---

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.
- CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and commercial real estate business.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

### Stock Prices as of 05/05/2015:

Canadian Utilities Ltd. (2a, 2c, 2g, 13) (CU-TSX, \$37.52, Sector Performer)

Emera Inc. (2a, 2c, 2e, 2g, 7) (EMA-TSX, \$40.63, Sector Performer)

**Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.**

## Key to Important Disclosure Footnotes:

- 1 CIBC World Markets Corp. makes a market in the securities of this company.
- 1a CIBC WM Corp. makes a market in the securities of this company
- 1b CIBC WM Corp. makes a market in the securities of this company
- 1c CIBC WM Corp. makes a market in the securities of this company
- 2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 An executive of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 An executive committee member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.
- CD4 CIBC World Markets Inc. is the adviser to Fortis Inc. in the review of strategic options for its hotel and  
9 commercial real estate business.



## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 05 May 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	152	41.6%	Sector Outperformer (Buy)	146	96.1%
Sector Performer (Hold/Neutral)	164	44.9%	Sector Performer (Hold/Neutral)	160	97.6%
Sector Underperformer (Sell)	38	10.4%	Sector Underperformer (Sell)	34	89.5%
Restricted	10	2.7%	Restricted	10	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

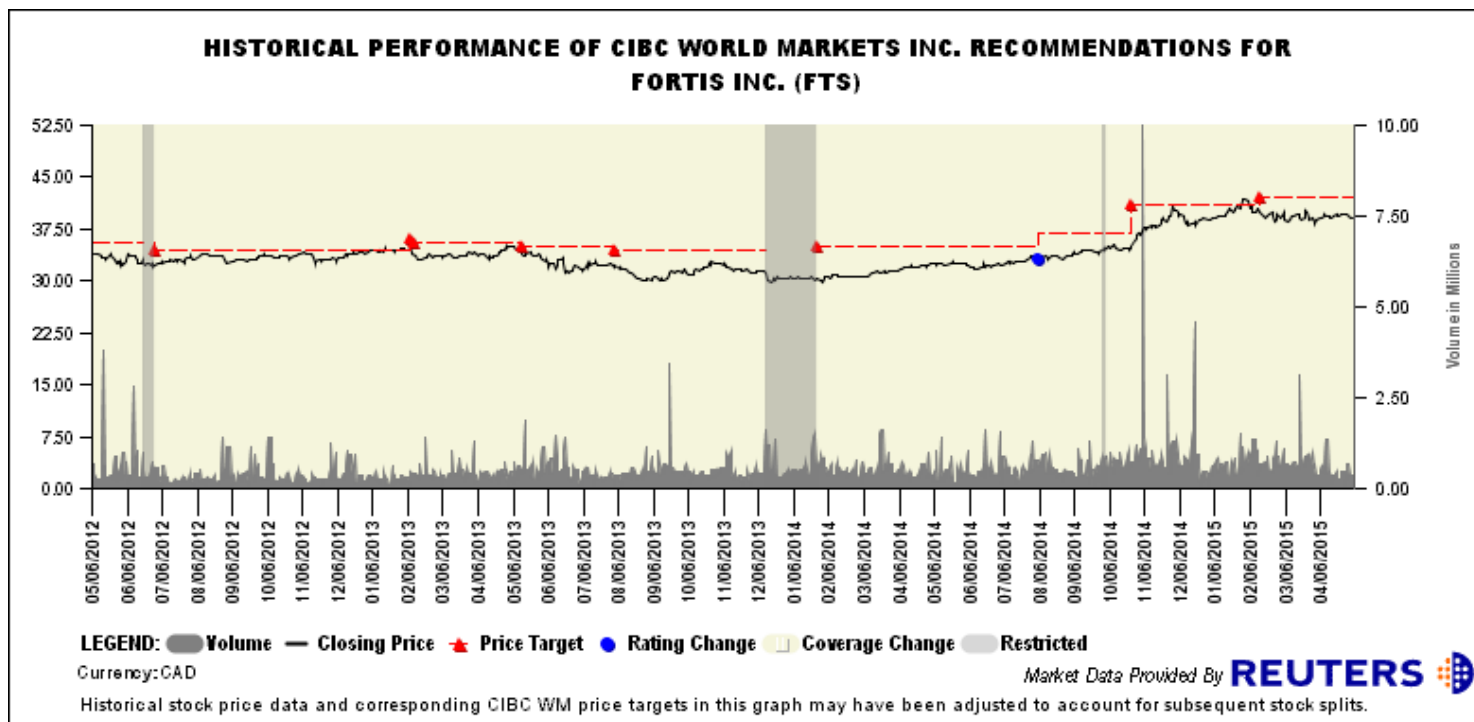
(as of 05 May 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	45.5%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	4	36.4%	Sector Performer (Hold/Neutral)	4	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	2	18.2%	Restricted	2	100.0%

Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request

## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
06/19/2012		33.08	R	-	Paul Lechem
06/28/2012		32.09	SP	35.50	Paul Lechem
06/28/2012	▲	32.09	SP	34.50	Paul Lechem
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013		31.19	R	-	Paul Lechem
01/24/2014		30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem
08/04/2014	▲ ●	33.09	SO	37.00	Paul Lechem
09/29/2014		34.56	R	-	Paul Lechem
10/01/2014		34.57	SO	37.00	Paul Lechem
10/23/2014	▲	34.60	SO	41.00	Paul Lechem
02/11/2015	▲	40.41	SO	42.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change

## Legal Disclaimer (Continued)

without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2015 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.




**EARNINGS UPDATE**

# Fortis Inc.

## Q2 Operationally In Line, F2015 Earnings Showing Strong Y/Y Growth

### What's The Event

Fortis (FTS-SO) reported Q2/15 adjusted EPS of \$0.44, in line with consensus / CIBC estimates of \$0.43. Earnings were up strongly vs. adjusted EPS of \$0.30 Y/Y due to the inclusion of UNS Energy, acquired in August 2014 (\$0.09 accretion after factoring in financing costs) and the Waneta Expansion (\$0.04) which entered service in early April, 6 weeks ahead of schedule.

Reported EPS of \$0.88 included gains on the sale of the company's commercial real estate portfolio (\$0.39 EPS) and non-regulated hydro generation assets in New York state (\$0.10), partially offset by a \$0.05 loss on the pending sale of the hotel portfolio.

### Implications

Fortis is seeing strong earnings growth in 2015 from a number of factors:

1. The inclusion of results from UNS Energy (whereas UNS was a drag on results in 2014 given it was pre-financed in January but only closed in August).
2. The lifting of the rate freeze at Central Hudson starting on July 1, with an allowed ROE of 9% down from prior 10%, but with CH actually achieving only 7.3% ROE on an LTM basis given the rate freeze.
3. Start-up of the Waneta Expansion in April, expected to contribute \$20-\$25M earnings on an annual run-rate basis (\$12M in Q2, the seasonally strongest quarter).
4. Planned 2015 capex of \$2.2B, up ~30% Y/Y.

Partially offsetting these factors, the company faces modest headwinds from lower allowed returns in BC and Alberta (with another round of cost of capital proceedings to come).

Nevertheless, the company continues to target a base case of 6.5% rate base CAGR through 2019, with equity needs financed through internal cash flow and with potential upside to growth from LNG projects in BC. We expect earnings and dividend per share growth to track roughly to rate base growth. Given all these dynamics, we see little change in our positive outlook and maintain our Sector Outperformer rating and \$42 price target.

August 03, 2015

**Pipelines, Utilities, & Power**

**SECTOR OUTPERFORMER**

**MARKET WEIGHT**

Stock Rating:

Sector Weighting:

#### Key Ratios and Statistics

12-18 mo. Price Target	\$42.00
FTS-TSX (7/31/15)	\$37.45

Key Indices: Toronto, TSXUtils

52-week Range \$32.98-\$42.23

Shares Outstanding 278.7M

Float 278.7M Shrs

Avg. Daily Trading Vol. 459,853

Market Capitalization \$10,437.3M

Dividend/Div Yield \$1.36 / 3.6%

Fiscal Year Ends December

Book Value \$26.91 per Shr

2015 ROE (E) 7.7%

LT Debt \$12.0B

Common Equity \$7.5B

Convertible Available Yes

EPS	2013	2014	2015	2016
Current	\$1.70A	\$1.56A	\$1.96E	\$2.12E
Prior			\$1.95E	\$2.12E
Estimates (Dec. 31)	2013	2014	2015	2016
Div Per Share-Curr	\$1.24A	\$1.28A	\$1.36E	\$1.50E
Div Per Share-Prior			\$1.36E	\$1.50E
Valuation (Dec. 31)	2013	2014	2015	2016
P/E-Curr	22.0x	24.0x	19.1x	17.6x
P/E-Prior			19.2x	17.7x
Dividend Yield-Curr	3.3%	3.4%	3.6%	4.0%
Dividend Yield-Prior			3.6%	4.0%

#### Company Description

Fortis owns natural gas and electric utilities in six Canadian provinces, two U.S. states, as well as Central America and the Caribbean, and non-regulated power generation assets.


[www.fortisinc.com](http://www.fortisinc.com)

All figures in Canadian dollars, unless otherwise stated.

15-137261 © 2015

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

	<b>Fortis Inc.</b>				<b>Sector Outperformer</b>  Paul Lechem, (416-956-6429) Paul.Lechem@cibc.ca Glenn Kilayko, (416-956-6428) Glenn.Kilayko@cibc.ca
	FTS - TSX		8/2/15	\$37.45	
	12- To 18- Month Price Target:		\$42.00		
	Pipelines, Utilities & Power				
Sector Weighting:			Market Weight		
<b>Market Data</b>					
Share Price	\$37.45	Net Debt	11,387		
Shares Outstanding	279	Non Control Int.	460		
Market Capitalization	10,437	Preferred Shares	1,820		
		Enterprise Value	24,104		
<b>Valuations</b>		<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
P/E	22.0x	24.0x	19.1x	17.6x	
EV/EBITDA	16.8x	15.4x	10.0x	9.6x	
<b>Pipeline And Utilities Sector Average</b>					
P/E	27.6x	25.4x	25.7x	25.2x	
EV/EBITDA	15.0x	13.2x	11.8x	10.9x	
<b>Other Data</b>		<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
Dividend Per Share	\$1.24	\$1.28	\$1.36	\$1.50	
Dividend Yield	3.3%	3.4%	3.6%	4.0%	
Payout Ratio	73.0%	81.8%	69.2%	70.6%	
Book Value Per Share	\$22.38	\$24.89	\$25.86	\$26.55	
Price / Book Value	1.7x	1.5x	1.4x	1.4x	
Cash Per Share	\$0.36	\$1.02	\$1.55	\$2.10	
Debt / Total Capital	55.0%	55.9%	55.2%	56.5%	
Net Debt/EBITDA	5.4x	7.2x	4.7x	4.7x	
<b>Income Statement</b>		<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
FortisBC Energy	127	127	133	143	
FortisAlberta	94	103	117	121	
FortisBC Electric	50	46	49	51	
Newfoundland Power	36	0	0	0	
Other Canadian Electric Utilities	22	0	0	0	
Central Hudson	23	37	55	78	
UNS Energy	0	60	181	196	
Regulated Electric Utilities - Caribbean	23	27	33	28	
Fortis Generation	19	20	36	42	
Non-Utility	18	23	6	0	
Corporate	(68)	(150)	(129)	(134)	
<b>Operating Earnings</b>	<b>344</b>	<b>353</b>	<b>546</b>	<b>594</b>	
Unusual Items	9	(36)	140	0	
Reported Earnings	353	317	686	594	
<b>Operating EPS</b>	<b>\$1.70</b>	<b>\$1.56</b>	<b>\$1.96</b>	<b>\$2.12</b>	
Reported EPS	\$1.74	\$1.41	\$2.47	\$2.12	
Shares Outstanding	203	226	278	280	
EBITDA	1,439	1,566	2,386	2,564	
<b>Cash Flow</b>		<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
Earnings (incl. pref share dividends)	420	390	766	674	
Depreciation and Amortization	542	688	961	1,017	
Total Operating Cash Flow	906	982	1,727	1,691	
Capital Expenditures	1,165	1,725	2,172	2,030	
Dividends	248	266	469	510	
Net Long Term Debt Proceeds	480	450	95	953	
<b>Balance Sheet</b>		<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
Cash & Cash Equivalents	72	230	432	586	
Utility Capital Assets / Income Properties	12,267	17,816	18,101	19,164	
Total Assets	17,908	26,628	27,066	28,232	
Current Liabilities	2,084	2,684	2,684	2,684	
Debt (incl. Current and Short Term Borrowings)	7,788	11,534	11,629	12,582	
Future Income Taxes	(2)	23	0	0	
Non Controlling Interests	375	421	411	401	
Preferred Shares	1,229	1,820	1,820	1,820	
Shareholders' Equity	6,001	8,691	9,044	9,267	
Total Shareholders' Equity And Liabilities	17,908	26,628	27,066	28,232	

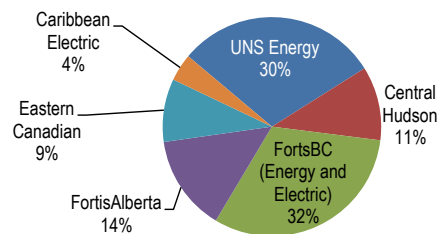
**Company Profile**

Fortis owns a natural gas utility in British Columbia, electric distribution utilities in five Canadian provinces, the Caribbean, gas and electric utilities in New York State and Arizona, and non-regulated power generation assets.

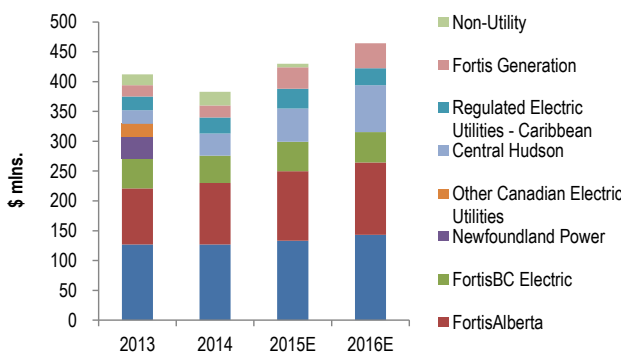
**Investment Thesis**

Fortis provides the benefits (stability) of a regulated utility, and is in a period of solid organic investment and growth as the company delivers on its 2015-2019 \$9 billion capital program which is expected to drive a 6.5% CAGR in rate base through 2019. Fortis has an additional ~\$1.1 billion in potential LNG projects in BC which could drive the rate base CAGR to ~7.5%.

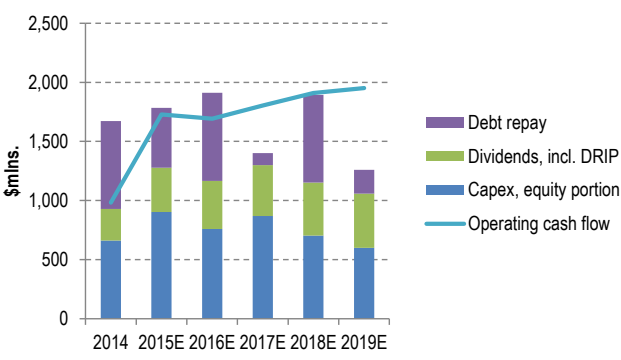
**Utility Rate Base (Mid-Year 2015E, Total \$25 Billion)**



**Segmented Earnings (Exc. Corporate)**



**Major Sources, Uses Of Cash**



Source: Company reports, Factset, and CIBC World Markets Inc.

Fortis is seeing strong earnings growth in 2015, from the factors we noted above. The outlook for 2016 and beyond is based on the company's base five-year capex plan of \$9 billion which drives a rate base CAGR over the same timeframe of 6.5%. With the sale of the company's real estate portfolio, Fortis will have paid off its revolving debt still outstanding from the acquisition of UNS, and we expect the equity portion of capex going forward to be funded from internally generated cash flow.

Potential upside exists from two LNG-related projects in BC (Tilbury 1B, Woodfibre) which could add a further \$1 billion capex, and drive a ~7.5% rate base CAGR. We recently noted that these LNG projects appear to have been delayed a year (or potentially more) from our initial expectation of 2015 investment decisions given commercial and regulatory issues. Our financial forecast reflects these expected delays.

We also see potential upside from Fortis' UNS Energy business. US President Obama has released an updated and more aggressive Clean Power Plan which requires a reduction in carbon emissions from the US power sector of 32% by 2030 (vs. original proposal of a 30% reduction). UNS Energy is transitioning its generation mix away from coal (~60% of its generation mix on acquisition in 2014), but the Clean Power Plan could accelerate this transition and increase associated capex. We have not built any upside to our forecast from potential incremental generation investment in Arizona from this.

Overall, we see little change to our outlook at present, and see potential upside to the base growth scenario as noted above. We maintain our Sector Outperformer rating and \$42 price target.

#### Exhibit 1. Financial Forecast (\$mlns., except per share).

(\$ mlns., except per share)	2014A	2015E		2016E	
		Previous	Current	Previous	Current
<b>Segmented Earnings</b>					
<b>Regulated Utilities</b>					
FortisBC Energy	127	133	133	143	143
FortisAlberta	103	111	117	119	121
FortisBC Electric	46	49	49	51	51
Eastern Canadian Utilities	60	64	64	68	68
Central Hudson	37	56	55	78	78
UNS Energy	60	182	181	196	196
Regulated Electric Utilities - Caribbean	27	32	33	28	28
Total Regulated Utilities	460	627	633	684	686
<b>Non-Regulated Operations</b>					
Fortis Generation	20	36	36	42	42
Non-Utility	23	7	6	0	0
Total Non-Regulated Operations	43	43	42	42	42
Corporate	(150)	(129)	(129)	(134)	(134)
<b>Operating Earnings For Common</b>	<b>353</b>	<b>541</b>	<b>546</b>	<b>592</b>	<b>594</b>
Unusual Items	(36)	19	140	0	0
Reported Earnings	317	560	686	592	594
Weighted average shares outstanding	226	278	278	279	280
<b>Operating EPS</b>	<b>1.56</b>	<b>1.95</b>	<b>1.96</b>	<b>2.12</b>	<b>2.12</b>
Reported EPS	1.41	2.02	2.47	2.12	2.12
Dividend per share	1.28	1.36	1.36	1.50	1.50
Payout ratio	81.8%	69.8%	69.2%	70.7%	70.6%
Funds from operations	1,106	1,600	1,727	1,689	1,691
FFO/share	4.90	5.76	6.21	6.05	6.04

Source: Company reports and CIBC World Markets Inc.

---

## Price Target Calculation

Our \$42 price target is based on a discounted cash flow analysis, which captures the expected cash flow growth from Fortis' ~\$9 billion capital spending program (including acquisitions, and risk adjusted capital for LNG projects) through 2019. The cost of equity assigned to each segment varies depending on the risk profile of the business (i.e., Canadian utilities – lower risk; Fortis Generation, Caribbean utilities – higher risk). Our price target equates to a 2016E EV/EBITDA multiple of 10.1x (utilizing a 2016E net debt of \$12.0 billion) and 19.8x 2016E P/E.

---

## Key Risks To Price Target

- **Regulatory Issues:** Given that the majority of Fortis' business is regulated (over 90% as measured by revenues and assets), the company's results are highly sensitive to regulatory decisions – as illustrated by the performance based regulation (PBR) and generic cost of capital (GCOC) proceedings in Alberta and B.C.
- **Market Risks:** Under regulator-approved mechanisms, Fortis flows through the commodity cost of natural gas, fuel or purchased power to its customers. The company's non-regulated hydro generation assets are sensitive to localized rainfall levels, but are geographically dispersed and individually not meaningful to overall results. The Waneta Expansion is more material, but hydrology risk is managed as part of the overall regional river system by BC Hydro, effectively reducing the risk to the project. Foreign exchange risk is relatively low: a \$0.10 change in the Canadian/U.S. dollar exchange rate would impact earnings by \$0.09/share.
- **Acquisition Risks:** Fortis recently acquired UNS Energy and CH Energy, and it continues to pursue additional gas and electric distribution utilities in Canada and the United States. Acquisition risks include: deal risk (failure to close a transaction), operation and regulatory risks of the acquired organization.
- **Construction Risk:** Fortis primarily faces construction risk for its non-regulated generation assets where the company assumes the risk of cost overruns.

## Our EPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.68A	\$0.32A	\$0.23A	\$0.48A	\$1.70A
2014 Current	\$0.65A	\$0.22A	\$0.22A	\$0.46A	\$1.56A
2015 Prior	\$0.65A	\$0.43E	\$0.40E	\$0.48E	\$1.95E
2015 Current	\$0.65A	\$0.44A	\$0.38E	\$0.49E	\$1.96E
2016 Prior	--	--	--	--	\$2.12E
2016 Current	--	--	--	--	\$2.12E

---

## Our DPS estimates are shown below:

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$0.31A	\$0.31A	\$0.31A	\$0.31A	\$1.24A
2014 Current	\$0.32A	\$0.32A	\$0.32A	\$0.32A	\$1.28A
2015 Prior	\$0.34A	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2015 Current	\$0.34A	\$0.34E	\$0.34E	\$0.34E	\$1.36E
2016 Prior	--	--	--	--	\$1.50E
2016 Current	--	--	--	--	\$1.50E

---

## IMPORTANT DISCLOSURES:

**Analyst Certification:** Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

**Potential Conflicts of Interest:** Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Fortis Inc. (FTS)

- Fortis Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- CIBC World Markets Inc. has managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. has received compensation for investment banking services from Fortis Inc. in the past 12 months.
- CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next 3 months.
- CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by Fortis Inc.

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.
<b>Sector Weightings (note: Broader market averages refer to S&amp;P 500 in the U.S. and S&amp;P/TSX Composite in Canada.)</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

### Ratings Distribution\*: CIBC World Markets Inc. Coverage Universe

(as of 03 Aug 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	155	42.6%	Sector Outperformer (Buy)	147	94.8%
Sector Performer (Hold/Neutral)	163	44.8%	Sector Performer (Hold/Neutral)	155	95.1%
Sector Underperformer (Sell)	37	10.2%	Sector Underperformer (Sell)	32	86.5%
Restricted	8	2.2%	Restricted	8	100.0%

### Ratings Distribution: Pipelines, Utilities, & Power Coverage Universe

(as of 03 Aug 2015)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	45.5%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	5	45.5%	Sector Performer (Hold/Neutral)	4	80.0%
Sector Underperformer (Sell)	1	9.1%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

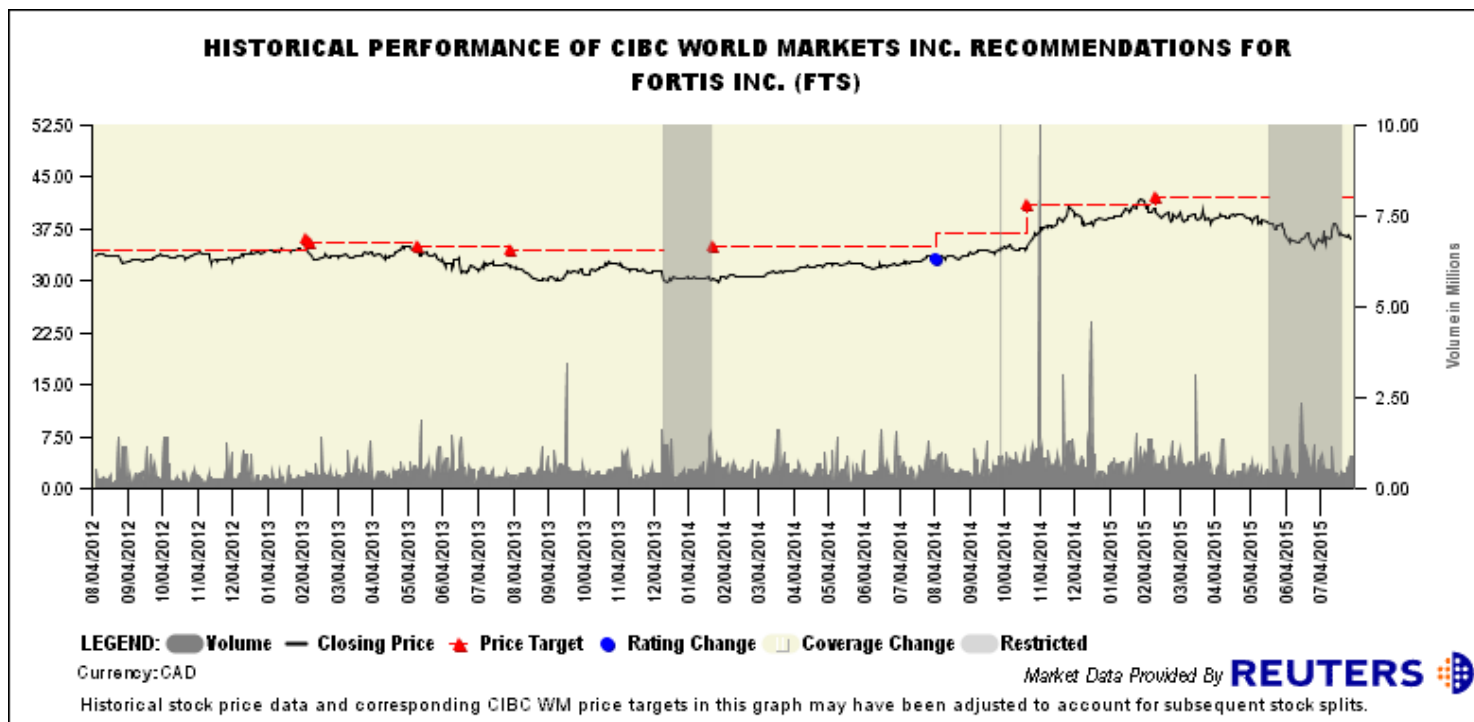
Pipelines, Utilities, & Power Sector includes the following tickers: AQN, CPX, EMA, ENB, FTS, IPL, NPI, RNW, SE, TA, TRP.

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets Inc. has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Important disclosures required by IIROC Rule 3400, can be obtained by visiting CIBC World Markets Inc. on the web at <http://researchcentral.cibcwm.com>. Important disclosures for each issuer can be found using the "Coverage" tab on the top left of the Research Central home page. Access to the system for rating investment opportunities and our dissemination policy, can be found under 'Quick Links' on bottom right side of the Research Central homepage. These important disclosures can also be obtained by writing to CIBC World Markets Inc., Brookfield Place, 161 Bay Street, 4th Floor, Toronto, Ontario M5J 2S8, Attention: Research Disclosures Request



## CIBC World Markets Inc. Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR FORTIS INC. (FTS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/04/2013	▲	34.47	SP	36.00	Paul Lechem
02/08/2013	▲	33.78	SP	35.50	Paul Lechem
05/13/2013	▲	34.21	SP	35.00	Paul Lechem
08/02/2013	▲	32.15	SP	34.50	Paul Lechem
12/11/2013	■	31.19	R	-	Paul Lechem
01/24/2014	■	30.31	SP	34.50	Paul Lechem
01/24/2014	▲	30.31	SP	35.00	Paul Lechem
08/04/2014	▲●	33.09	SO	37.00	Paul Lechem
09/29/2014	■	34.56	R	-	Paul Lechem
10/01/2014	■	34.57	SO	37.00	Paul Lechem
10/23/2014	▲	34.60	SO	41.00	Paul Lechem
02/11/2015	▲	40.41	SO	42.00	Paul Lechem
05/21/2015	■	38.38	R	-	Paul Lechem
07/23/2015	■	36.61	SO	42.00	Paul Lechem

## Legal Disclaimer

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, is Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, (c) in Australia to wholesale clients only, CIBC Australia Ltd, a company regulated by the ASIC with AFSL license number 240603 and ACN 000 067 256, and (d) in Japan, CIBC World Markets (Japan) Inc., a registered Type 1 Financial product provider with the registration number Director General of Kanto Finance Bureau #218 (collectively, "CIBC World Markets") and (e) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of Retail investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Ltd.

This report has been prepared by the CIBC group and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance, Cap 571 (the "SFO"). This report is intended for "professional investors" only (within the meaning of the SFO) and has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this report should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111). Orders for Hong Kong listed securities will be executed by Canadian Imperial Bank of Commerce, Hong Kong Branch. Canadian Imperial Bank of Commerce, Hong Kong Branch has entered into an arrangement with its broker-dealer affiliates worldwide to execute orders for securities listed outside of Hong Kong for Hong Kong clients.

This report is intended for distribution in Singapore solely to "institutional investors" (within the meanings of the Financial Advisers Act (Chapter 110 of Singapore)).

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report

## Legal Disclaimer (Continued)

and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2015 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.

## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (10 Feb 11, C\$)	33.81
Target price (C\$)	(from 32.00) 34.00 <sup>†</sup>
52-week price range	35.15 - 25.76
Market cap. (C\$ m)	5,896.22
Enterprise value (C\$ m)	13,138.19

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

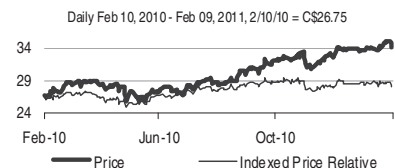
paul.tan@credit-suisse.com

### INCREASE TARGET PRICE

## Continuing capital control

- **Earnings review:** Fortis reported Q4 2010 headline EPS (FD) of C\$0.47 that missed our C\$0.54 estimate, the Street's C\$0.513 view and fell beneath the C\$0.48-C\$0.55 range. Against our numbers, the primary culprits looked to be timing issues at the regulated gas utilities, weakness at the Caribbean segment and our overly ambitious view on the Other Canadian Electric Utilities. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1.2bn for 2011 and about C\$5.5bn over the next five years with 83% of that total amount going to utility activity.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Given the current interest rate environment and looking ahead to 2012 estimates, we boosted our target price to C\$34.00 from the previous C\$32.00. That target price is obtained from multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



On 02/09/11 the Canada S&P/TSX Composite Index index closed at 13784.3

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.70	0.31	0.25	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.76	1.86	1.91
Prev. EPS (C\$)	—	1.79	1.87	—
P/E (x)	21.0	19.2	18.1	17.7
P/E rel. (%)	124.8	134.3	139.2	—
Revenue (C\$ m)	3,664.0	3,934.5	4,223.0	4,412.1
EBITDA (C\$ m)	1,150.0	1,232.3	1,327.3	1,400.1
OCFPS (C\$)	4.01	3.61	3.85	4.02
P/OCF (x)	8.5	9.4	8.8	8.4
EV/EBITDA (current)	10.9	10.7	10.4	9.6
Net debt (C\$ m)	5,914	6,508	7,119	7,601
ROIC (%)	6.15	5.90	5.97	5.92
Number of shares (m)	174.39	IC (12/11E, C\$ m)		9,809.51
BV/share (current, C\$)	19.4	EV/IC (x)		1.3
Net debt (current, C\$ m)	6,016.6	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	102.0	Dividend yield (%)		3.4

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Fortis reported Q4 2010 headline EPS (FD) of C\$0.47 that missed our C\$0.54 estimate, the Street's C\$0.513 view and fell beneath the C\$0.48-C\$0.55 range. Against our numbers, the primary culprits looked to be timing issues at the regulated gas utilities, weakness at the Caribbean segment and our overly ambitious view the Other Canadian Electric Utilities. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

A modest miss

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2010	Q4 2009	chg y/y
Regulated Gas Utilities - Canadian	45	48	-6%
Regulated Electric Utilities - Canadian	41	38	8%
Regulated Electric Utilities - Caribbean	5	7	-29%
Non-regulated - Fortis Generation	5	2	150%
Non-regulated - Fortis Properties	7	5	40%
Corporate and other	(18)	(19)	5%
Net earnings applicable to common shares	85	81	5%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 6% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 9,400 during 2010 versus net addition of 8,200 during the full year 2009;
- The amount of customer additions increased versus 2009 due to increased building activity; and,
- Sales volumes for the quarter decreased for both the Core-Residential and Commercial and for the Industrial segment. Transportation volumes increased.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Terasen Gas	45.0	48.0	-6%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

**Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)***C\$ in millions, unless otherwise stated*

	Q4 2010	Q4 2009	chg y/y
FortisAlberta	17	15	13%
FortisBC	10	8	25%
Newfoundland Power	9	8	13%
Other Cdn Electric Utilities	5	7	-29%
Earnings	41	38	8%

*Source: Company data and Credit Suisse***FortisAlberta**

Earnings at this regulated utility were up by roughly 13% comparing Q4 2010 versus the prior period. The increase was primarily due to increase in electricity distribution rates due to continued growth in the system, customer growth and higher regulator-approved expenses recoverable from customers. See Exhibit 4 for selected highlights.

Increase in energy delivery  
in Alberta

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	4,255	4,129	3%
Revenue (C\$/MWh)	23.27	20.83	12%
Operating expenses (C\$/MWh)	8.70	8.23	6%
Gross margin (C\$/MWh)	14.57	12.59	16%
Earnings (C\$millions)	17	15	13%

*Source: Company data and Credit Suisse***FortisBC**

Segmented earnings at FortisBC increased by 25% compared to the same period last year. The increase was due to an increase in customer electricity rates starting in January 2010, increased in PBR incentive adjustments and lower corporate taxes. See Exhibit 5 for selected highlights.

Slight decrease in energy  
deliveries in BC

**Exhibit 5: Selected FortisBC performance highlights (unadjusted)**

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	847	859	-1%
Revenue (C\$/MWh)	86.19	80.33	7%
Energy supply costs (C\$/MWh)	27.15	25.61	6%
Operating expenses (C\$/MWh)	24.79	23.28	6%
Gross margin (C\$/MWh)	34.24	31.43	9%
Earnings (C\$millions)	10	8	25%

*Source: Company data and Credit Suisse***Newfoundland Power**

This segment's earnings generation was higher by roughly 13% when comparing Q4 2010 versus Q4 2009 due to increase in electricity rates starting January 1, 2010 and increased in electricity sales. Energy deliveries were up by approximately 1% (see Exhibit 6).

Slight increase in NP's  
energy deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	1,488	1,474	1%
Revenue (C\$/MWh)	102.15	99.05	3%
Energy supply costs (C\$/MWh)	68.55	67.16	2%
Operating expenses (C\$/MWh)	10.08	8.82	14%
Gross margin (C\$/MWh)	23.52	23.07	2%
Earnings (C\$millions)	9	8	13%

*Source: Company data, Credit Suisse estimates*



## Other Canadian Electric Utilities

The roughly 1% decrease in energy deliveries was primarily the result of lower average consumption in Ontario. Exhibit 7 contains selected highlights.

Slight decrease in energy deliveries

### Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	578	582	-1%
Revenue (C\$/MWh)	150.52	135.74	11%
Energy supply costs (C\$/MWh)	102.08	85.91	19%
Operating expenses (C\$/MWh)	20.76	20.62	1%
Gross margin (C\$/MWh)	27.68	29.21	-5%
Earnings (C\$millions)	5	7	-29%

Source: Company data and Credit Suisse

## Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were down roughly 29% compared to the same quarter last year. Energy deliveries decreased by 7% on a year-over-year basis due to decreased air conditioning load because of lower average temperatures in the region. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

Awaiting a decision in Belize

“The evidentiary portion of the trial of Belize Electricity’s appeal of the PUC’s June 2008 Final Decision was heard in October 2010 with closing arguments completed in December 2010. A court decision on the matter is expected in the first quarter of 2011.”

Fortis Turks and Caicos, received on September 2010 “draft proposals and terms of reference from the Governor of the Turks and Caicos Islands (the “Governor”) to review the Company’s Electricity Rate Review filing.” The company stated that “[m]anagement has acknowledged the Governor’s proposed terms of reference and objectives, and has proposed that a jointly funded and identified outside independent consultant be engaged to conduct a review of the filing and current rate-setting mechanism and make recommendations regarding both.”

See Exhibit 8 below for selected highlights.

### Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	270	291	-7%
Revenue (C\$/MWh)	311.11	292.10	7%
Energy supply costs (C\$/MWh)	188.89	171.82	10%
Operating expenses (C\$/MWh)	48.15	44.67	8%
Gross margin (C\$/MWh)	74.07	75.60	-2%
Earnings (C\$millions)	5	7	-29%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 150% from the current quarter compared to the same quarter last year. Energy deliveries increased by 57% from Q4 2009 to Q4 2010 due to higher rainfall and the commissioning of the Vaca hydroelectric facility in Belize. See the table below for selected highlights.



**Exhibit 9: Non-regulated generation – selected highlights**

	Q4 2010	Q4 2009	chg y/y
Energy deliveries (GWh)	137	87	57%
Revenue (C\$/MWh)	65.69	57.47	14%
Energy supply costs (C\$/MWh)	-	-	n/a
Operating expenses (C\$/MWh)	14.60	22.99	-36%
Gross margin (C\$/MWh)	51.09	34.48	48%
Earnings (C\$millions)	5	2	150%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution during the quarter was C\$7m which is higher than Q4 2009 earnings of C\$5m. REVPAR slightly increased to C\$70.76 from C\$68.87 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 94.5% versus last year's 96.2%.

**Corporate**

Corporate expenses decreased to C\$18 million in Q4 2010 from C\$19m in Q4 2009.

**Outlook**

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

**Funding organic growth**

In the most recent quarter the company's reported capital expenditures totaled C\$370 million, of which C\$288 million was spent at regulated utilities. Fortis guided that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (Terasen Gas, FortisAlberta, and FortisBC). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2011-2015) approaching C\$5.5bn with 63% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 20% of the total capex amount, and 17% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach.

Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGV) and Terasen Gas Whistler Inc. (TGW) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "We will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada that will add value for our shareholders". Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and

skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

#### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsbey Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. At this time, we made several

Rating: Neutral

Target: C\$34, up from C\$32

adjustments to our financial model. As a result of the quarter, we slightly revised our EPS estimates for 2011 and 2012 to C\$1.76 and C\$1.86 from C\$1.79 and C\$1.87, respectively. Given the current interest rate environment and looking ahead to 2012 estimates, we boosted our target price to C\$34.00 from the previous C\$32.00. That target price is obtained from multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

**Companies Mentioned** (Price as of 10 Feb 11)  
Fortis Inc. (FTS.TO, C\$33.81, NEUTRAL, TP C\$34.00)

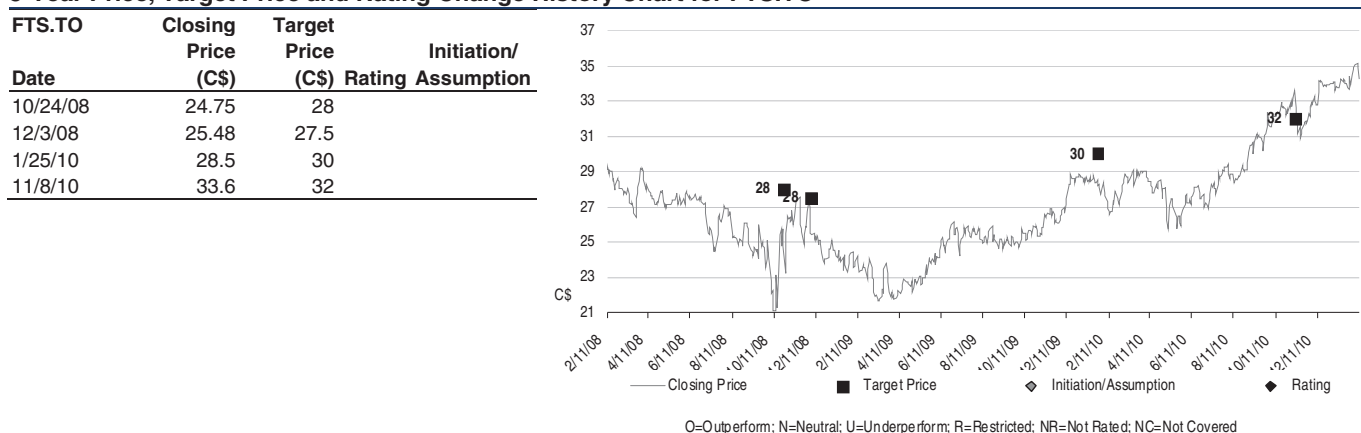
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

#### Credit Suisse's distribution of stock ratings (and banking clients) is:

	Global Ratings Distribution	
<b>Outperform/Buy*</b>	45%	(62% banking clients)
<b>Neutral/Hold*</b>	41%	(59% banking clients)
<b>Underperform/Sell*</b>	11%	(54% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

#### Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.



CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Where this research report is about a non-Taiwanese company, written by a Taiwan-based analyst, it is not a recommendation to buy or sell securities

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

**CREDIT SUISSE SECURITIES (USA) LLC**  
United States of America: +1 (212) 325-2000



## Fortis Inc. (FTS.TO)

Rating **NEUTRAL\***  
Price (20 Apr 11, C\$) 31.93  
Target price (C\$) 34.00<sup>†</sup>  
52-week price range 35.15 - 25.76  
Market cap. (C\$ m) 5,601.21  
Enterprise value (C\$ m) 12,843.17

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**  
416 352 4561  
andrew.kuske@credit-suisse.com

**Paul Tan**  
416 352 4593  
paul.tan@credit-suisse.com

### PRE RESULTS COMMENT

## Q1 earnings preview

- **Earnings revisions:** For several reasons, we made a number of revisions to our Fortis Inc. financial model. Our changes focused on several areas ahead of the forthcoming Q1 results. Specifically, our Q1 EPS estimate decreased from C\$0.70 to C\$0.64. Our full year EPS is unchanged at C\$1.76. For greater details, please refer to our Canadian Infrastructure Q1 2011 earnings preview entitled "*Starting the season: Q1 earnings preview*" (21 April 2011).

### Share price performance



On 04/20/11 the Canada S&P/TSX Composite Index index closed at 13897.48

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.64	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.76	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.9	18.1	17.1	16.7
P/E rel. (%)	116.9	125.8	130.4	—
Revenue (C\$ m)	3,664.0	3,934.5	4,223.0	4,412.1
EBITDA (C\$ m)	1,150.0	1,232.3	1,327.3	1,400.1
OCFPS (C\$)	4.01	3.61	3.85	4.02
P/OCF (x)	8.5	8.9	8.3	7.9
EV/EBITDA (current)	10.6	10.4	10.1	9.4
Net debt (C\$ m)	5,914	6,508	7,119	7,601
ROIC (%)	6.15	5.90	5.97	5.92
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.3	EV/IC (x)		1.2
Net debt (current, C\$ m)	6,027.7	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	107.6	Dividend yield (%)		3.6

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 20 Apr 11)  
Fortis Inc. (FTS.TO, C\$31.93, NEUTRAL, TP C\$34.00)

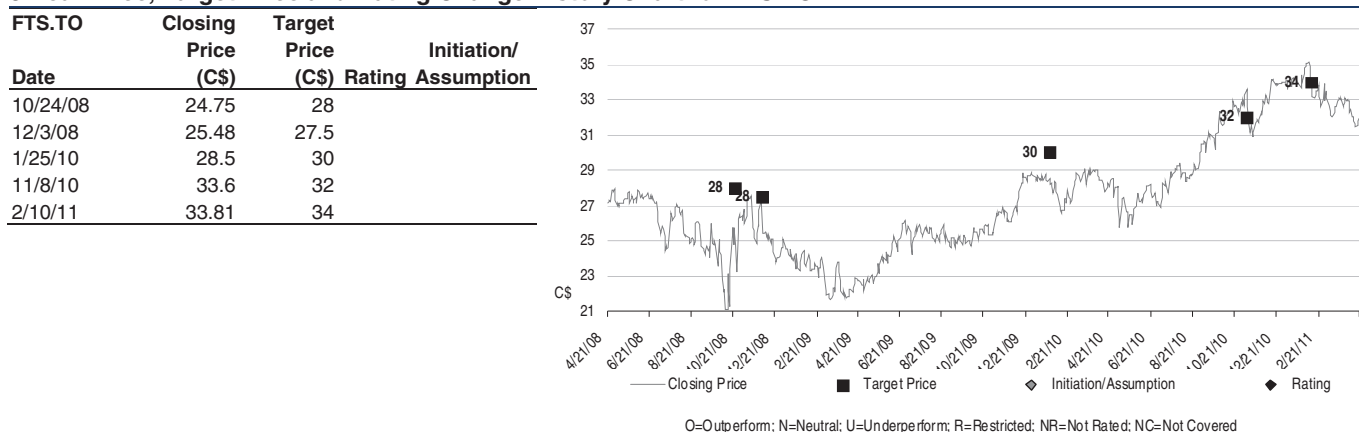
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	47%	(63% banking clients)
<b>Neutral/Hold*</b>	41%	(58% banking clients)
<b>Underperform/Sell*</b>	11%	(51% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.0x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ

from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000



## Fortis Inc. (FTS.TO)

FORECAST INCREASE

Rating	NEUTRAL*
Price (04 May 11, C\$)	32.35
Target price (C\$)	34.00 <sup>1</sup>
52-week price range	35.15 - 25.76
Market cap. (C\$ m)	5,674.89
Enterprise value (C\$ m)	12,721.22

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

## Working the western front

- **Earnings review:** Fortis reported Q1 2011 headline EPS (FD) of C\$0.65 beating our C\$0.64 estimate, the Street's C\$0.624 view and exceeding the C\$0.59-C\$0.64 range. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns.
- **Significant organic growth continues:** As expected, Fortis continued to provide a robust outlook for its utility capital program. The company expects consolidated gross capital expenditures to be roughly C\$1.2bn for 2011 and about C\$5.5bn over the next five years with 83% of that total amount going to utility activity.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



On 05/03/11 the Canada S&P/TSX Composite Index index closed at 13692.37

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	1.76	—	—
P/E (x)	20.1	18.2	17.4	16.9
P/E rel. (%)	118.1	126.4	131.9	—
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.9	8.4	8.0
EV/EBITDA (current)	10.7	10.5	10.2	9.5
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.6

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Fortis reported Q1 2011 headline EPS (FD) of C\$0.65 beating our C\$0.64 estimate, the Street's C\$0.624 view and exceeding the C\$0.59-C\$0.64 range. In general, we believe Fortis continues to make steady progress in delivering relatively consistent financial results from a largely regulated asset base. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns. This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

A modest beat

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2011	Q1 2010	chg y/y
Regulated Gas Utilities - Canadian	76	73	4%
Regulated Electric Utilities - Canadian	53	40	33%
Regulated Electric Utilities - Caribbean	4	4	0%
Non-regulated - Fortis Generation	3	2	50%
Non-regulated - Fortis Properties	1	2	-50%
Corporate and other	(20)	(21)	5%
Net earnings applicable to common shares	117	100	17%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment increased by roughly 4% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 1,373 during Q1 2011 versus net addition of 1,566 during the Q1 2010;
- The amount of customer additions decreased versus Q1 2010 due to lower building activity; and,
- Sales volumes for the quarter increased for all the segments (Core-Residential and Commercial, the Industrial segment and transportation volumes).

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q1 2011	Q1 2010	chg y/y
FortisBC Energy	76.0	73.0	4%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.



**Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)***C\$ in millions, unless otherwise stated*

	Q1 2011	Q1 2010	chg y/y
FortisAlberta	21	14	50%
FortisBC Electric	19	14	36%
Newfoundland Power	7	7	0%
Other Cdn Electric Utilities	6	5	20%
Earnings	53	40	33%

*Source: Company data and Credit Suisse***FortisAlberta**

Earnings at this regulated utility were up by roughly 50% comparing Q1 2011 versus the prior period. The increase was primarily due to increase in electricity distribution rates due to continued growth in the system, customer growth and higher volumes due to cooler-than-normal temperatures and increased economic activity in the province. See Exhibit 4 for selected highlights.

Increase in energy delivery  
in Alberta

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	4,402	4,109	7%
Revenue (C\$/MWh)	23.40	21.17	11%
Operating expenses (C\$/MWh)	7.95	8.52	-7%
Gross margin (C\$/MWh)	15.45	12.66	22%
Earnings (C\$millions)	21	14	50%

*Source: Company data and Credit Suisse***FortisBC Electric**

Segmented earnings at FortisBC Electric increased by 36% compared to the same period last year. The increase was due to increase in electricity sales growth and rate base growth due to continued investment in utility capital assets. See Exhibit 5 for selected highlights.

Increase in energy  
deliveries in BC

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	905	820	10%
Revenue (C\$/MWh)	91.71	87.80	4%
Energy supply costs (C\$/MWh)	25.41	25.61	-1%
Operating expenses (C\$/MWh)	19.89	20.73	-4%
Gross margin (C\$/MWh)	46.41	41.46	12%
Earnings (C\$millions)	19	14	36%

*Source: Company data and Credit Suisse***Newfoundland Power**

This segment's earnings generation was flat when comparing Q1 2011 versus Q1 2010. Higher electricity sales were offset by timing of certain labour costs in Q1 2011, higher maintenance costs and lower allowed ROE. Energy deliveries were up by approximately 2% (see Exhibit 6).

Slight increase in NP's  
energy deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	1,834	1,795	2%
Revenue (C\$/MWh)	99.78	99.16	1%
Energy supply costs (C\$/MWh)	73.06	72.98	0%
Operating expenses (C\$/MWh)	10.91	8.91	22%
Gross margin (C\$/MWh)	15.81	17.27	-8%
Earnings (C\$millions)	7	7	0%

Source: Company data, Credit Suisse estimates

**Other Canadian Electric Utilities**

The roughly 3% increase in energy deliveries was primarily the result of higher average consumption due to colder temperatures in Ontario and Prince Edward Island. Exhibit 7 contains selected highlights.

Increase in energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	654	632	3%
Revenue (C\$/MWh)	139.14	129.75	7%
Energy supply costs (C\$/MWh)	91.74	83.86	9%
Operating expenses (C\$/MWh)	18.35	17.41	5%
Gross margin (C\$/MWh)	29.05	28.48	2%
Earnings (C\$millions)	6	5	20%

Source: Company data and Credit Suisse

**Regulated Electric Utilities – Caribbean**

This segment includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat when compared the same quarter last year at C\$4m. Energy deliveries were also flat on a year-over-year basis. On the regulatory front, the ongoing situation with Belize Electricity requires a degree of monitoring. In brief, the utility received an adverse regulatory decision relating to a rate application. Moreover, there have been changes to the electricity legislation in Belize that have been challenged by the Fortis-owned utility. The company stated

Awaiting a decision in Belize

“In March 2011 the Supreme Court of Belize dismissed Belize Electricity’s appeal of the regulator’s June 2008 Final Rate Decision. The Company is in the process of filing an appeal of the trial judgment with the Belize Court of Appeal and has filed an application to restrain the regulator from initiating any rate action pending the hearing and determination of the appeal.”

Fortis Turks and Caicos, in March 2011 submitted “its 2010 annual regulatory filing outlining the Company’s performance in 2010.” Fortis “intends to submit a new Rate Variation Application in 2011, which takes into account changes in the utility’s rate base and in the local business and regulatory environment since filing its 2010 application. The 2010 application was not accepted by the Governor of the Turks and Caicos Islands due to concern about the impact a proposed rate increase might have on key sectors of the local economy.”

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	257	256	0%
Revenue (C\$/MWh)	295.72	296.88	0%
Energy supply costs (C\$/MWh)	178.99	175.78	2%
Operating expenses (C\$/MWh)	42.80	46.88	-9%
Gross margin (C\$/MWh)	73.93	74.22	0%
Earnings (C\$millions)	4	4	0%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Generation**

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 50% from the current quarter compared to the same quarter last year. Energy deliveries increased by 13% from Q1 2010 to Q1 2011 due the commissioning of the Vaca hydroelectric facility in Belize in late March 2010. See the table below for selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q1 2011	Q1 2010	chg y/y
Energy deliveries (GWh)	76	67	13%
Revenue (C\$/MWh)	92.11	74.63	23%
Energy supply costs (C\$/MWh)	-	-	n/a
Operating expenses (C\$/MWh)	39.47	29.85	32%
Gross margin (C\$/MWh)	52.63	44.78	18%
Earnings (C\$millions)	3	2	50%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution during the quarter was C\$1m which is lower than Q1 2010 earnings of C\$2m. REVPAR slightly increased to C\$63.29 from C\$62.93 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 94.3% versus last year's 95.8%.

**Corporate**

Corporate expenses decreased to C\$20 million in Q1 2011 from C\$21m in Q4 2009.

**Outlook**

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

**Funding organic growth**

In the most recent quarter the company's reported capital expenditures totaled C\$233 million, of which C\$207 million was spent at regulated utilities. Fortis continues to guide that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). The company's expectations continue to be for consolidated gross capital expenditures over 5 years (2011-2015) approaching C\$5.5bn with 63% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 20% of the total capex amount, and 17% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board in the regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside. The only challenge with the upward bias is that it comes at a time of potentially rising interest rates.

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "We will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada that will add value for our shareholders". Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;

- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "*Pondering a Portland purchase?*"

## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. As a result of the quarter, we slightly revised our EPS estimates for 2011 to C\$1.77 from C\$1.76. Our Neutral rating and C\$34.00 target price is obtained from multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

Rating: Neutral

Target: C\$34

### Companies Mentioned (Price as of 04 May 11)

Fortis Inc. (FTS.TO, C\$32.35, NEUTRAL, TP C\$34.00)

## Disclosure Appendix

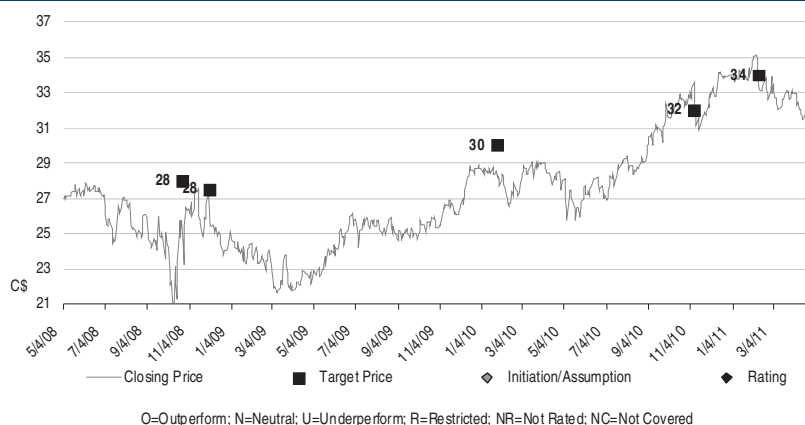
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Rating Assumption
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	





The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

**Analysts' stock ratings are defined as follows:**

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

*\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

*\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

*\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
Outperform/Buy*	47%	(62% banking clients)
Neutral/Hold*	40%	(57% banking clients)
Underperform/Sell*	11%	(50% banking clients)
Restricted	2%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.



Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

---

### Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal/terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal/terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (27 May 11, C\$)	33.66
Target price (C\$)	34.00 <sup>†</sup>
52-week price range	35.15 - 26.50
Market cap. (C\$ m)	5,904.69
Enterprise value (C\$ m)	12,951.03

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

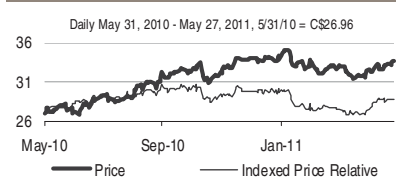
paul.tan@credit-suisse.com

### ACQUISITION

## Cross border connections

- **Accretive action:** Fortis plans to acquire Central Vermont Public Service (CV.N) for US\$700m (including the assumption of US\$230m in debt) for US\$35.10/share in cash representing a 44% premium to Friday's closing price of US\$24.32. FTS believes the deal will close in 6-12 months and will be EPS accretive in the first full year of ownership. We view this long-awaited initial FTS foray into the US as incrementally positive. From our perspective, we believe Fortis is very well positioned to consolidate the small to mid-cap US utility sector. Given Central Vermont's potential future rate base growth, we view this deal positively. Additionally, we believe Fortis is very well positioned for more US targeted deals.
- **Deal details:** Under simple assumptions, we believe this deal may result in more than C\$0.10/sh of earnings accretion for Fortis in the first full year after close. Similar to past FTS acquisitions, CV's large investment plan may result in 9% compound average annual growth from 2010 to 2015. Such growth should provide further financial upside, however, in the near-term, significant earnings accretion is possible largely the result of the wide valuation gap between Canadian and US utilities. Given the current appetite for yield in the Canadian market, we expect ongoing US targeted deals that are also aided by the level of the CAD/USD.
- **Improving capital market conditions:** Historically, Fortis is very adept at acquisitions and this transaction highlights long-term and low-risk growth.
- **Valuation:** We have not adjusted our numbers for this deal, but will do so over time. Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



On 05/27/11 the Canada S&P/TSX Composite Index index closed at 13797.59

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.9	19.0	18.1	17.6
P/E rel. (%)	137.2	142.9	145.7	145.3
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	8.2	8.7	8.3
EV/EBITDA (current)	10.9	10.7	10.4	9.6
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.4

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 27 May 11)  
 Fortis Inc. (FTS.TO, C\$33.66, NEUTRAL, TP C\$34.00)

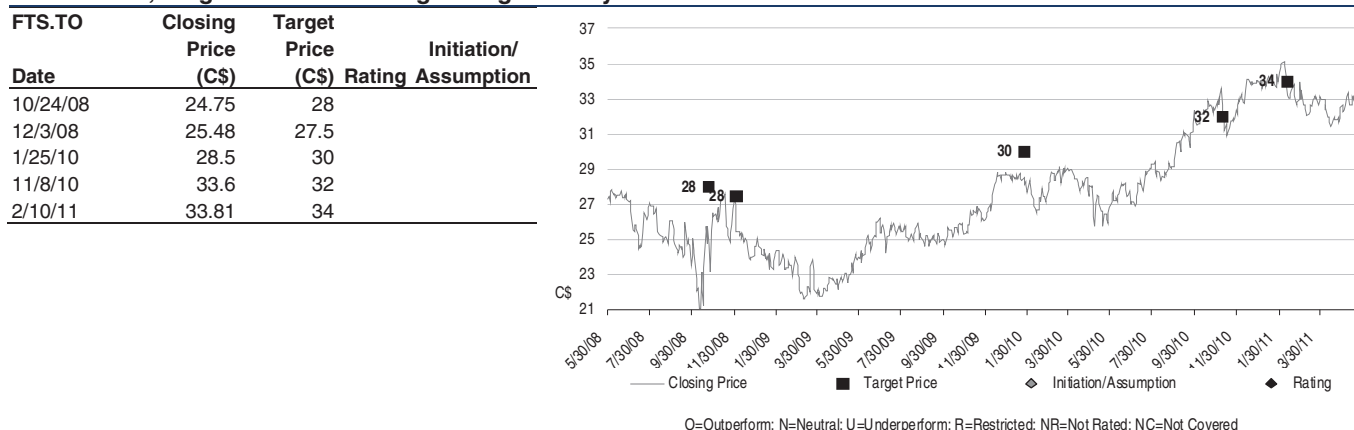
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.



**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
Outperform/Buy*	47%	(63% banking clients)
Neutral/Hold*	40%	(56% banking clients)
Underperform/Sell*	10%	(50% banking clients)
Restricted	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000



## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (10 Jun 11, C\$)	31.65
Target price (C\$)	34.00 <sup>†</sup>
52-week price range	35.15 - 26.89
Market cap. (C\$ m)	5,552.10
Enterprise value (C\$ m)	12,598.43

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

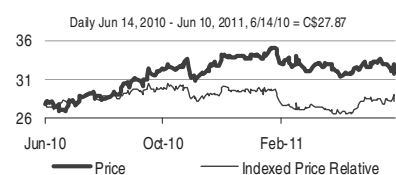
paul.tan@credit-suisse.com

### BUSINESS DISPOSAL

## Bye-bye Belize?

- **A government grab:** Fortis Inc. press released the Government of Belize's interest "...in purchasing majority shares in BEL so as to assume control of the company." Fortis has yet to receive a purchase proposal for the approximate 70% interest in Belize Electricity Limited (BEL). At this time, we view the prospects for BEL disposition as a potentially minor positive for FTS. We take that view for multiple reasons, including: (a) over the last few years, BEL experienced regulatory issues that led to a lengthy legal battle; (b) FTS would likely repatriate the BEL proceeds towards a combination of organic and acquisition oriented growth activities in North American; and, (c) clearly, we assume any BEL disposition will occur at a fair value. A future deal price is critical to assessing impact, but a potential dispute resolution is positive.
- **Some details:** Without delving into the history of Fortis in Belize, we believe selected points are pertinent, including: (a) FTS owns roughly 70% of Belize Electricity Limited which is an integrated electric utility in Belize; (b) FTS owns the Belize Electric Company Limited (BECOL), an unregulated hydroelectric generation company, in Belize; and, and, (c) for FTS less than 2% of total assets are exposed at BEL (~C\$259m) and the combination of BEL and BECOL amount to only 3% of the total assets as of March 31, 2011.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



On 06/10/11 the Canada S&P/TSX Composite Index index closed at 13084.

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.7	17.8	17.0	16.6
P/E rel. (%)	135.8	141.5	144.2	143.8
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.7	8.2	7.8
EV/EBITDA (current)	10.6	10.4	10.1	9.4
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.7

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 10 Jun 11)  
Fortis Inc. (FTS.TO, C\$31.65, NEUTRAL, TP C\$34.00)

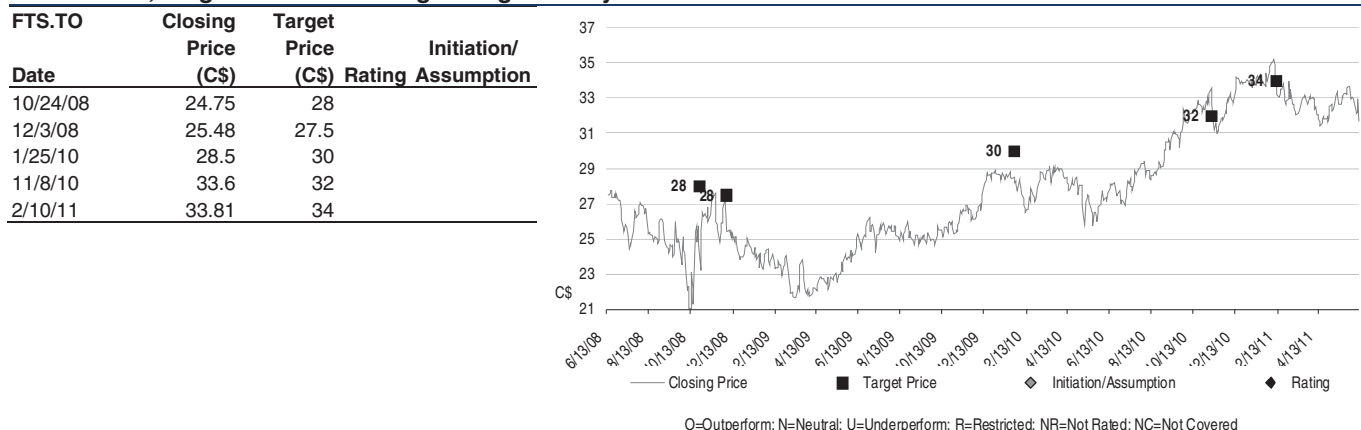
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	48%	(62% banking clients)
<b>Neutral/Hold*</b>	40%	(56% banking clients)
<b>Underperform/Sell*</b>	10%	(50% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ

from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000



## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (23 Jun 11, C\$)	31.64
Target price (C\$)	34.00 <sup>†</sup>
52-week price range	35.15 - 26.89
Market cap. (C\$ m)	5,550.34
Enterprise value (C\$ m)	12,596.67

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

### COMPANY UPDATE

## Valuing Vermont

- **Competing bid:** Roughly three and a half weeks after Central Vermont Public Service Corporation (CVPS) agreed to be purchased by Fortis Inc. for US\$35.10 per share, Northern New England Energy Corp. (NNEEC), a wholly owned subsidiary of Gaz Métro Limited Partnership made an unsolicited offer for CVPS. CVPS announced its board of directors “will review the unsolicited offer in due course based on its fiduciary responsibilities and contractual commitments to Fortis.” We believe FTS is a very disciplined buyer of assets. The recent equity offering, CV deal and Belize issues have weighed on the stock.
- **Deal differences:** Selected differences between the NNEEC and FTS offers include: (a) NNEEC bid US\$35.25 per CVPS share vs. FTS at US\$35.10/sh; (b) under NNEEC’s bid, CVPS shareholders will receive quarterly dividend payments of US\$0.23/sh until closing versus FTS’s offer capping dividends at US\$0.46; (c) NNEEC stated the transaction will create roughly US\$144m over 10-year customer savings to CVPS and, wholly-owned subsidiary, Green Mountain Energy (GMP) rate payers versus US\$21m in the FTS transaction; and (d) the NNEEC deal will see CVPS and GMP contribute roughly 30% ownership interest in VELCO to a “permanent trust under public direction”. As with many utility transactions, the potential for greater customer benefits may be critical in the regulatory approval process.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company’s ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation.

### Share price performance



On 06/22/11 the Canada S&P/TSX Composite Index index closed at 13060.56

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.7	17.8	17.0	16.6
P/E rel. (%)	136.0	141.7	144.4	144.0
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.7	8.2	7.8
EV/EBITDA (current)	10.6	10.4	10.1	9.4
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.7

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 23 Jun 11)

Central Vermont Pub Serv (CV, \$34.41)

Fortis Inc. (FTS.TO, C\$31.64, NEUTRAL, TP C\$34.00)

## Disclosure Appendix

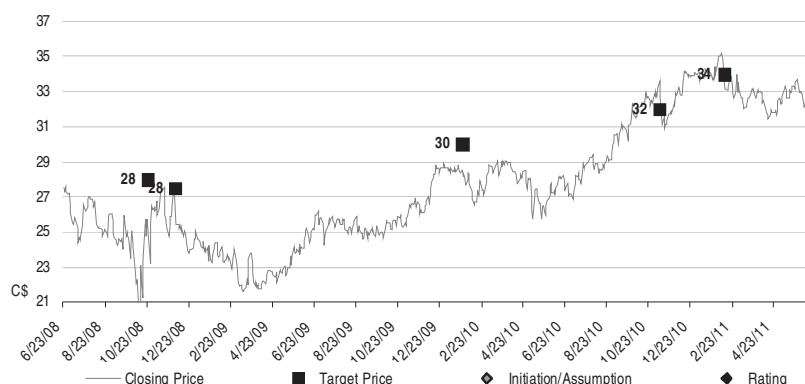
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Rating Assumption
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.



**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
Outperform/Buy*	48%	(62% banking clients)
Neutral/Hold*	40%	(56% banking clients)
Underperform/Sell*	10%	(51% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (11 Jul 11, C\$)	32.38
Target price (C\$)	34.00 <sup>†</sup>
52-week price range	35.15 - 27.73
Market cap. (C\$ m)	5,680.15
Enterprise value (C\$ m)	12,726.49

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

### COMPANY UPDATE

## A positive pass

- **Terminating transaction:** Fortis Inc. announced the Central Vermont Public Service Corporation's (CVPS) Board of Directors determined Gaz Métro Limited Partnership's acquisition proposal was a "Superior Proposal". Thus, CVPS terminated the Merger Agreement with Fortis Inc. As a result, Fortis will receive a termination fee of US\$17.5m plus US\$2.0m in expenses. We believe the transaction illustrates the company's traditional discipline by not engaging in a bidding war. Roughly concurrent with the initial bid for CV, Fortis raised more than C\$300m of gross proceeds from an equity issue. We believe the money gives more flexibility for Fortis to potentially accelerate the existing capital program, de-levering or engage in further acquisitions.
- **Positive pass:** We continue to believe Fortis is extremely well positioned to consolidate the small to mid-cap US utility sector. In our view, Fortis remains a disciplined buyer of assets with a view for longer-term rate base growth. In light of the difficulties around many utility transactions, we do not expect FTS to announce another deal in short order. Yet, we believe FTS will continue to be very active in the US market for the "right" utility deal. Despite the Street's potential lingering M&A concerns, we believe the shares rally on the CV deal termination.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities.
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.8x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



On 07/11/11 the Canada S&P/TSX Composite Index index closed at 13179.75

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.34	0.27	0.51
2012E	0.73	0.32	0.27	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.2	18.3	17.4	17.0
P/E rel. (%)	136.0	141.6	144.4	144.0
Revenue (C\$ m)	3,664.0	3,769.7	4,161.2	4,348.8
EBITDA (C\$ m)	1,150.0	1,214.2	1,307.8	1,381.8
OCFPS (C\$)	4.01	4.09	3.86	4.04
P/OCF (x)	8.5	7.9	8.4	8.0
EV/EBITDA (current)	10.7	10.5	10.2	9.5
Net debt (C\$ m)	5,914	6,312	6,928	7,415
ROIC (%)	6.15	5.98	5.94	5.90
Number of shares (m)	175.42	IC (current, C\$ m)		9,973.00
BV/share (current, C\$)	19.4	EV/IC (x)		1.2
Net debt (current, C\$ m)	5,998.1	Dividend (current, C\$)		1.16
Net debt/tot. cap. (current, %)	105.7	Dividend yield (%)		3.6

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 11 Jul 11)  
 Central Vermont Pub Serv (CV, \$36.00)  
 Fortis Inc. (FTS.TO, C\$32.38, NEUTRAL, TP C\$34.00)

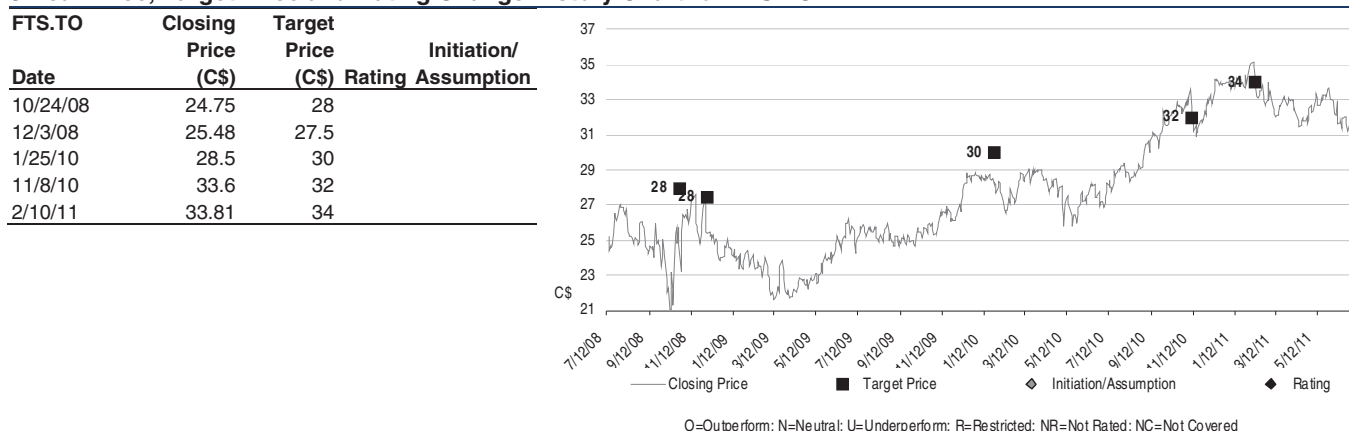
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.



**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	48%	(61% banking clients)
<b>Neutral/Hold*</b>	40%	(57% banking clients)
<b>Underperform/Sell*</b>	10%	(52% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.5x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



Americas / Canada  
Multi Utilities**Fortis Inc.** (FTS.TO)

Rating (from Neutral) **OUTPERFORM\***  
 Price (19 Jul 12, C\$) 33.00  
 Target price (C\$) (from 34.00) 38.00<sup>1</sup>  
 52-week price range 34.55 - 29.11  
 Market cap. (C\$ m) 6,246.99  
 Enterprise value (C\$ m) 12,749.90

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

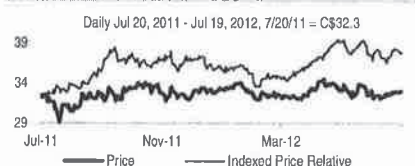
**Research Analysts****Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Upgrade to Outperform; acquisitions on the sidelines with CH Energy regulatory process**

- **Upgrade to Outperform:** We upgrade Fortis to Outperform from our prior Neutral rating and boost our target price to C\$38 from the previous C\$34. In historical terms, Fortis is trading more than 200 bps wide of the 10-year yield spread average. That value combined with completion of the CH Energy deal funding, along with other acquisitions being more distant in time, provides the rationale for the upgrade. Additionally, those factors are also supported by the prolonged low interest rate environment further benefitting the corporate valuation.
- **Transaction timing:** Fortis expects the CH Energy deal to close by the end of Q1 2013. In our view, Fortis will largely be on the sidelines from the M&A market until this deal officially closes with the necessary regulatory approvals. Therefore, we do not expect a typical acquisition overhang to surround the potential deal-making activities of the stock. Yet, we believe a greater focus on the potential of CH, among other prospects, will come into the stock over the next few quarters.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. After the closing of the CH deal, we believe FTS is well positioned for additional opportunities. Fortis recently stated, "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** We obtain our revised C\$38 target price (up from the prior C\$34) from multiple valuation methods, but we primarily rely upon a targeted dividend yield of 3.25%. We upgrade Fortis to Outperform.

**Share price performance**

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.32	0.27	0.51
2013E	0.72	0.32	0.28	0.53

**Financial and valuation metrics**

Year	12/11A	12/12E	12/13E	12/14E
EPS (C\$ adj.) (C\$)	1.70	1.72	1.85	1.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.4	19.2	17.8	17.6
P/E rel. (%)	145.7	150.0	161.3	177.0
Revenue (C\$ m)	3,747.0	3,855.4	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,279.6	1,373.6	1,435.0
OCFPS (C\$)	4.51	4.10	3.83	3.96
P/OCF (x)	7.4	8.0	8.6	8.3
EV/EBITDA (current)	10.2	9.5	8.8	8.4
Net debt (C\$ m)	5,855	6,503	7,084	7,578
ROIC (%)	5.80	5.72	5.67	5.60
Number of shares (m)	189.30	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,091.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	120.3	Dividend yield (%)		0.91

Source: Company data, Credit Suisse estimates.

Exhibit 129 contains a statistical perspective of the Fortis dividend yield and yield spread over several periods.

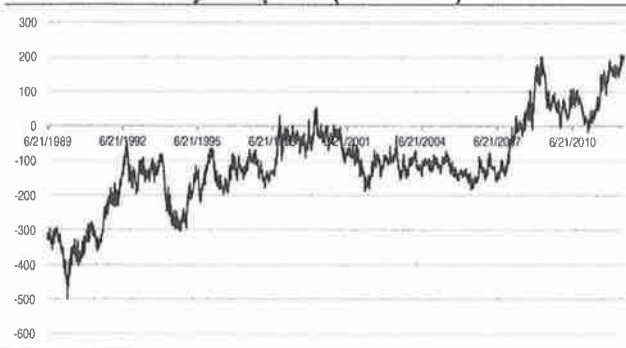
**Exhibit 129: FTS dividend yield / yield spread over different time periods**

FTS	Max	10-Year	5-Year	2-Year	9/2008-3/2009
Beginning Date	6/21/1989	7/16/2002	7/16/2007	7/16/2010	9/1/2008
Mean Yield (%)	4.78	3.53	3.77	3.59	4.22
Max Yield (%)	7.54	4.81	4.81	4.04	4.81
Min Yield (%)	2.46	2.46	2.97	3.30	3.63
Mean Spread (bps)	-102.68	-29.12	58.82	98.78	102.12
Max Spread (bps)	207.47	207.47	207.47	207.47	202.28
Min Spread (bps)	-497.22	-179.49	-150.99	-16.81	-9.60
Mean (10-Yr) (%)	5.80	3.82	3.18	2.60	3.20
Max (10-Yr) (%)	11.91	5.35	4.64	3.50	3.82
Min (10-Yr) (%)	1.61	1.61	1.61	1.61	2.56

Source: Bloomberg.

The Fortis dividend yield spread appears in Exhibit 130 and Exhibit 131 over two different timeframes.

**Exhibit 130: FTS yield spread (since 1989)**



Source: Bloomberg.

**Exhibit 131: FTS yield spread (last two years)**



Source: Bloomberg.

A hypothetical Fortis stock price can be generated by the dividend and yield variables in Exhibit 132, illustrating the sensitivity of a lower rate environment.

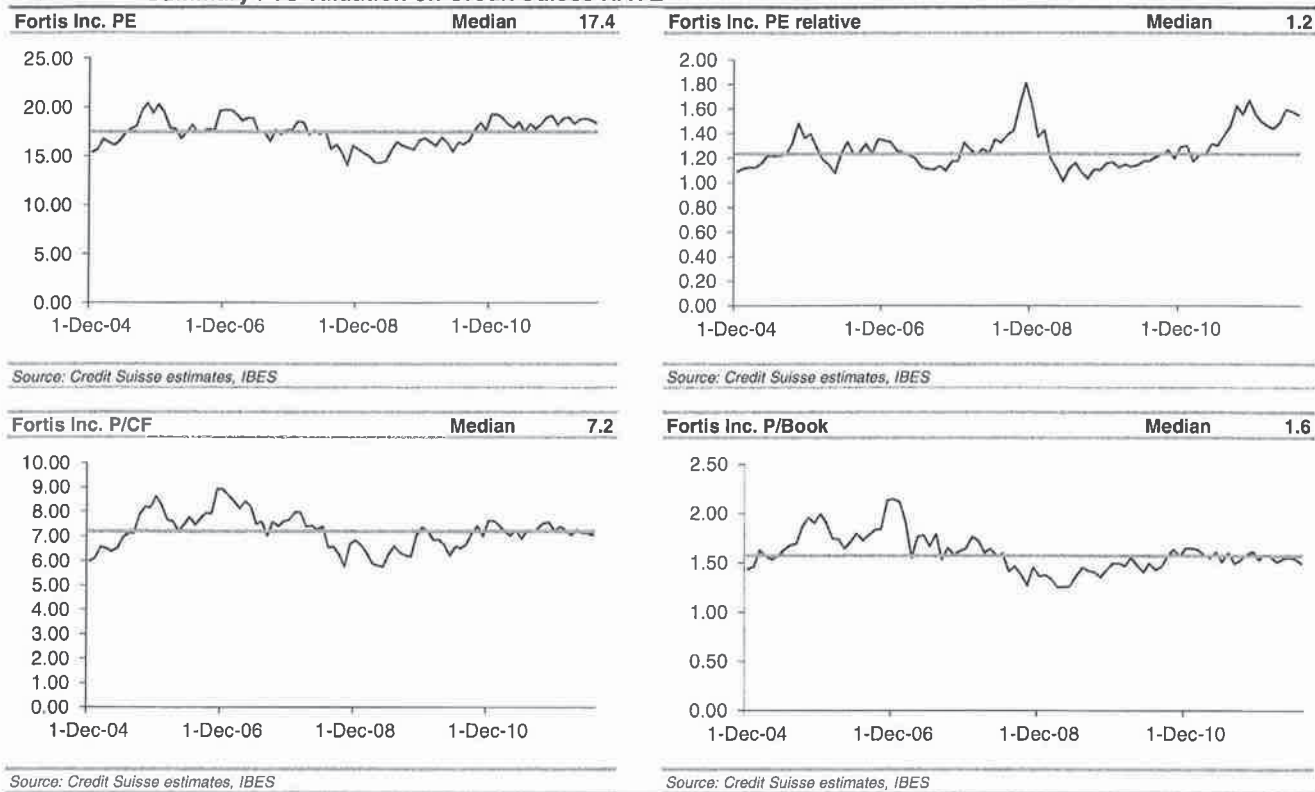
**Exhibit 132: Hypothetical stock price at various distribution and target yields**

		Dividend					
		1.16	1.20	1.24	1.28	1.32	1.36
Yield	3.25%	35.69	36.92	38.15	39.38	40.62	41.85
	3.50%	33.14	34.29	35.43	36.57	37.71	38.86
	3.75%	30.93	32.00	33.07	34.13	35.20	36.27
	4.00%	29.00	30.00	31.00	32.00	33.00	34.00
	4.25%	27.29	28.24	29.18	30.12	31.06	32.00
	4.50%	25.78	26.67	27.56	28.44	29.33	30.22
	4.75%	24.42	25.26	26.11	26.95	27.79	28.63
	5.00%	23.20	24.00	24.80	25.60	26.40	27.20
	5.25%	22.10	22.86	23.62	24.38	25.14	25.90
	5.50%	21.09	21.82	22.55	23.27	24.00	24.73

Source: Credit Suisse estimates.

In Exhibit 133, we highlight selected FTS valuations from Credit Suisse RAVE.

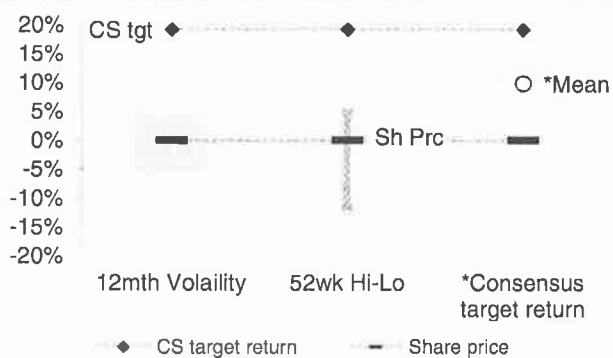
**Exhibit 133: Summary FTS valuation on Credit Suisse RAVE**



Source: Credit Suisse RAVE.

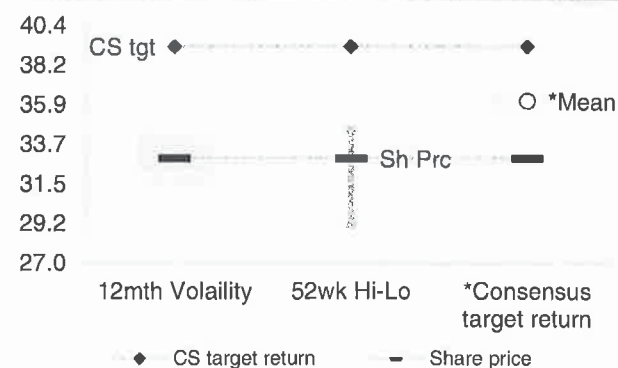
Exhibit 134 and Exhibit 135 put our rating into context versus the Street.

**Exhibit 134: Total return forecast in perspective**



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

**Exhibit 135: Total return forecast in perspective**



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

## Fortis Inc. (FTS.TO)

Rating (from Neutral) **OUTPERFORM\***  
Price (03 Aug 11, C\$) 30.87  
Target price (C\$) 34.00<sup>†</sup>  
52-week price range 35.15 - 28.36  
Market cap. (C\$ m) 5,751.06  
Enterprise value (C\$ m) 11,622.72

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

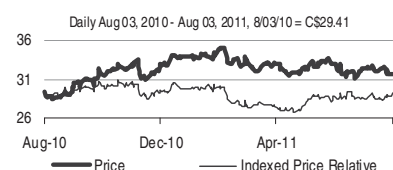
paul.tan@credit-suisse.com

### UPGRADE RATING

## Caught in the downdraft

- **Earnings review:** Fortis reported Q1 2011 headline EPS (FD) of C\$0.33 slightly below our C\$0.34 estimate, the Street's C\$0.347 view and at the bottom end of the C\$0.33-C\$0.36 range. Year-to-date, Fortis shares have been the weakest performer in the Canadian utility universe returning -9%. We believe Fortis delivers organic growth that is combined with a disciplined acquisition framework. In our view, the market remains somewhat concerned about deal potential and the Belize Electricity situation. Given the potential excess return, we upgrade FTS to Outperform from the previous Neutral. Our target is maintained at C\$34.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with a reiteration of the C\$1.2bn target for 2011. Additionally, Fortis increased the 5-year capex outlook to C\$5.7b from C\$5.5bn. Eighty-four percent of that total amount is expected to go towards utility activity that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We are disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** With the recent sell-off, we upgrade our FTS rating to Outperform from the previous Neutral. We also maintain our C\$34 that is obtained via multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We introduce our Outperform rating.

### Share price performance



On 08/03/11 the S&P/TSX COMPS INDEX closed at 12816.03

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.33	0.28	0.51
2012E	0.72	0.32	0.28	0.54

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.2	17.5	16.6	16.2
P/E rel. (%)	—	91.8	111.9	126.7
Revenue (C\$ m)	3,664.0	3,806.8	4,133.5	4,320.4
EBITDA (C\$ m)	1,150.0	1,215.8	1,304.2	1,378.2
OCFPS (C\$)	4.01	4.44	3.83	4.02
P/OCF (x)	8.5	7.0	8.0	7.7
EV/EBITDA (current)	9.8	9.3	8.7	8.2
Net debt (C\$ m)	5,914	5,872	6,488	6,973
ROIC (%)	6.30	6.25	6.18	6.10
Number of shares (m)	186.30	IC (current, C\$ m)		10,237.80
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	5,737.5	Dividend (Next Qtr., C\$)		0.29
Net debt/tot. cap. (Next Qtr.,	135.4	Dividend yield (%)		0.94

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Largely inline results

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2011	Q2 2010	chg y/y
Regulated Gas Utilities - Canadian	15	17	-12%
Regulated Electric Utilities - Canadian	45	40	13%
Regulated Electric Utilities - Caribbean	7	7	0%
Non-regulated - Fortis Generation	2	3	-33%
Non-regulated - Fortis Properties	7	8	-13%
Corporate and other	(18)	(20)	10%
Net earnings applicable to common shares	58	55	5%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 12% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities, include:

- Net customer additions were 1,002 during H1 2011 versus net addition of 1,829 during the H1 2010;
- The amount of customer additions decreased versus H1 2010 due to lower building activity; and,
- Sales volumes for the quarter increased for all the segments (Core-Residential and Commercial, the Industrial segment and transportation volumes).

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q2 2011	Q2 2010	chg y/y
FortisBC Energy	15.0	17.0	-12%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2011	Q2 2010	chg y/y
FortisAlberta	19	17	12%
FortisBC Electric	9	8	13%
Newfoundland Power	11	11	0%
Other Cdn Electric Utilities	6	4	50%
Earnings	45	40	13%

Source: Company data and Credit Suisse



## FortisAlberta

Earnings at this regulated utility were up by roughly 12% comparing Q2 2011 versus the prior period. See Exhibit 4 for selected highlights.

Increase in energy delivery in Alberta

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	3,822	3,784	1%
Revenue (C\$/MWh)	27.21	24.31	12%
Operating expenses (C\$/MWh)	9.42	9.51	-1%
Gross margin (C\$/MWh)	17.79	14.80	20%
Earnings (C\$millions)	19	17	12%

Source: Company data and Credit Suisse

## FortisBC Electric

Segmented earnings at FortisBC Electric increased by 13% compared to the same period last year. The increase was due rate base growth due to continued investment in utility capital assets and lower-than-expected average market priced purchase power costs. See Exhibit 5 for selected highlights.

Increase in energy deliveries in BC

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	682	671	2%
Revenue (C\$/MWh)	93.84	87.93	7%
Energy supply costs (C\$/MWh)	16.13	19.37	-17%
Operating expenses (C\$/MWh)	30.79	28.32	9%
Gross margin (C\$/MWh)	46.92	40.24	17%
Earnings (C\$millions)	9	8	13%

Source: Company data and Credit Suisse

## Newfoundland Power

This segment's earnings generation was flat when comparing Q2 2011 versus Q2 2010. Higher electricity sales and lower effective income taxes were offset by timing of certain labour costs in H1 2011, wage and inflationary increases and lower allowed ROE. Energy deliveries were up by approximately 4% (see Exhibit 6).

Increase in NP's energy deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	1,269	1,220	4%
Revenue (C\$/MWh)	104.81	103.28	1%
Energy supply costs (C\$/MWh)	63.04	61.48	3%
Operating expenses (C\$/MWh)	13.40	12.30	9%
Gross margin (C\$/MWh)	28.37	29.51	-4%
Earnings (C\$millions)	11	11	0%

Source: Company data, Credit Suisse estimates

## Other Canadian Electric Utilities

The roughly 5% increase in energy deliveries was primarily the result of higher average consumption due to colder temperatures in Ontario and Prince Edward Island. Exhibit 7 contains selected highlights.

Increase in energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	562	535	5%
Revenue (C\$/MWh)	138.79	140.19	-1%
Energy supply costs (C\$/MWh)	83.63	85.98	-3%
Operating expenses (C\$/MWh)	19.57	20.56	-5%
Gross margin (C\$/MWh)	35.59	33.64	6%
Earnings (C\$millions)	6	4	50%

Source: Company data and Credit Suisse

**Regulated Electric Utilities – Caribbean**

Awaiting a decision in Belize

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat when compared the same quarter last year at C\$7m. Energy deliveries declined 6% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time.

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	290	307	-6%
Revenue (C\$/MWh)	300.00	270.36	11%
Energy supply costs (C\$/MWh)	182.76	153.09	19%
Operating expenses (C\$/MWh)	37.93	35.83	6%
Gross margin (C\$/MWh)	79.31	81.43	-3%
Earnings (C\$millions)	7	7	0%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Generation**

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 33% from the current quarter compared to the same quarter last year. Energy deliveries increased by 3% from Q2 2010 to Q2 2011 due increased production New York and Ontario caused by higher rainfall. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q2 2011	Q2 2010	chg y/y
Energy deliveries (GWh)	90	87	3%
Revenue (C\$/MWh)	77.78	91.95	-15%
Energy supply costs (C\$/MWh)	11.11	11.49	-3%
Operating expenses (C\$/MWh)	11.11	22.99	-52%
Gross margin (C\$/MWh)	55.56	57.47	-3%
Earnings (C\$millions)	2	3	-33%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution during the quarter was C\$7m which is lower than Q2 2010 earnings of C\$8m. REVPAR slightly decreased to C\$83.57 from C\$83.77 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was down at 93.4% versus last year's 94.8%.

**Corporate**

Corporate expenses decreased to C\$18million in Q2 2011 from C\$20m in Q2 2010.



## Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$286 million, of which C\$221 million was spent at regulated utilities. Fortis continues to guide that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis increased consolidated gross capital expenditures expectations over the 5 year plan (2011-2015) to C\$5.7bn from the previous guidance of C\$5.5bn with 84% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 16% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Ongoing organic growth

Opportunities for improved capital efficiency

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

## Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board in the regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside.

## Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. For instance, the company's most recent Management Discussion and Analysis stated "We will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada that will add value for our shareholders". Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

**Exhibit 10: Selected Fortis M&A transactions**

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability.

Rating: Upgrade to Outperform from Neutral  
Target: C\$34

Year-to-date, Fortis shares have been the weakest performer in the Canadian utility universe returning -9%. We believe Fortis delivers organic growth that is combined with a

disciplined acquisition framework. In our view, the market remains somewhat concerned about deal potential and the Belize Electricity situation. Given the potential excess return, we upgrade FTS to Outperform from the previous Neutral. Our target is maintained at C\$34 and is obtained via multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; 10.2x EV/EBITDA; a 1.7x book value multiple; an implied 3.4% dividend yield; and, a DCF based valuation. We introduce our Outperform rating.

For greater valuation context, please see the series of historical valuations below.

The 10-year historical 2-year forward P/E is 15.8x, while the 1-year and 2-year averages are 17.9x and 16.9x, respectively. (see Exhibit 11)

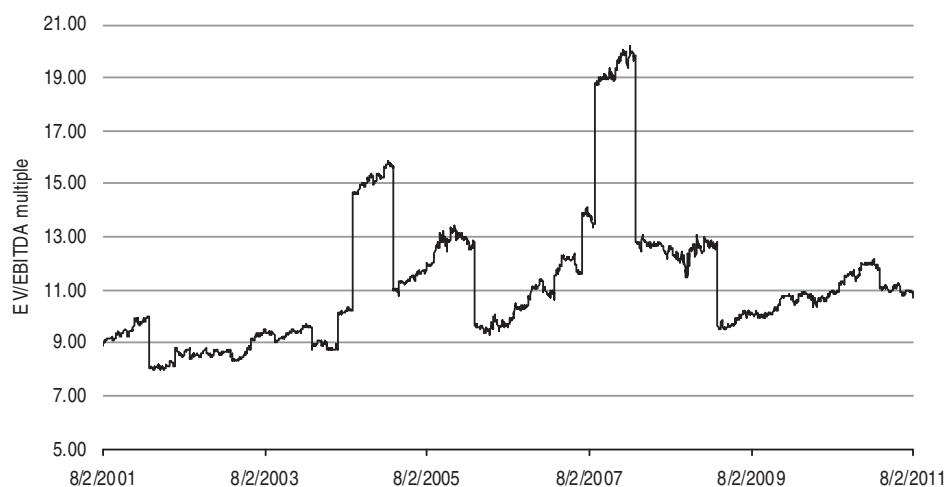
#### Exhibit 11: FTS historical 2 year forward P/E



Source: FactSet and Credit Suisse

The 10-year historical EV/EBITDA multiple is 11.2x, while the 1-year and 2-year averages are 11.3x and 10.9x, respectively. (see Exhibit 12)

#### Exhibit 12: FTS historical EV/EBITDA



Source: FactSet and Credit Suisse

The 10-year historical dividend yield is 3.37%, while the 1-year and 2-year averages are 3.44% and 3.63%, respectively. (see Exhibit 13)

**Exhibit 13: Historical dividend yield**

Source: FactSet and Credit Suisse

**Companies Mentioned** (Price as of 03 Aug 11)  
 Fortis Inc. (FTS.TO, C\$30.87, OUTPERFORM, TP C\$34.00)

## Disclosure Appendix

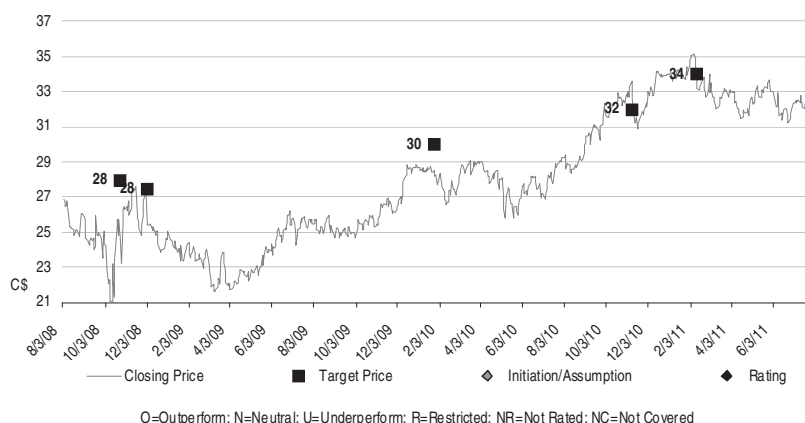
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
10/24/08	24.75	28	
12/3/08	25.48	27.5	
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

*\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

*\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

*\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	48%	(61% banking clients)
<b>Neutral/Hold*</b>	40%	(57% banking clients)
<b>Underperform/Sell*</b>	10%	(50% banking clients)
<b>Restricted</b>	2%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.



---

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal/terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal/terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

## Fortis Inc. (FTS.TO)

### DOWNGRADE RATING

### Reduced rating after run-up

Rating	(from Outperform) <b>NEUTRAL*</b>
Price (27 Sep 11, C\$)	33.44
Target price (C\$)	34.00 <sup>1</sup>
52-week price range	35.15 - 29.11
Market cap. (C\$ m)	6,230.57
Enterprise value (C\$ m)	12,102.24

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

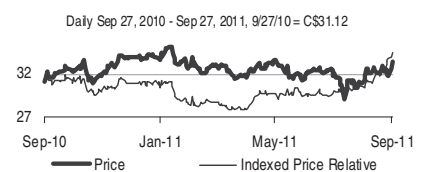
**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

- **Revising rating:** In a relatively short period of time following the Fortis Inc. Q2 results, the stock appreciated by more than 8% (not including dividends). Given this performance, the stock offers a total potential return of roughly 5%. We view that total potential return as being insufficient to justify our Outperform rating. Accordingly, we downgrade our rating to Neutral, however, we maintain our target price at C\$34.00.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with a reiteration of the C\$1.2bn target for 2011 in their Q2 results. Additionally, Fortis increased the 5-year capex outlook to C\$5.7b from C\$5.5bn in their Q2. Eighty-four percent of that total amount is expected to go towards utility activity that should deliver favourable risk adjusted returns over a period of time.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We are disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** With the recent stock performance, we downgrade our FTS rating to Neutral from the previous Outperform. We maintain our C\$34.00 that is obtained via multiple valuation approaches, including: an 18.5x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We introduce our Neutral rating.

#### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.33	0.28	0.51
2012E	0.72	0.32	0.28	0.54

#### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.77	1.86	1.91
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.8	18.9	18.0	17.5
P/E rel. (%)	—	108.7	134.0	149.6
Revenue (C\$ m)	3,664.0	3,806.8	4,133.5	4,320.4
EBITDA (C\$ m)	1,150.0	1,215.8	1,304.2	1,378.2
OCFPS (C\$)	4.01	4.44	3.83	4.02
P/OCF (x)	8.5	7.5	8.7	8.3
EV/EBITDA (current)	10.3	9.7	9.0	8.6
Net debt (C\$ m)	5,914	5,872	6,488	6,973
ROIC (%)	6.30	6.25	6.18	6.10
Number of shares (m)	186.32	IC (current, C\$ m)		10,305.54
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.2
Net debt (Next Qtr., C\$ m)	5,737.5	Dividend (Next Qtr., C\$)		0.29
Net debt/tot. cap. (Next Qtr., %)	133.0	Dividend yield (%)		0.87

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 27 Sep 11)  
 Fortis Inc. (FTS.TO, C\$33.44, NEUTRAL, TP C\$34.00)

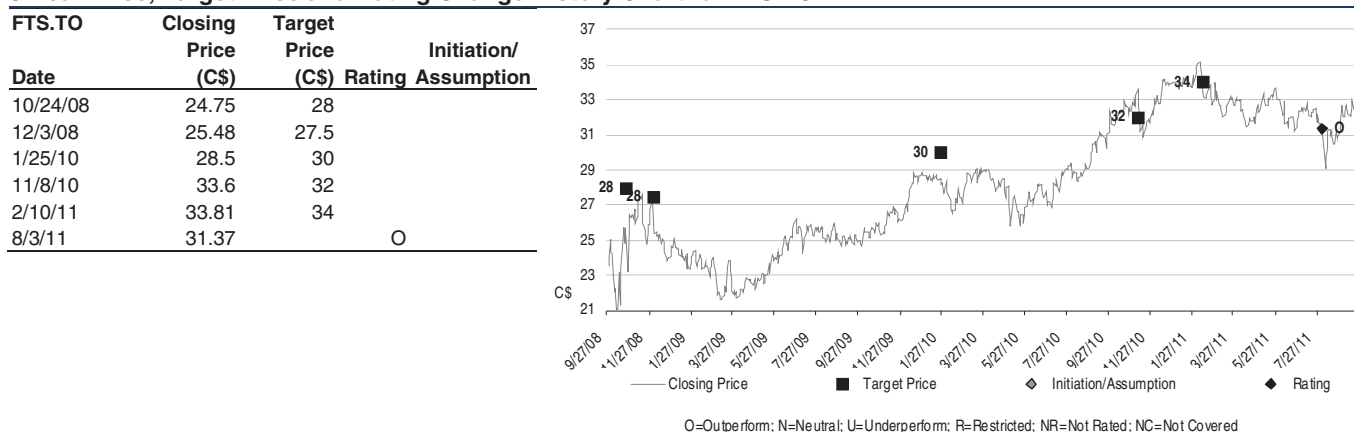
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	49%	(61% banking clients)
<b>Neutral/Hold*</b>	39%	(56% banking clients)
<b>Underperform/Sell*</b>	9%	(54% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2012 EPS (earnings per share) estimate of C\$1.86 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ

from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.





This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

## Fortis Inc. (FTS.TO)

### FORECAST REDUCTION

## Bountiful break-up

Rating	<b>NEUTRAL*</b>
Price (03 Nov 11, C\$)	34.06
Target price (C\$)	34.00 <sup>1</sup>
52-week price range	35.15 - 29.11
Market cap. (C\$ m)	6,366.95
Enterprise value (C\$ m)	12,230.44

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

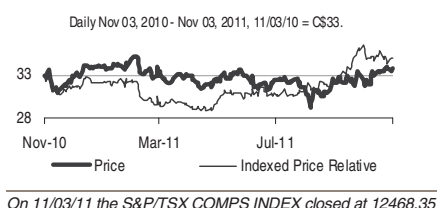
**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

- **Earnings review:** Fortis reported Q3 2011 headline EPS (FD) of C\$0.31, adjusting for the termination fee paid to FTS by Central Vermont Public Service Corp. the adjusted figure is C\$0.26, which missed our C\$0.28 estimate but was higher than the Street's C\$0.244 view and within the C\$0.22-C\$0.28 range. In general, we believe Fortis is making steady progress in delivering consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan along with the potentially positive upward bias to regulated returns.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with a reiteration of their C\$1.2bn target for 2011. Additionally, Fortis reiterated its 5-year capex outlook of C\$5.7bn. Eighty-four percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We are disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: a 19.0x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We reiterate our Neutral rating.

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.56	0.32	0.25	0.47
2011E	0.65	0.33	0.26	0.50
2012E	0.70	0.32	0.28	0.52

### Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (C\$)	1.61	1.74	1.82	1.87
Prev. EPS (C\$)	—	1.77	1.86	1.91
P/E (x)	21.2	19.6	18.7	18.2
P/E rel. (%)	126.2	147.3	163.3	175.7
Revenue (C\$ m)	3,664.0	3,836.0	4,133.5	4,320.4
EBITDA (C\$ m)	1,150.0	1,225.7	1,304.2	1,378.2
OCFPS (C\$)	4.01	4.35	3.70	3.88
P/OCF (x)	8.5	7.8	9.2	8.8
EV/EBITDA (current)	10.5	9.9	9.3	8.8
Net debt (C\$ m)	5,914	5,863	6,488	6,989
ROIC (%)	6.30	6.37	6.14	6.06
Number of shares (m)	186.93	IC (current, C\$ m)		10,426.38
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)		1.2
Net debt (Next Qtr., C\$ m)	5,863.5	Dividend (Next Qtr., C\$)		0.29
Net debt/tot cap (Next Qtr., %)	128.9	Dividend yield (%)		0.85

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

Results missed our estimated but beat the Street's

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2011	Q3 2010	chg y/y
Regulated Gas Utilities - Canadian	(3)	(5)	40%
Regulated Electric Utilities - Canadian	43	43	0%
Regulated Electric Utilities - Caribbean	6	8	-25%
Non-regulated - Fortis Generation	8	9	-11%
Non-regulated - Fortis Properties	9	9	0%
Corporate and other	(5)	(19)	74%
Net earnings applicable to common shares	58	45	29%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment improved by roughly 40% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Net customer additions were 1,965 during 9M 2011 versus net additions of 3,460 during the 9M 2010;
- The amount of customer additions decreased versus 9M 2010 due to lower building activity; and,
- Sales volumes for the quarter decreased for both the Core-residential and commercial and for the industrial segment while transportation volumes increased.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q3 2011	Q3 2010	chg y/y
FortisBC Energy	(3.0)	(5.0)	40%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q3 2011	Q3 2010	chg y/y
FortisAlberta	19	19	0%
FortisBC Electric	10	11	-9%
Newfoundland Power	8	8	0%
Other Cdn Electric Utilities	6	5	20%
Earnings	43	43	0%

Source: Company data and Credit Suisse

**FortisAlberta**

Earnings at this regulated utility were flat comparing Q3 2011 versus the prior period. See Exhibit 4 for selected highlights.

Increase in energy delivery  
in Alberta

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	3,911	3,778	4%
Revenue (C\$/MWh)	26.34	28.85	-9%
Operating expenses (C\$/MWh)	8.95	8.73	2%
Gross margin (C\$/MWh)	17.39	20.12	-14%
Earnings (C\$millions)	19	19	0%

Source: Company data and Credit Suisse

**FortisBC Electric**

Segmented earnings at FortisBC Electric decreased by 9% compared to the same period last year. The decrease was due to higher effective corporate income taxes, mainly due to lower deductions for income tax purposes compared to accounting purposes and lower capitalized AFUDC, due to fewer assets under construction during 2011.

Increase in energy  
deliveries in BC

See Exhibit 5 for selected highlights.

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	713	709	1%
Revenue (C\$/MWh)	93.97	87.45	7%
Energy supply costs (C\$/MWh)	21.04	22.57	-7%
Operating expenses (C\$/MWh)	26.65	23.98	11%
Gross margin (C\$/MWh)	46.28	40.90	13%
Earnings (C\$millions)	10	11	-9%

Source: Company data and Credit Suisse

**Newfoundland Power**

This segment's earnings generation was flat when comparing Q3 2011 versus Q3 2010. Higher electricity sales and lower effective income taxes were offset by wage and inflationary increases, higher employee-related operating expenses and lower allowed ROE. Energy deliveries were up by approximately 1% (see Exhibit 6).

Increase in NP's energy  
deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	923	916	1%
Revenue (C\$/MWh)	109.43	108.08	1%
Energy supply costs (C\$/MWh)	56.34	54.59	3%
Operating expenses (C\$/MWh)	18.42	17.47	5%
Gross margin (C\$/MWh)	34.67	36.03	-4%
Earnings (C\$millions)	8	8	0%

Source: Company data, Credit Suisse estimates

**Other Canadian Electric Utilities**

This segment's earning generation increased by 20% in Q3 2011 versus Q3 2010 primarily due to higher allowed ROE at Algoma Power and lower effective corporate income taxes at Fortis Ontario. The energy deliveries for the period remained flat. Exhibit 7 contains selected highlights.

Flat energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	582	583	0%
Revenue (C\$/MWh)	151.20	149.23	1%
Energy supply costs (C\$/MWh)	96.22	97.77	-2%
Operating expenses (C\$/MWh)	20.62	18.87	9%
Gross margin (C\$/MWh)	34.36	32.59	5%
Earnings (C\$millions)	6	5	20%

Source: Company data and Credit Suisse

**Regulated Electric Utilities – Caribbean**

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 25% in Q3 2011 versus the same quarter last year. Energy deliveries declined 38% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. The company stated that it has “commissioned an independent valuation of its previous investment in Belize Electricity and expects to submit its claim for compensation to the GOB during the fourth quarter of 2011.”

Awaiting a decision in Belize

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	197	318	-38%
Revenue (C\$/MWh)	370.56	289.31	28%
Energy supply costs (C\$/MWh)	238.58	179.25	33%
Operating expenses (C\$/MWh)	40.61	37.74	8%
Gross margin (C\$/MWh)	91.37	72.33	26%
Earnings (C\$millions)	6	8	-25%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Generation**

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 11% from the current quarter compared to the same quarter last year. Energy deliveries decreased by 17% from Q3 2010 to Q3 2011 due to decreased production in Upper New York and Belize caused by generating plant being out of service and longer dry season in 2011, respectively. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q3 2011	Q3 2010	chg y/y
Energy deliveries (GWh)	111	134	-17%
Revenue (C\$/MWh)	99.10	97.01	2%
Operating expenses (C\$/MWh)	18.02	14.93	21%
Gross margin (C\$/MWh)	81.08	82.09	-1%
Earnings (C\$millions)	8	9	-11%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution remained flat during the quarter at C\$9m. REVPAR increased to C\$94.83 from C\$89.54 for the comparable period last year. Additionally, the occupancy rate of the Real Estate Division was up at 94.2% versus last year's 93.7%.

## Corporate

Corporate expenses decreased to C\$5million in Q3 2011 from C\$19m in Q3 2010. The figures for Q3 2011 included the C\$17m (C\$11m after tax) fee paid to Fortis upon the termination of the merger agreement with Central Vermont Public Service Corp.

## Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; (b) rising returns; and, (c) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$287 million, of which C\$227 million was spent at regulated utilities. Fortis continues to guide that capital expenditures for 2011 will be roughly C\$1.2 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis reiterated its consolidated gross capital expenditures expectations over the 5 year plan (2011-2015) at C\$5.7bn with 84% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 16% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency

Ongoing organic growth

Opportunities for improved capital efficiency

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

### Rising returns

Positively, Fortis has been successful in obtaining several favourable regulatory decisions. For example, the allowed equity at Terasen Gas Inc. (TGI) was boosted from 35% to 40% effective January 1, 2010. In addition to that positive move for the equity base, the allowed return on equity for TGI increased from 8.47% to 9.50%. In a related judgment, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) returns increased from 9.17% to 10%. Additionally, the British Columbia Utilities Commission (BCUC) held the former automatic adjustment mechanism for annual ROE determination would no longer apply. Also in BC, FortisBC obtained an increased allowed ROE from 8.87% to 9.90% that became effective on January 1, 2010. The upward bias in utility returns should be viewed positively. Clearly, many questions exist as to the methods for determining and predicting future return levels. Yet, we view the regulatory movement away from a very mechanical return approach work as a notable positive that should help ensure an appropriate level of returns over a period of time.

Similar to the BCUC, the Alberta Utilities Commission (AUC) issued a decision on the 2009 Generic Cost of Capital establishing a 9% ROE for utilities like FortisAlberta in 2009 and 2010. Under the previous formulaic approach, that utility would have been entitled to an 8.61% return. Moreover, the allowed equity within the regulated capital structure moved from 37% to 41% effective January 1, 2009. Notably, this return framework will be in effect for 2011 providing a level of certainty to FortisAlberta's future earnings.

Unfortunately, not every jurisdiction is proving to be as progressive as Alberta, BC and the National Energy Board in the regulated Trans-Quebec & Maritimes Pipeline decision (see file RH-1-2008 and our March 19, 2009 note "*Regulatory round-up*"). The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) most recent decision increased the allowed ROE for Newfoundland Power from 8.95% in 2009 to 9% in 2010. Additionally, in the past, the PUB ordered Newfoundland Power's allowed ROEs for 2011 and 2012 would be determined by an automated formula that will be subject to review in Q1 2010. We do not need to belabour all of the regulatory developments, however, we note that returns are slowly biasing to the upside.

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. Fortis management has been reiterating this. For instance, the company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see "*A positive pass*" published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

**Exhibit 10: Selected Fortis M&A transactions**

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "Pondering a Portland purchase?"

## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. As a result of the quarter, we revised our EPS estimates for 2011, 2012 and 2013 to C\$1.74, C\$1.82 and C\$1.87 from C\$1.77, C\$1.86 and C\$1.91, respectively. Our Neutral rating and C\$34.00 target price is obtained

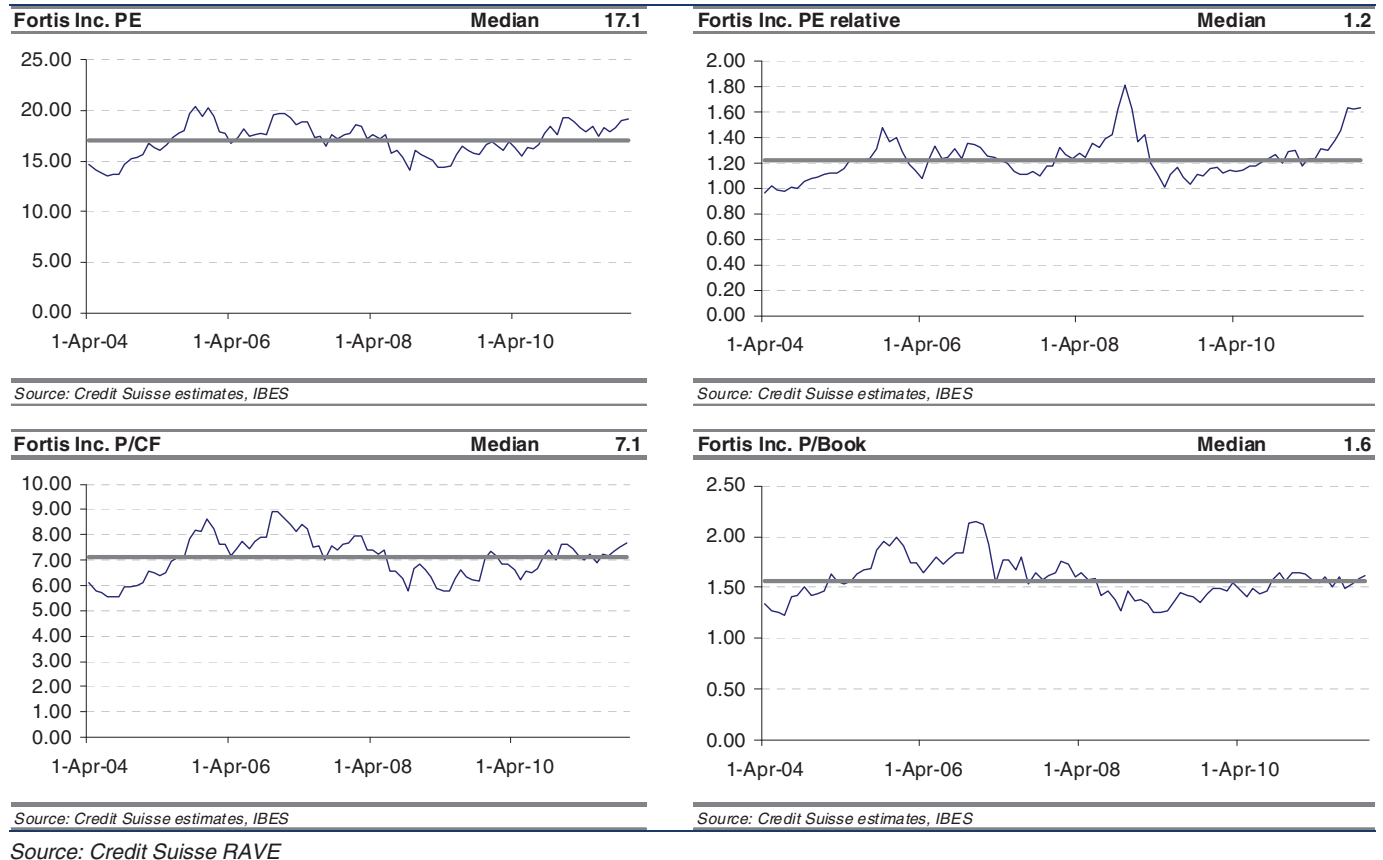
Rating: Neutral

Target: C\$34



from multiple valuation approaches, including: a 19.0x P/E multiple of 2012 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We reiterate our Neutral rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

#### Exhibit 11: Fortis historical valuation



Source: Credit Suisse RAVE

The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.

**Companies Mentioned** (Price as of 03 Nov 11)  
 Fortis Inc. (FTS.TO, C\$34.06, NEUTRAL, TP C\$34.00)

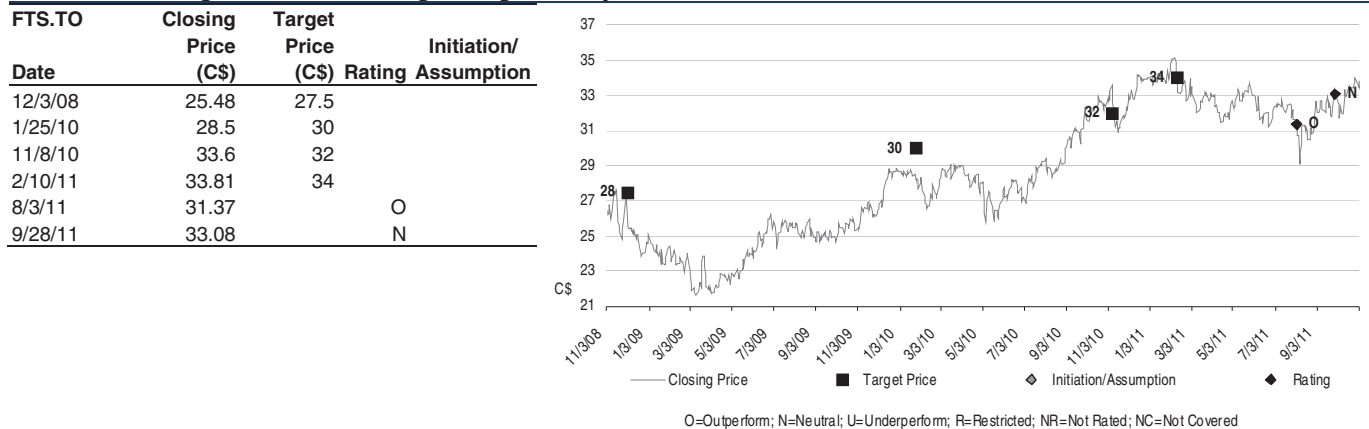
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.



**3-Year Price, Target Price and Rating Change History Chart for FTS.TO**

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

**Analysts' stock ratings are defined as follows:**

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
Outperform/Buy*	48%	(62% banking clients)
Neutral/Hold*	40%	(57% banking clients)
Underperform/Sell*	10%	(54% banking clients)
Restricted	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 19.0x our 2012 EPS (earnings per share) estimate of C\$1.82 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

### Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2011 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

# Canadian Energy Infrastructure

## Research Analysts

Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

Paul Tan

416 352 4593

paul.tan@credit-suisse.com

## MARKET COMMENTARY/STRATEGY

### Discerning demand - Alberta

- **Alberta in focus:** In Alberta, power demand and prices have moved in a rather erratic fashion. Yet, given the impact of outages in the Alberta market on pricing, we believe the demand data is more meaningful. Notably, over a forty three month period of time (June 2008 to Dec 2011), 29 of 43 months posted a positive year-on-year change in demand.
- **Assessing demand and pricing:** Alberta's power demand posted negative growth of 1.0% in December 2011 when compared against December 2010. The same data over sequential months (i.e. November to December) showed an increase in demand by 1.8%. In terms of pricing, the monthly comparisons posted a decline of 13.1% on a year-over-year basis and 53.2% on a sequential basis. From our perspective, the combination of outages especially the notice of termination of Sundance units 1 & 2 (see "*Sun setting on Sundance*" on 9 February 2011 for further details), extended unplanned outage at Genesee 3 and December's weather impacted demand and pricing.
- **Power statistics:** In the current economic environment, we believe there is utility to highlighting some of the more recent electricity demand and pricing statistics. We believe the data can provide a degree of insight into underlying economic activity. Obviously, many factors affect demand data including weather and outage patterns. Alberta's power market is indicating some notable strength. Power pricing has recently shown strength due primarily to TransAlta's notice of termination of Sundance 1 & 2. Over the longer-term, however, we continue to believe Alberta's power market fundamentals are rather attractive.
- **Selected investment themes:** In general, we continue to prefer low-cost power producers with exposure to structurally tight power markets. In our coverage universe, direct exposure to the Alberta power market can be achieved via Capital Power Corp., TransAlta and TransCanada. In terms of merchant exposure, TransCanada has the most profitable exposure in the current market environment as a result of the Power Purchase Agreements (PPAs). Notably, in a market with increased volatility due to the notice of termination on Sundance 1 & 2, we believe Capital Power offers the best exposure with the fast ramping Clover Bar Energy Centre. In the near-term Clover Bar will cover CPX's G3 position, so potential upside from pricing is more limited than normal. Discounting the impact of the Sundance and G3 issues, CPX and TA provide potentially better margin protection as a result of PPA plant ownership and partially contracted power portfolios. Finally, Fortis provides largely regulated utility exposure in Alberta and face rather limited impact from changes in demand.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

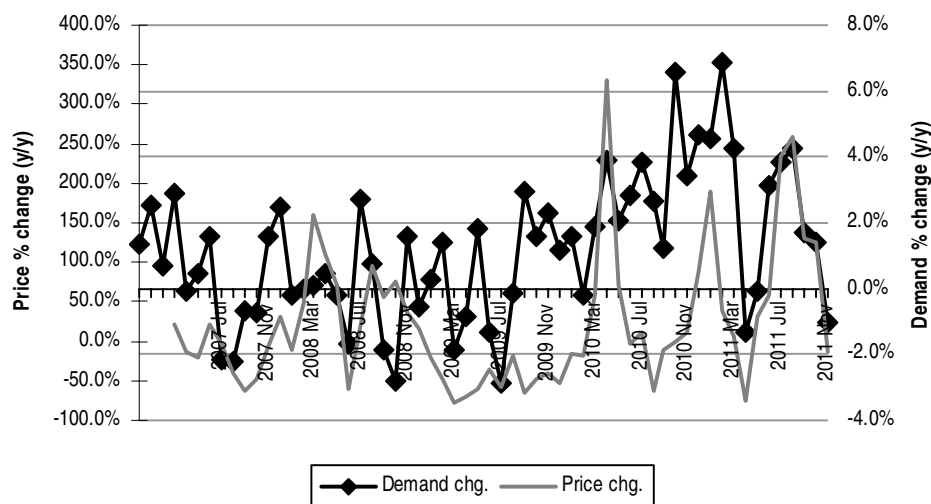


Electricity related demand and pricing information can provide a certain level of insight into underlying economic activity. Clearly, the information is beneficial for evaluating the performance of specific power generation facilities in the province of Alberta. Yet, power data may also help assess the relative health of the most significant portions of the province's economy such as the energy sector in Alberta. Our research note is divided into three parts: (a) Assessing Alberta; (b) Blame it on the weather; and, (c) Forward pricing.

## Assessing Alberta

The first step in our Alberta monthly demand analysis is the year-over-year comparison for each month appearing in Exhibit 1 below.

**Exhibit 1: Alberta monthly electricity demand and price percentage change (y-o-y)**

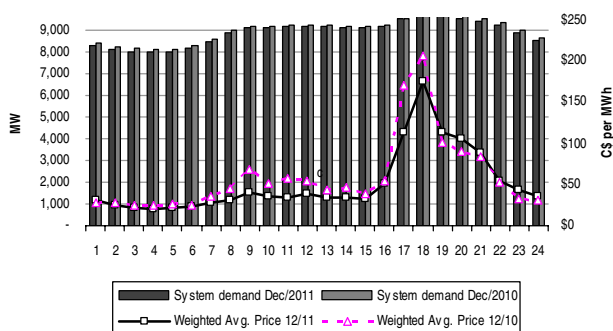


Source: Alberta Electric System Operator (AESO) and Credit Suisse

As evident from Exhibit 1, both Alberta's power demand and prices have moved in a rather erratic fashion. We believe the demand data is more meaningful than pricing as generation supply will significantly impact pricing. December showed a 1.0% demand decrease versus the prior year and an increase of 1.8% against November 2011. Notably, over the last 43 months (encompassing June 2008 to December 2011), 29 of 43 months posted a positive year-on-year change in demand.

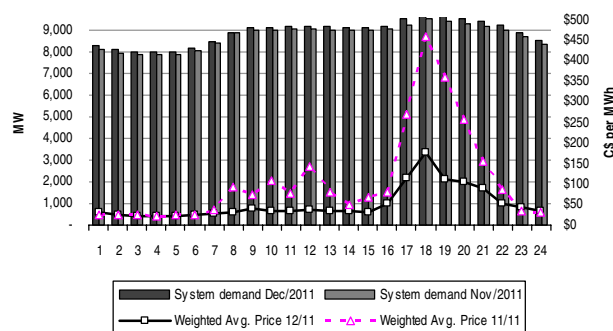
More positive than negative year-on-year changes in demand over the last 43 months

**Exhibit 2: AB electricity demand and price y/y comparison**



Source: Alberta Electric System Operator (AESO) and Credit Suisse

**Exhibit 3: AB electricity demand and price m/m comparison**



Source: Alberta Electric System Operator (AESO) and Credit Suisse

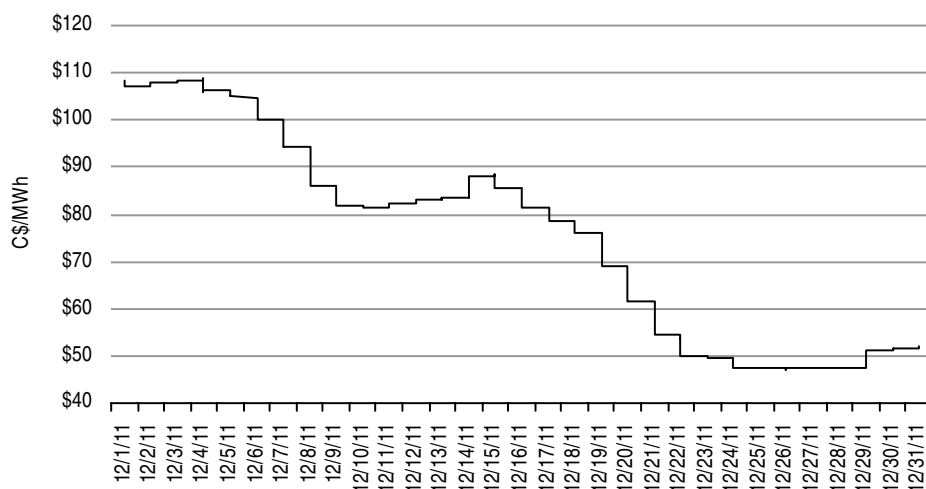
Exhibit 2 and Exhibit 3 illustrate Alberta's hour-by-hour profile for demand and pricing. As changes in these exhibits can be rather subtle, we provide selected information in tabular form in Exhibit 4.

**Exhibit 4: Monthly AESO data**

Time Frame	Average Demand (MW)	Weighted Avg. Price (\$/MWh)	Demand chg. y/y	Price chg. y/y	Demand chg. m/m	Price chg. m/m
2011 Dec	8,926	53.20	-1.0%	-13.1%	1.8%	-53.2%
2011 Nov	8,772	113.72	1.4%	125.2%	6.9%	57.7%
2011 Oct	8,202	72.10	1.7%	129.9%	0.1%	-30.4%
2011 Sept	8,195	103.60	4.2%	258.5%	-1.9%	-22.3%
2011 Aug	8,354	133.39	3.9%	234.8%	0.9%	102.0%
2011 Jul	8,276	66.05	3.1%	58.5%	5.1%	-14.3%
2011 Jun	7,873	77.11	-0.1%	30.3%	3.5%	131.5%
2011 May	7,606	33.31	-1.3%	-76.2%	-6.1%	-37.7%
2011 Apr	8,100	53.49	4.3%	5.6%	-7.1%	7.6%
2011 Mar	8,720	49.70	6.9%	37.7%	-1.9%	-61.2%
2011 Feb	8,893	128.07	4.6%	188.8%	-0.5%	54.7%
2011 Jan	8,940	82.76	4.7%	87.6%	-0.9%	35.2%
2010 Dec	9,018	61.22	3.4%	10.7%	4.2%	21.3%

Source: Alberta Electric System Operator (AESO) and Credit Suisse

Finally, for certain power market participants, Alberta's 30-day rolling average pricing is a critical metric to watch. Exhibit 5 highlights the 30-day RAP.

**Exhibit 5: Alberta power pricing 30-day RAP**

Source: Alberta Electric System Operator (AESO) and Credit Suisse

**Blame it on the weather?**

Clearly, weather can play a meaningful role in power demand data. Therefore, we highlight weather statistics for both Edmonton and Calgary in Exhibit 6 and Exhibit 7.

**Exhibit 6: Edmonton area historical temperatures (in Celsius)**

Temperature	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Historical Avg.	-13.5	-10.5	-4.5	4.3	10.4	14.1	15.9	15.1	10.1	4.3	-5.7	-11.0
2011	-13.1	-13.9	-10.6	1.2	11.0	13.6	15.3	14.6	11.9	4.1	-6.4	-5.3
2010	-12.1	-9.1	-0.8	5.6	8.1	13.9	15.6	14.4	8.1	5.8	-7.0	-15.2
2009	-13.1	-13.7	-11.0	2.2	8.3	12.6	15.4	14.6	13.2	1.1	-1.2	-18.8
2008	-14.6	-11.2	-3.6	0.8	11.0	13.9	15.6	16.0	10.0	4.3	-0.2	-16.3
2007	-9.7	-13.2	-4.1	2.6	10.1	14.8	18.4	13.2	9.0	4.9	-5.0	-14.3
2006	-5.7	-8.2	-7.9	6.8	11.4	15.5	17.7	15.1	11.4	2.4	-11.2	-7.9
2005	-14.2	-8.8	-3.5	5.7	10.4	13.8	15.5	13.0	8.9	4.4	-1.3	-7.0
2004	-15.5	-8.8	-2.3	5.0	8.1	13.1	15.7	13.8	8.7	1.1	-1.1	-9.7
2003	-13.0	-10.2	-10.0	3.2	9.1	13.4	16.7	16.2	9.8	5.2	-9.7	-10.8
2011 vs Historical	0.4	-3.4	-6.1	-3.1	0.6	-0.5	-0.6	-0.5	1.8	-0.2	-0.7	5.7
2010 vs Historical	1.4	1.4	3.7	1.3	-2.3	-0.2	-0.3	-0.8	-2.0	1.5	-1.3	-4.2
2009 vs Historical	0.4	-3.2	-6.5	-2.1	-2.1	-1.5	-0.5	-0.5	3.1	-3.2	4.5	-7.8
2008 vs Historical	-1.1	-0.7	0.9	-3.5	0.6	-0.3	-0.3	0.9	-0.1	0.0	5.5	-5.3
2007 vs Historical	3.8	-2.7	0.4	-1.7	-0.3	0.7	2.5	-1.9	-1.1	0.6	0.7	-3.3
2006 vs Historical	7.8	2.3	-3.4	2.5	1.0	1.4	1.8	0.0	1.3	-1.9	-5.5	3.1
2005 vs Historical	-0.7	1.7	1.0	1.4	0.0	-0.3	-0.4	-2.1	-1.2	0.1	4.4	4.0
2004 vs Historical	-2.0	1.7	2.2	0.7	-2.3	-1.0	-0.2	-1.3	-1.4	-3.2	4.6	1.3
2003 vs Historical	0.5	0.3	-5.5	-1.1	-1.3	-0.7	0.8	1.1	-0.3	0.9	-4.0	0.2

Source: Environment Canada and Credit Suisse

**Exhibit 7: Calgary area historical temperatures (in Celsius)**

Temperature	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Historical Avg.	-8.9	-6.1	-1.9	4.6	9.8	13.8	16.2	15.6	10.8	5.4	-3.1	-7.4
2011	-8.9	-9.6	-6.2	1.3	9.5	13.4	16.6	16.2	14.3	6.4	-2.6	-1.5
2010	-6.1	-4.6	3.2	4.9	7.4	13.2	16.1	15.2	9.3	7.8	-4.7	-8.2
2009	-6.2	-7.1	-4.4	3.4	9.7	13.3	16.9	15.8	15.0	1.5	1.9	-12.5
2008	-8.5	-5.1	0.0	1.5	10.7	13.3	16.5	16.6	11.3	6.7	2.2	-10.9
2007	-3.9	-8.3	1.6	2.8	10.0	14.1	19.4	14.1	10.1	6.5	-1.6	-8.0
2006	-1.5	-5.6	-4.4	6.8	11.2	14.7	18.4	15.8	12.4	3.5	-6.3	-1.9
2005	-8.9	-3.1	0.2	5.8	10.7	12.4	16.4	13.8	9.4	5.9	0.4	-4.4
2004	-10.5	-3.1	2.0	6.1	8.1	13.1	17.0	15.5	9.9	4.0	1.6	-4.7
2003	-6.3	-7.2	-4.8	3.5	8.3	13.7	17.5	18.0	11.2	7.5	-5.8	-4.9
2011 vs Historical	0.0	-3.5	-4.3	-3.3	-0.3	-0.4	0.4	0.6	3.5	1.0	0.5	5.9
2010 vs Historical	2.8	1.5	5.1	0.3	-2.5	-0.6	-0.1	-0.4	-1.5	2.4	-1.6	-0.8
2009 vs Historical	2.7	-1.0	-2.5	-1.2	-0.1	-0.5	0.7	0.2	4.2	-3.9	5.0	-5.1
2008 vs Historical	0.4	1.0	1.9	-3.1	0.9	-0.5	0.3	1.0	0.5	1.3	5.3	-3.5
2007 vs Historical	5.0	-2.2	3.5	-1.8	0.2	0.3	3.2	-1.5	-0.7	1.1	1.5	-0.6
2006 vs Historical	7.4	0.5	-2.5	2.2	1.4	0.9	2.2	0.2	1.6	-1.9	-3.2	5.5
2005 vs Historical	0.0	3.0	2.1	1.2	0.9	-1.4	0.2	-1.8	-1.4	0.5	3.5	3.0
2004 vs Historical	-1.6	3.0	3.9	1.5	-1.7	-0.7	0.8	-0.1	-0.9	-1.4	4.7	2.7
2003 vs Historical	2.6	-1.1	-2.9	-1.1	-1.5	-0.1	1.3	2.4	0.4	2.1	-2.7	2.5

Source: Environment Canada and Credit Suisse

Based upon Environment Canada's December data, both Edmonton and Calgary recorded average temperature that was warmer than normal.

## Summary

December showed a year on year decrease in demand in Alberta. Many factors affect demand data including the weather. Pricing has posted negative numbers on a year-over-year basis and on a month-over-month basis which we believe were influenced by the weather and selected plant outages in December, most notably the termination of Sundance unit 1 & 2 and the extended unplanned outage at Genesee 3. In our view, Alberta's power market is indicating some signs of strength. The strength of demand may eventually translate into much stronger power pricing. Longer-term, we believe Alberta's power market fundamentals are rather attractive. In our coverage universe, direct exposure to the Alberta power market can be achieved via Capital Power Corp., TransAlta and TransCanada. In terms of merchant exposure, TransCanada has the most profitable exposure in the current market environment as a result of the Power Purchase Agreements (PPAs). Notably, in a market with increased volatility, Capital Power offers the best exposure with the fast ramping Clover Bar Energy Centre. In the near-term Clover



Bar will cover CPX's G3 position, so potential upside from pricing is more limited than normal. Discounting the impact of the Sundance and G3 issues, both CPX and TA provide potentially better margin protection as a result of PPA plant ownership and partially contracted power portfolios. Finally, Fortis provides largely regulated utility exposure in Alberta and is facing a somewhat limited impact from changes in demand.

*The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.*

#### Companies Mentioned (Price as of 03 Jan 12)

Capital Power Corporation (CPX.TO, C\$25.31, OUTPERFORM, TP C\$28.00)

Fortis Inc. (FTS.TO, C\$33.17, NEUTRAL, TP C\$34.00)

TransAlta Corporation (TA.TO, C\$21.37, NEUTRAL, TP C\$22.00)

TransCanada Corp. (TRP.TO, C\$43.91, NEUTRAL, TP C\$44.00)

## Disclosure Appendix

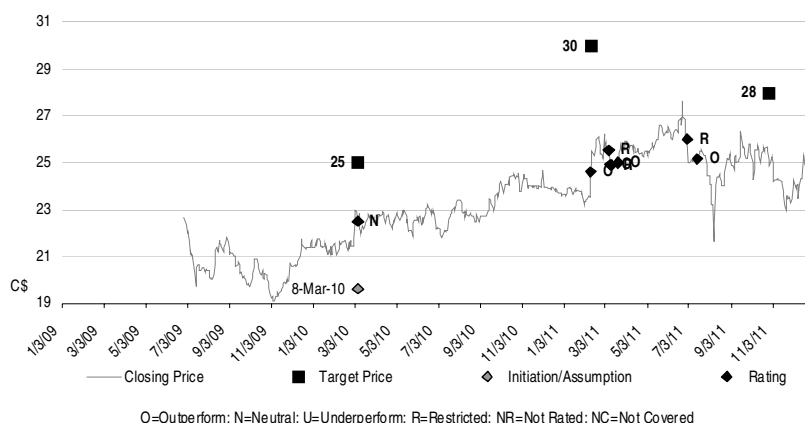
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

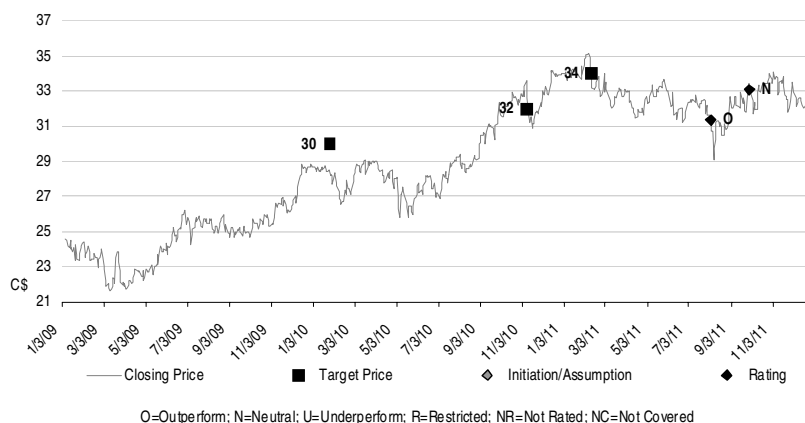
### 3-Year Price, Target Price and Rating Change History Chart for CPX.TO

CPX.TO	Closing Price	Target Price	Initiation/	
Date	(C\$)	(C\$)	Rating	Assumption
3/8/10	22.5	25	N	X
2/9/11	24.6	30	O	
3/8/11	25.53		R	
3/9/11	24.91		O	
3/11/11	24.88		R	
3/21/11	24.99		O	
6/30/11	26		R	
7/14/11	25.17		O	
10/26/11	25.12	28		



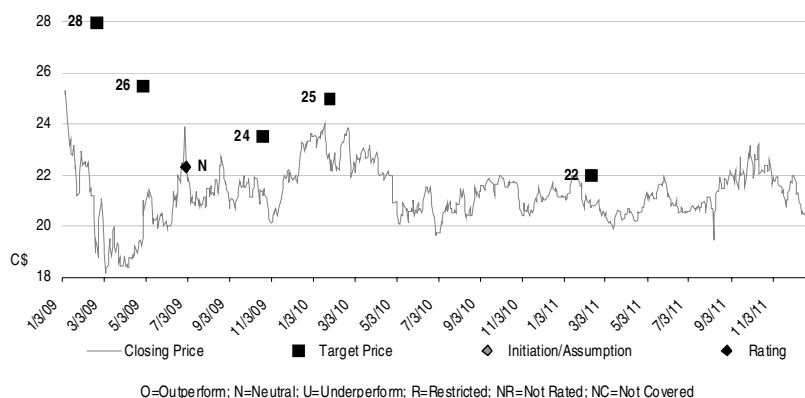
### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/	
Date	(C\$)	(C\$)	Rating	Assumption
1/25/10	28.5	30		
11/8/10	33.6	32		
2/10/11	33.81	34		
8/3/11	31.37		O	
9/28/11	33.08		N	



**3-Year Price, Target Price and Rating Change History Chart for TA.TO**

TA.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
Date			
2/19/09	19.45	28	
4/28/09	19.55	25.5	
6/30/09	22.31		N
10/19/09	21.35	23.5	
1/25/10	22.85	25	
2/10/11	20.74	22	

**3-Year Price, Target Price and Rating Change History Chart for TRP.TO**

TRP.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
Date			
6/17/09	31.37	35	
1/25/10	34.9	38	
2/16/11	37.85	42	
11/2/11	41.86	44	



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

**Analysts' stock ratings are defined as follows:**

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10\text{-}15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

---

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	47%	(61% banking clients)
<b>Neutral/Hold*</b>	40%	(57% banking clients)
<b>Underperform/Sell*</b>	10%	(51% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (CPX.TO)

**Method:** Our C\$28.00 target price for Capital Power is obtained by using several valuation methodologies, all of which produce the C\$28 target. The methods are: a 17.0x P/E (price/earnings) multiple applied to our 2012 EPS estimate of C\$1.68; a target dividend yield of 4.5%; an adjusted 9.0x EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiple; and, a discounted cash flow.

**Risks:** Risks to Capital Power Corp's achievement of our C\$28.00 target price are commodity prices, weather, environmental, regulatory, portfolio optimization strategies, shareholder concentration, foreign exchange and interest rates. Also, the power of the regulator in any regulated business should never be underestimated.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 19.0x our 2012 EPS (earnings per share) estimate of C\$1.82 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.2x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

**Price Target:** (12 months) for (TA.TO)

**Method:** We obtain our C\$22.00 target price for TransAlta by using several valuation methodologies: a variety of multiples; comparable analysis; and discounted cash flow. In summary, our C\$22.00 target price implies an 18.0x P/E (price/earnings) multiple on our estimated 2012 earnings per share of C\$1.24, a 9.0x EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiple.

**Risks:** Risks to TransAlta's achievement of our C\$22.00 target price are commodity prices, weather, environmental, regulatory, and interest rates. Also, the power of the regulator in any regulated business should never be underestimated.

**Price Target:** (12 months) for (TRP.TO)

**Method:** We obtain our C\$44.00 target price for TransCanada by using multiple valuation methodologies, all of which produce the C\$44.00 target. The methods are yield based analysis, and discounted cash flow. We use a P/E (price/earnings) multiple of roughly 17.5x our 2012 EPS (earnings per share) estimate of C\$2.55. In addition, we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.5x. We also use the dividend method, based on 3.8%.

**Risks:** Our C\$44.00 target price for TransCanada is subject to a number of risks: interest rates; commodity prices; operating rates; electricity market volatility; and, pipeline volumes. In any regulated business, one should never underestimate the power of the regulator.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (CPX.TO, FTS.TO, TRP.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (CPX.TO, FTS.TO, TRP.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (CPX.TO) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (CPX.TO, TRP.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (CPX.TO, FTS.TO, TRP.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

---

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (CPX.TO, FTS.TO, TA.TO, TRP.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal/terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal/terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

**CREDIT SUISSE SECURITIES (USA) LLC**  
United States of America: +1 (212) 325-2000



## Fortis Inc. (FTS.TO)

### FORECAST REDUCTION

Rating	<b>NEUTRAL*</b>
Price (09 Feb 12, C\$)	33.89
Target price (C\$)	34.00 <sup>1</sup>
52-week price range	29.11 - 34.24
Market cap. (C\$ m)	6,399.39
Enterprise value (C\$ m)	13,041.90

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

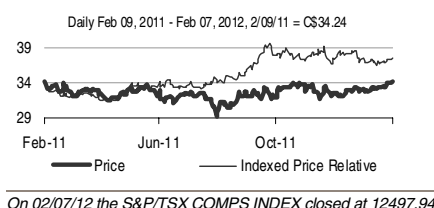
416 352 4593

paul.tan@credit-suisse.com

## Delivering on dividends

- **Earnings review:** Fortis reported Q4 2011 headline EPS (FD) of C\$0.45, which missed our C\$0.50 and the Street's C\$0.48 view and at the low end of the C\$0.45-C\$0.50 range. Positively, the company increased its quarterly dividend to C\$0.30 from the previous C\$0.29. The increase was inline with our estimate but slightly missed the Street's C\$1.21 annualized figure. In general, we believe Fortis is making steady progress in delivering consistent financial results from a largely regulated asset base. We do not place undue emphasis on quarterly results in much of our universe as a result of the inherently long-cycle nature of many assets. For Fortis, we continue to focus on the ongoing significant regulated capital plan.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis updated its 5-year capex outlook to C\$5.5bn. Eighty-seven percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.71	0.31	0.26	0.51
2013E	0.72	0.32	0.27	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.79	1.85	1.87
Prev. EPS (C\$)	—	1.82	1.87	—
P/E (x)	20.0	18.9	18.4	18.1
P/E rel. (%)	113.5	134.6	147.3	166.2
Revenue (C\$ m)	3,747.0	4,112.1	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,297.7	1,373.6	1,435.0
OCFPS (C\$)	4.51	3.67	3.82	3.95
P/OCF (x)	7.4	9.2	8.9	8.6
EV/EBITDA (current)	10.3	9.4	8.9	8.5
Net debt (C\$ m)	5,855	6,643	7,227	7,717
ROIC (%)	5.96	5.98	5.92	5.82
Number of shares (m)	188.83	IC (current, C\$ m)		10,631.41
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.2
Net debt (Next Qtr., C\$ m)	6,004.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	126.7	Dividend yield (%)		0.89

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our and the Street's estimate

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2011	Q4 2010	chg y/y
Regulated Gas Utilities - Canadian	51	45	13%
Regulated Electric Utilities - Canadian	40	41	-2%
Regulated Electric Utilities - Caribbean	3	4	-25%
Non-regulated - Fortis Generation	5	6	-17%
Non-regulated - Fortis Properties	5	7	-29%
Corporate and other	(18)	(18)	0%
Net earnings applicable to common shares	86	85	1%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment improved by roughly 13% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Net customer additions were 7,450 during 2011 versus net additions of 9,393 during 2010;
- The amount of customer additions decreased versus 2010 due to lower building activity; and,
- Sales volumes for the quarter increased for all the segments, which includes Core-residential, Commercial, Industrial and Transportation segment.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q4 2011	Q4 2010	chg y/y
FortisBC Energy	51.0	45.0	13%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q4 2011	Q4 2010	chg y/y
FortisAlberta	17	17	0%
FortisBC Electric	11	10	10%
Newfoundland Power	8	9	-11%
Other Cdn Electric Utilities	4	5	-20%
Earnings	40	41	-2%

Source: Company data and Credit Suisse



**FortisAlberta**

Earnings at this regulated utility were flat comparing Q4 2011 versus the prior period. See Exhibit 4 for selected highlights.

Slight decrease in energy delivery in Alberta

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	4,232	4,255	-1%
Revenue (C\$/MWh)	24.10	23.27	4%
Operating expenses (C\$/MWh)	8.74	8.70	1%
Gross margin (C\$/MWh)	15.36	14.57	5%
Earnings (C\$millions)	17	17	0%

Source: Company data and Credit Suisse

**FortisBC Electric**

Segmented earnings at FortisBC Electric increased by 10% compared to the same period last year. The increase was due to growth in rate base.

Flat energy deliveries in BC

See Exhibit 5 for selected highlights.

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	843	847	0%
Revenue (C\$/MWh)	96.09	86.19	11%
Energy supply costs (C\$/MWh)	26.10	27.15	-4%
Operating expenses (C\$/MWh)	29.66	24.79	20%
Gross margin (C\$/MWh)	40.33	34.24	18%
Earnings (C\$millions)	11	10	10%

Source: Company data and Credit Suisse

**Newfoundland Power**

This segment's earnings reduced by 11% when comparing Q4 2011 versus Q4 2010. Higher electricity sales and reduction in energy supply cost were offset by wage and inflationary increases, higher effective corporate taxes and lower allowed ROE. Energy deliveries were up by approximately 3% (see Exhibit 6).

Increase in NP's energy deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	1,527	1,488	3%
Revenue (C\$/MWh)	102.16	102.15	0%
Energy supply costs (C\$/MWh)	67.45	68.55	-2%
Operating expenses (C\$/MWh)	13.10	10.08	30%
Gross margin (C\$/MWh)	21.61	23.52	-8%
Earnings (C\$millions)	8	9	-11%

Source: Company data, Credit Suisse estimates

**Other Canadian Electric Utilities**

This segment's earning decreased by 20% in Q4 2011 versus Q4 2010 primarily due to lower electricity sales at FortisOntario and higher operating expense. The energy deliveries for the period declined by 2%, when compared Q4 2010. Exhibit 7 contains selected highlights.

Decrease in energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	568	578	-2%
Revenue (C\$/MWh)	147.89	150.52	-2%
Energy supply costs (C\$/MWh)	96.83	102.08	-5%
Operating expenses (C\$/MWh)	26.41	20.76	27%
Gross margin (C\$/MWh)	24.65	27.68	-11%
Earnings (C\$millions)	4	5	-20%

Source: Company data and Credit Suisse

**Regulated Electric Utilities – Caribbean**

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 25% in Q4 2011 versus the same quarter last year. Energy deliveries declined 21% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. The company stated that it “commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011.”

Awaiting a decision in Belize

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	174	220	-21%
Revenue (C\$/MWh)	402.30	381.82	5%
Energy supply costs (C\$/MWh)	264.37	236.36	12%
Operating expenses (C\$/MWh)	51.72	59.09	-12%
Gross margin (C\$/MWh)	86.21	86.36	0%
Earnings (C\$millions)	3	4	-25%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Generation**

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 17% in Q4 2011 compared to the same quarter last year. Energy deliveries decreased by 18% from Q4 2010 to Q4 2011 due to decreased production in Upper New York and Belize. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q4 2011	Q4 2010	chg y/y
Energy deliveries (GWh)	112	137	-18%
Revenue (C\$/MWh)	80.36	65.69	22%
Operating expenses (C\$/MWh)	17.86	7.30	145%
Gross margin (C\$/MWh)	62.50	58.39	7%
Earnings (C\$millions)	5	6	-17%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution decreased by 29% in the Q4 2011 compared to Q4 2010. REVPAR increased to C\$72.39 from C\$70.76 for the comparable period last year. While, the occupancy rate of the Real Estate Division was down at 93.2% versus last year's 94.5%.

## Corporate

Corporate expenses remained flat to C\$18million in Q4 2011, when compared to Q4 2010.

## Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$368 million, of which C\$315 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 87% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 13% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

## Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. Fortis management has been reiterating this. For instance, the company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see "A positive pass" published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsbey Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 65.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. Capital market conditions are demonstrating signs of improved functioning. Therefore, the typical Fortis acquisition strategy is more palatable in current capital markets. For greater details, please refer to our 6 August 2009 note entitled "*Pondering a Portland purchase?*"

## Valuation

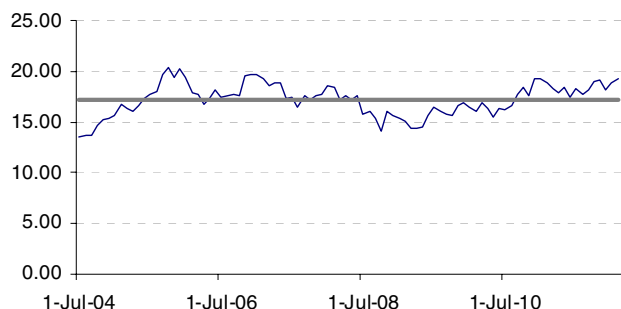
We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. From our perspective, the next big catalysts for the stock will likely revolve around capital efficiency initiatives or a large scale acquisition which will always lack predictability. As a result of the quarter, we revised our EPS estimates for 2012 and 2013 to C\$1.79 and C\$1.85 from C\$1.82 and C\$1.87, respectively. Our Neutral rating and C\$34.00 target price is obtained from multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

Rating: Neutral

Target: C\$34

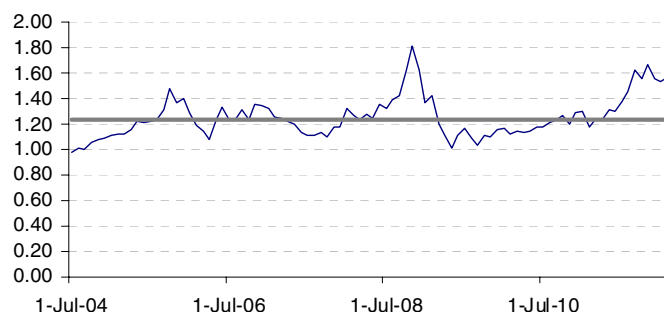
**Exhibit 11: Fortis historical valuation**

**Fortis Inc. PE** **Median** **17.2**



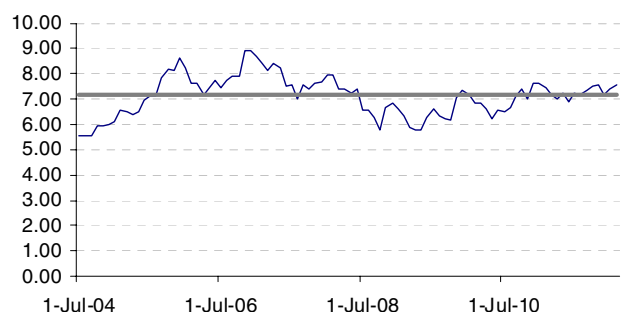
Source: Credit Suisse estimates, IBES

**Fortis Inc. PE relative** **Median** **1.2**



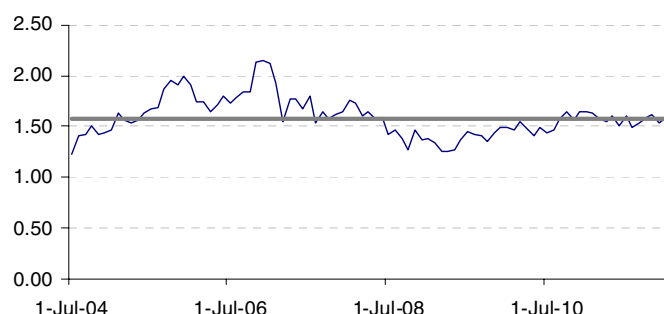
Source: Credit Suisse estimates, IBES

**Fortis Inc. P/CF** **Median** **7.2**



Source: Credit Suisse estimates, IBES

**Fortis Inc. P/Book** **Median** **1.6**



Source: Credit Suisse estimates, IBES

Source: Credit Suisse RAVE

The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.

### Companies Mentioned (Price as of 09 Feb 12)

Fortis Inc. (FTS.TO, C\$33.89, NEUTRAL, TP C\$34.00)

## Disclosure Appendix

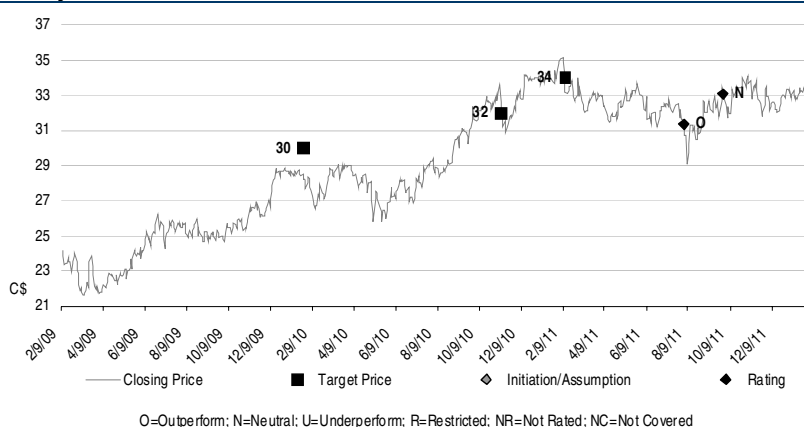
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Assumption
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

### Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution	
Outperform/Buy*	46% (60% banking clients)



<b>Neutral/Hold*</b>	42%	(56% banking clients)
<b>Underperform/Sell*</b>	10%	(50% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

### Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.



To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

Rating **NEUTRAL\***  
Price (17 Feb 12, C\$) 32.85  
Target price (C\$) 34.00<sup>†</sup>  
52-week price range 34.08 - 29.11  
Market cap. (C\$ m) 6,203.53  
Enterprise value (C\$ m) 12,846.04

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

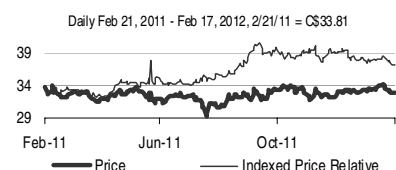
## Fortis Inc. (FTS.TO)

### ACQUISITION

## Acquiring American assets

- **American acquisition:** Fortis Inc. announced that it has entered into an agreement to acquire CH Energy Group, Inc. (CHG) for US\$65 per share for a total consideration of roughly US\$1.5b. The purchase price is roughly a 10.5% premium above CHG's most recent stock price close. We calculate the transaction to be modestly accretive to FTS under conservative assumptions. Several reasons to like this deal include: (a) single state results in less complexity; (b) relatively smaller size of the transaction versus some other potential transactions; and, (c) good near to medium-term organic growth at CHG.
- **Deal details:** Selected details include: (a) FTS will be using debt to finance the transaction in the short-term; (b) 97% of CHG net income comes from regulated business; (c) FTS expects closing of the transaction within 12 months; (d) capex at the regulated business to "exceed" US\$100m on average through 2016; (e) CHG total asset roughly US\$1.7b; and (f) for the last three years, CHG regulated business has operated under 10% ROE with 48% common equity (both are higher than many equivalents in Canada).
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities. The company stated, "We remain disciplined and patient in our pursuit of electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34.target price and Neutral rating are obtained utilizing multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



On 02/17/12 the S&P/TSX COMPS INDEX closed at 12458.3

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.71	0.31	0.26	0.51
2013E	0.72	0.32	0.27	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.79	1.85	1.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.4	18.3	17.8	17.6
P/E rel. (%)	137.3	142.5	158.3	167.0
Revenue (C\$ m)	3,747.0	4,112.1	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,297.7	1,373.6	1,435.0
OCFPS (C\$)	4.51	3.67	3.82	3.95
P/OCF (x)	7.4	8.9	8.6	8.3
EV/EBITDA (current)	10.2	9.3	8.8	8.4
Net debt (C\$ m)	5,855	6,643	7,227	7,717
ROIC (%)	5.96	5.98	5.92	5.82
Number of shares (m)	188.84	IC (current, C\$ m)		10,661.23
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,004.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	127.1	Dividend yield (%)		0.91

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 17 Feb 12)  
 Ch Energy Group, Inc. (CHG, \$58.77)  
 Fortis Inc. (FTS.TO, C\$32.85, NEUTRAL, TP C\$34.00)

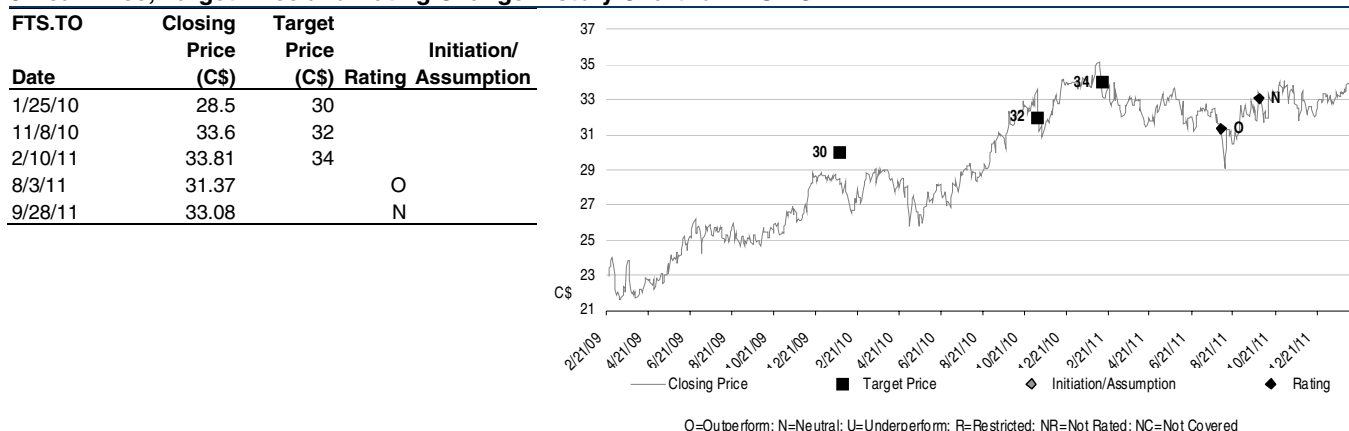
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	46%	(60% banking clients)
<b>Neutral/Hold*</b>	42%	(56% banking clients)
<b>Underperform/Sell*</b>	10%	(50% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the *Companies Mentioned* section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

**CREDIT SUISSE SECURITIES (USA) LLC**  
United States of America: +1 (212) 325-2000



# Canadian Energy Infrastructure

## Research Analysts

Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

Paul Tan

416 352 4593

paul.tan@credit-suisse.com

## MARKET COMMENTARY/STRATEGY

### Discerning demand - Alberta

- **Alberta in focus:** In Alberta, power demand and prices have moved in a rather erratic fashion. Yet, given the impact of outages in the Alberta market on pricing, we believe the demand data is more meaningful. Notably, over a 45-month period of time (June 2008 to Feb 2012), 31 of 45 months posted a positive year-on-year change in demand.
- **Assessing demand and pricing:** Alberta's power demand posted positive growth of 0.5% in February 2012 when compared against February 2011. The same data over sequential months (i.e. January to February) showed a decline in demand by 1.8%. In terms of pricing, the monthly comparisons posted a decline of 65.1% on a year-over-year basis and 50.5% sequentially. In our view, the combination of outages especially the notice of termination of Sundance units 1 & 2 (see "*Sun setting on Sundance*" on 9 February 2011 for further details) and February's weather impacted demand and pricing.
- **Power statistics:** In the current economic environment, we believe there is utility to highlighting some of the more recent electricity demand and pricing statistics. We believe the data can provide a degree of insight into underlying economic activity. Obviously, many factors affect demand data including weather and outage patterns. Alberta's power market is indicating some notable strength. Clearly, power pricing strength is partially the result of TA's notice of termination of Sundance 1 & 2. Yet, over the longer-term, however, we continue to believe Alberta's power market fundamentals are rather attractive.
- **Selected investment themes:** In general, we continue to prefer low-cost power producers with exposure to structurally tight power markets. In our coverage universe, direct exposure to the Alberta power market can be achieved via Capital Power Corp., TransAlta and TransCanada. In terms of merchant exposure, TransCanada has the most profitable exposure in the current market environment as a result of the Power Purchase Agreements (PPAs). Notably, in a market with increased volatility due to the notice of termination on Sundance 1 & 2, we believe Capital Power offers the best exposure with the fast ramping Clover Bar Energy Centre. Discounting the impact of the Sundance issues, CPX and TA provide potentially better margin protection as a result of PPA plant ownership and partially contracted power portfolios. Finally, Fortis provides largely regulated utility exposure in Alberta and faces rather limited impact from changes in demand.

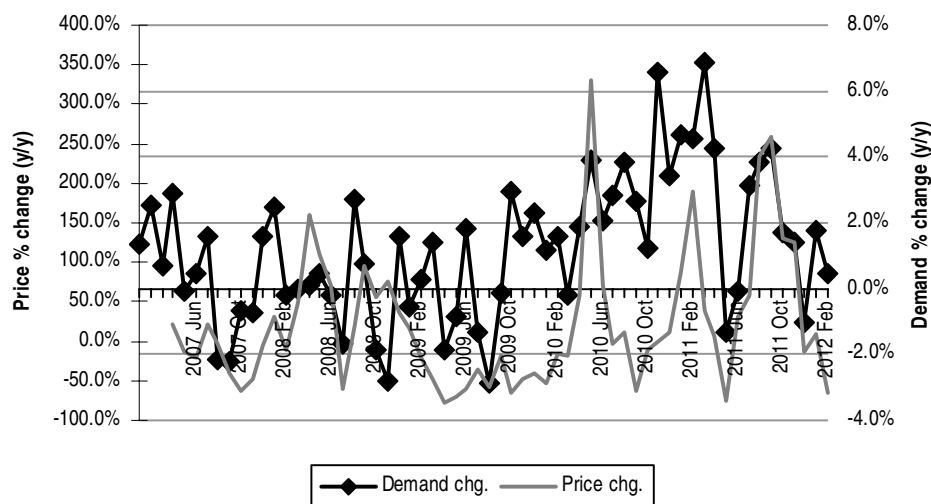
**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Electricity related demand and pricing information can provide a certain level of insight into underlying economic activity. Clearly, the information is beneficial for evaluating the performance of specific power generation facilities in the province of Alberta. Yet, power data may also help assess the relative health of the most significant portions of the province's economy such as the energy sector in Alberta. Our research note is divided into three parts: (a) Assessing Alberta; (b) Blame it on the weather; and, (c) Forward pricing.

## Assessing Alberta

The first step in our Alberta monthly demand analysis is the year-over-year comparison for each month appearing in Exhibit 1 below.

**Exhibit 1: Alberta monthly electricity demand and price percentage change (y-o-y)**

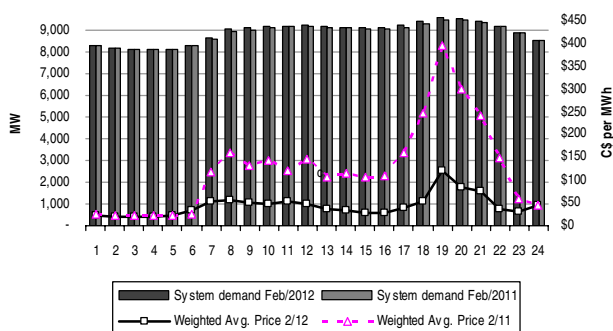


Source: Alberta Electric System Operator (AESO) and Credit Suisse

As evident from Exhibit 1, both Alberta's power demand and prices have moved in a rather erratic fashion. We believe the demand data is more meaningful than pricing as generation supply will significantly impact pricing. February showed a 0.5% demand increase versus the prior year and a decline of 1.8% against January 2012. Notably, over the last 45 months (encompassing June 2008 to February 2012), 31 of 45 months posted a positive year-on-year change in demand.

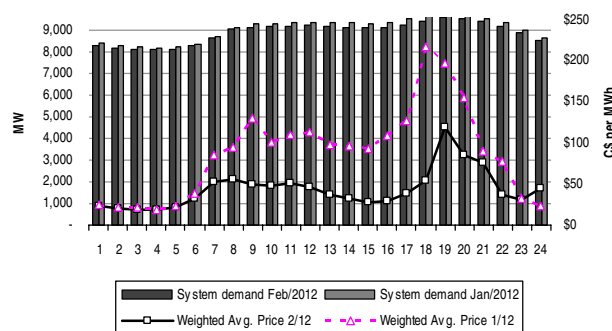
More positive than negative year-on-year changes in demand over the last 45 months

**Exhibit 2: AB electricity demand and price y/y comparison**



Source: Alberta Electric System Operator (AESO) and Credit Suisse

**Exhibit 3: AB electricity demand and price m/m comparison**



Source: Alberta Electric System Operator (AESO) and Credit Suisse

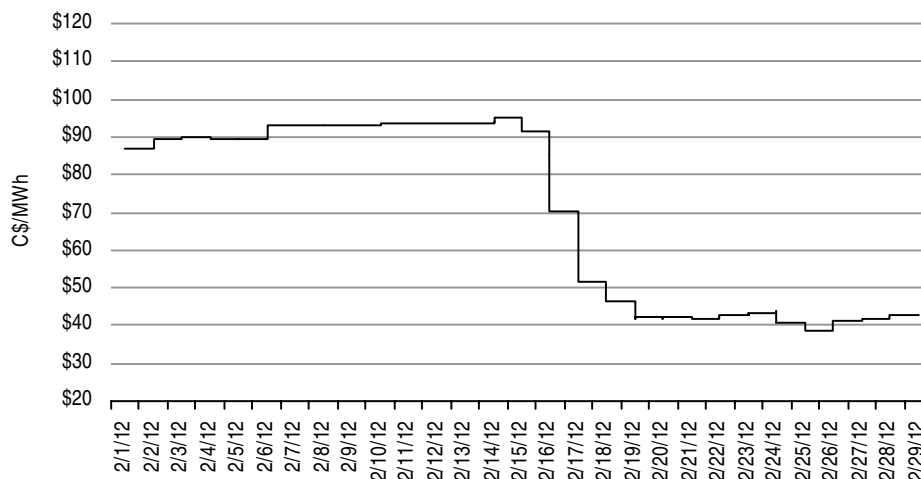
Exhibit 2 and Exhibit 3 illustrate Alberta's hour-by-hour profile for demand and pricing. As changes in these exhibits can be rather subtle, we provide selected information in tabular form in Exhibit 4.

**Exhibit 4: Monthly AESO data**

Time Frame	Average Demand (MW)	Weighted Avg. Price (\$/MWh)	Demand chg. y/y	Price chg. y/y	Demand chg. m/m	Price chg. m/m
2012 Feb	8,935	44.71	0.5%	-65.1%	-1.8%	-50.5%
2012 Jan	9,096	90.29	1.7%	9.1%	1.9%	69.7%
2011 Dec	8,926	53.20	-1.0%	-13.1%	1.8%	-53.2%
2011 Nov	8,772	113.72	1.4%	125.2%	6.9%	57.7%
2011 Oct	8,202	72.10	1.7%	129.9%	0.1%	-30.4%
2011 Sept	8,195	103.60	4.2%	258.5%	-1.9%	-22.3%
2011 Aug	8,354	133.39	3.9%	234.8%	0.9%	102.0%
2011 Jul	8,276	66.05	3.1%	58.5%	5.1%	-14.3%
2011 Jun	7,873	77.11	-0.1%	30.3%	3.5%	131.5%
2011 May	7,606	33.31	-1.3%	-76.2%	-6.1%	-37.7%
2011 Apr	8,100	53.49	4.3%	5.6%	-7.1%	7.6%
2011 Mar	8,720	49.70	6.9%	37.7%	-1.9%	-61.2%
2011 Feb	8,893	128.07	4.6%	188.8%	-0.5%	54.7%

Source: Alberta Electric System Operator (AESO) and Credit Suisse

Finally, for certain power market participants, Alberta's 30-day rolling average pricing is a critical metric to watch. Exhibit 5 highlights the 30-day RAP.

**Exhibit 5: Alberta power pricing 30-day RAP**

Source: Alberta Electric System Operator (AESO) and Credit Suisse

**Blame it on the weather?**

Clearly, weather can play a meaningful role in power demand data. Therefore, we highlight weather statistics for both Edmonton and Calgary in Exhibit 6 and Exhibit 7.

**Exhibit 6: Edmonton area historical temperatures (in Celsius)**

Temperature	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Historical Avg.	-13.5	-10.5	-4.5	4.3	10.4	14.1	15.9	15.1	10.1	4.3	-5.7	-11.0
2012	-9.5	-7.9										
2011	-13.1	-13.9	-10.6	1.2	11.0	13.6	15.3	14.6	11.9	4.1	-6.4	-5.3
2010	-12.1	-9.1	-0.8	5.6	8.1	13.9	15.6	14.4	8.1	5.8	-7.0	-15.2
2009	-13.1	-13.7	-11.0	2.2	8.3	12.6	15.4	14.6	13.2	1.1	-1.2	-18.8
2008	-14.6	-11.2	-3.6	0.8	11.0	13.9	15.6	16.0	10.0	4.3	-0.2	-16.3
2007	-9.7	-13.2	-4.1	2.6	10.1	14.8	18.4	13.2	9.0	4.9	-5.0	-14.3
2006	-5.7	-8.2	-7.9	6.8	11.4	15.5	17.7	15.1	11.4	2.4	-11.2	-7.9
2005	-14.2	-8.8	-3.5	5.7	10.4	13.8	15.5	13.0	8.9	4.4	-1.3	-7.0
2004	-15.5	-8.8	-2.3	5.0	8.1	13.1	15.7	13.8	8.7	1.1	-1.1	-9.7
2003	-13.0	-10.2	-10.0	3.2	9.1	13.4	16.7	16.2	9.8	5.2	-9.7	-10.8
2012 vs Historical	4.0	2.6										
2011 vs Historical	0.4	-3.4	-6.1	-3.1	0.6	-0.5	-0.6	-0.5	1.8	-0.2	-0.7	5.7
2010 vs Historical	1.4	1.4	3.7	1.3	-2.3	-0.2	-0.3	-0.8	-2.0	1.5	-1.3	-4.2
2009 vs Historical	0.4	-3.2	-6.5	-2.1	-2.1	-1.5	-0.5	-0.5	3.1	-3.2	4.5	-7.8
2008 vs Historical	-1.1	-0.7	0.9	-3.5	0.6	-0.3	-0.3	0.9	-0.1	0.0	5.5	-5.3
2007 vs Historical	3.8	-2.7	0.4	-1.7	-0.3	0.7	2.5	-1.9	-1.1	0.6	0.7	-3.3
2006 vs Historical	7.8	2.3	-3.4	2.5	1.0	1.4	1.8	0.0	1.3	-1.9	-5.5	3.1
2005 vs Historical	-0.7	1.7	1.0	1.4	0.0	-0.3	-0.4	-2.1	-1.2	0.1	4.4	4.0
2004 vs Historical	-2.0	1.7	2.2	0.7	-2.3	-1.0	-0.2	-1.3	-1.4	-3.2	4.6	1.3
2003 vs Historical	0.5	0.3	-5.5	-1.1	-1.3	-0.7	0.8	1.1	-0.3	0.9	-4.0	0.2

Source: Environment Canada and Credit Suisse

**Exhibit 7: Calgary area historical temperatures (in Celsius)**

Temperature	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Historical Avg.	-8.9	-6.1	-1.9	4.6	9.8	13.8	16.2	15.6	10.8	5.4	-3.1	-7.4
2012	-5.9	-4.6										
2011	-8.9	-9.6	-6.2	1.3	9.5	13.4	16.6	16.2	14.3	6.4	-2.6	-1.5
2010	-6.1	-4.6	3.2	4.9	7.4	13.2	16.1	15.2	9.3	7.8	-4.7	-8.2
2009	-6.2	-7.1	-4.4	3.4	9.7	13.3	16.9	15.8	15.0	1.5	1.9	-12.5
2008	-8.5	-5.1	0.0	1.5	10.7	13.3	16.5	16.6	11.3	6.7	2.2	-10.9
2007	-3.9	-8.3	1.6	2.8	10.0	14.1	19.4	14.1	10.1	6.5	-1.6	-8.0
2006	-1.5	-5.6	-4.4	6.8	11.2	14.7	18.4	15.8	12.4	3.5	-6.3	-1.9
2005	-8.9	-3.1	0.2	5.8	10.7	12.4	16.4	13.8	9.4	5.9	0.4	-4.4
2004	-10.5	-3.1	2.0	6.1	8.1	13.1	17.0	15.5	9.9	4.0	1.6	-4.7
2003	-6.3	-7.2	-4.8	3.5	8.3	13.7	17.5	18.0	11.2	7.5	-5.8	-4.9
2012 vs Historical	3.0	1.5										
2011 vs Historical	0.0	-3.5	-4.3	-3.3	-0.3	-0.4	0.4	0.6	3.5	1.0	0.5	5.9
2010 vs Historical	2.8	1.5	5.1	0.3	-2.5	-0.6	-0.1	-0.4	-1.5	2.4	-1.6	-0.8
2009 vs Historical	2.7	-1.0	-2.5	-1.2	-0.1	-0.5	0.7	0.2	4.2	-3.9	5.0	-5.1
2008 vs Historical	0.4	1.0	1.9	-3.1	0.9	-0.5	0.3	1.0	0.5	1.3	5.3	-3.5
2007 vs Historical	5.0	-2.2	3.5	-1.8	0.2	0.3	3.2	-1.5	-0.7	1.1	1.5	-0.6
2006 vs Historical	7.4	0.5	-2.5	2.2	1.4	0.9	2.2	0.2	1.6	-1.9	-3.2	5.5
2005 vs Historical	0.0	3.0	2.1	1.2	0.9	-1.4	0.2	-1.8	-1.4	0.5	3.5	3.0
2004 vs Historical	-1.6	3.0	3.9	1.5	-1.7	-0.7	0.8	-0.1	-0.9	-1.4	4.7	2.7
2003 vs Historical	2.6	-1.1	-2.9	-1.1	-1.5	-0.1	1.3	2.4	0.4	2.1	-2.7	2.5

Source: Environment Canada and Credit Suisse

Based upon Environment Canada's February data, both Edmonton and Calgary recorded average temperature that was warmer than normal.

## Summary

February showed a year on year increase in demand in Alberta. Many factors affect demand data including the weather. Pricing has posted negative numbers on a year-over-year basis and on a month-over-month basis which we believe were influenced by the weather. In our view, Alberta's power market is indicating some signs of strength. The strength of demand may eventually translate into much stronger power pricing. Longer-term, we believe Alberta's power market fundamentals are rather attractive. In our coverage universe, direct exposure to the Alberta power market can be achieved via Capital Power Corp., TransAlta and TransCanada. In terms of merchant exposure, TransCanada has the most profitable exposure in the current market environment as a

result of the Power Purchase Agreements (PPAs). Notably, in a market with increased volatility, Capital Power offers the best exposure with the fast ramping Clover Bar Energy Centre. Discounting the impact of the Sundance issues, both CPX and TA provide potentially better margin protection as a result of PPA plant ownership and partially contracted power portfolios. Finally, Fortis provides largely regulated utility exposure in Alberta and is facing a somewhat limited impact from changes in demand.

*The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.fc*

#### Companies Mentioned (Price as of 04 Mar 12)

Capital Power Corporation (CPX.TO, C\$24.53, OUTPERFORM, TP C\$28.00)

Fortis Inc. (FTS.TO, C\$32.79, NEUTRAL, TP C\$34.00)

TransAlta Corporation (TA.TO, C\$20.49, NEUTRAL, TP C\$22.00)

TransCanada Corp. (TRP.TO, C\$43.41, NEUTRAL, TP C\$44.00)

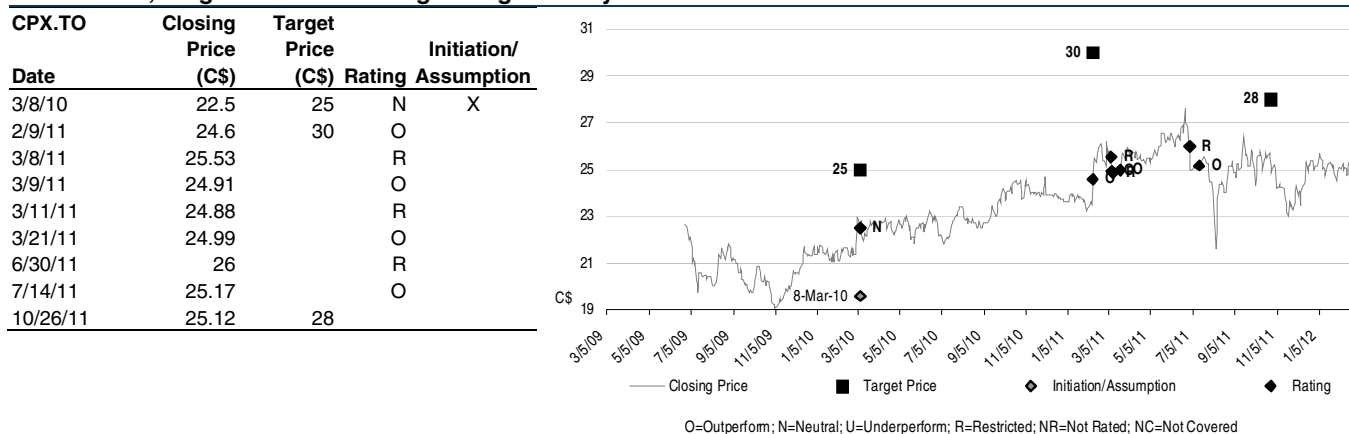
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

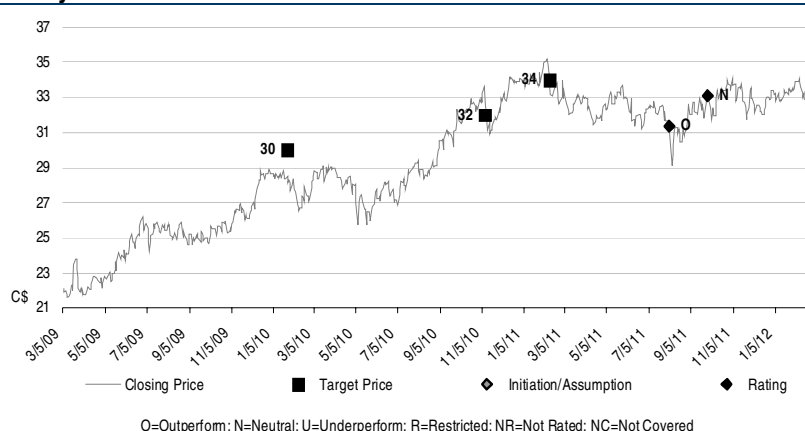
See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for CPX.TO

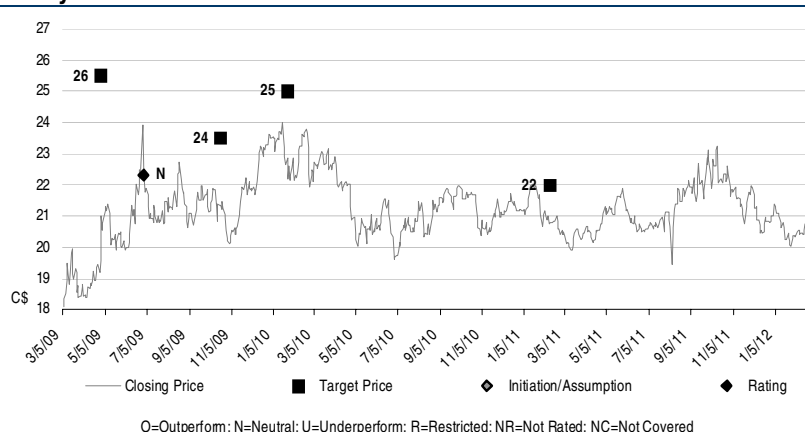


**3-Year Price, Target Price and Rating Change History Chart for FTS.TO**

FTS.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating	Assumption
Date				
1/25/10	28.5	30		
11/8/10	33.6	32		
2/10/11	33.81	34		
8/3/11	31.37		O	
9/28/11	33.08		N	

**3-Year Price, Target Price and Rating Change History Chart for TA.TO**

TA.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating	Assumption
Date				
4/28/09	19.55	25.5		
6/30/09	22.31		N	
10/19/09	21.35	23.5		
1/25/10	22.85	25		
2/10/11	20.74	22		

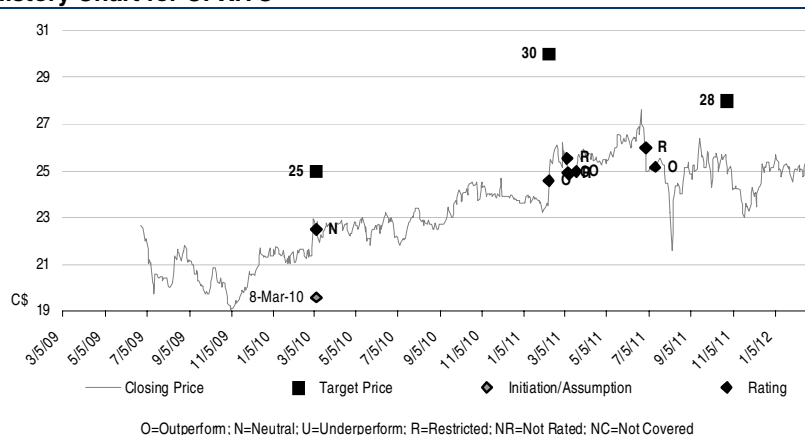
**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

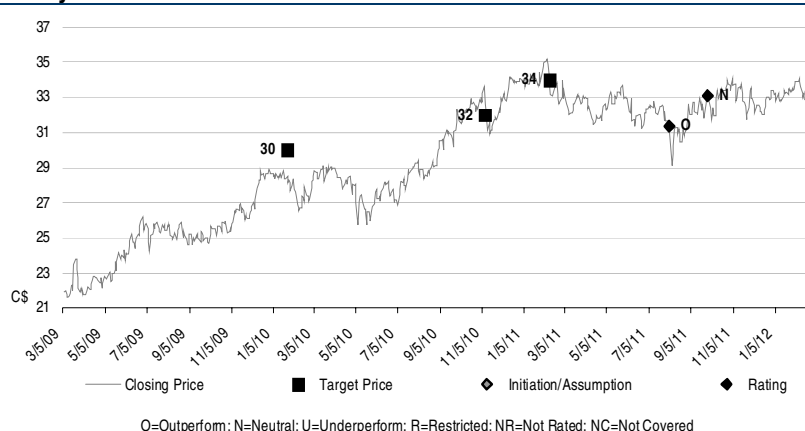
**3-Year Price, Target Price and Rating Change History Chart for CPX.TO**

CPX.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating	Assumption
Date				
3/8/10	22.5	25	N	X
2/9/11	24.6	30	O	
3/8/11	25.53		R	
3/9/11	24.91		O	
3/11/11	24.88		R	
3/21/11	24.99		O	
6/30/11	26		R	
7/14/11	25.17		O	
10/26/11	25.12	28		

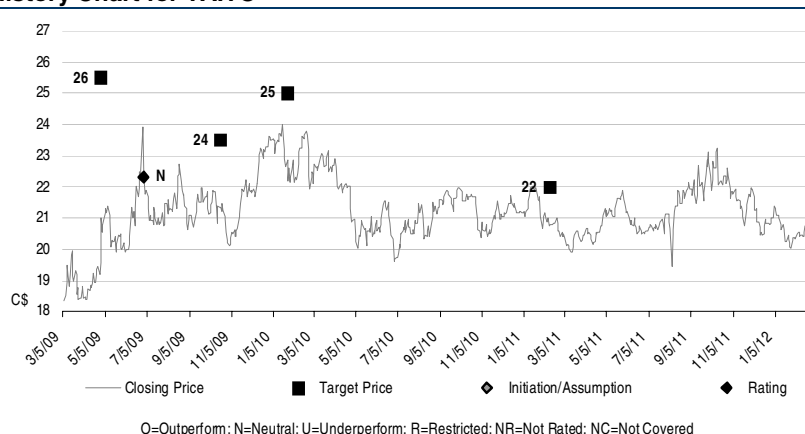


**3-Year Price, Target Price and Rating Change History Chart for FTS.TO**

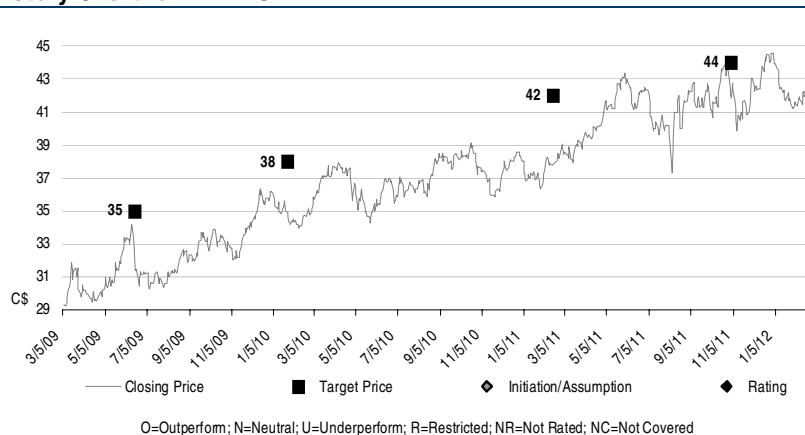
FTS.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
Date			
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N

**3-Year Price, Target Price and Rating Change History Chart for TA.TO**

TA.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
Date			
4/28/09	19.55	25.5	
6/30/09	22.31		N
10/19/09	21.35	23.5	
1/25/10	22.85	25	
2/10/11	20.74	22	

**3-Year Price, Target Price and Rating Change History Chart for TRP.TO**

TRP.TO	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
Date			
6/17/09	31.37	35	
1/25/10	34.9	38	
2/16/11	37.85	42	
11/2/11	41.86	44	



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

**Analysts' stock ratings are defined as follows:**

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry



factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

	Global Ratings Distribution	
<b>Outperform/Buy*</b>	46%	(60% banking clients)
<b>Neutral/Hold*</b>	42%	(57% banking clients)
<b>Underperform/Sell*</b>	10%	(47% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (CPX.TO)

**Method:** Our C\$28.00 target price for Capital Power is obtained by using several valuation methodologies, all of which produce the C\$28 target. The methods are: a 17.0x P/E (price/earnings) multiple applied to our 2012 EPS estimate of C\$1.68; a target dividend yield of 4.5%; an adjusted 9.0x EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiple; and, a discounted cash flow.

**Risks:** Risks to Capital Power Corp's achievement of our C\$28.00 target price are commodity prices, weather, environmental, regulatory, portfolio optimization strategies, shareholder concentration, foreign exchange and interest rates. Also, the power of the regulator in any regulated business should never be underestimated.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

**Price Target:** (12 months) for (TA.TO)

**Method:** We obtain our C\$22.00 target price for TransAlta by using several valuation methodologies: a variety of multiples; comparable analysis; and discounted cash flow. In summary, our C\$22.00 target price implies an 17.0x P/E (price/earnings) multiple on our estimated 2013 earnings per share of C\$1.31, a 9.2x EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiple.

**Risks:** Risks to TransAlta's achievement of our C\$22.00 target price are commodity prices, weather, environmental, regulatory, and interest rates. Also, the power of the regulator in any regulated business should never be underestimated.

**Price Target:** (12 months) for (TRP.TO)

**Method:** We obtain our C\$44.00 target price for TransCanada by using multiple valuation methodologies, all of which produce the C\$44.00 target. The methods are yield based analysis, and discounted cash flow. We use a P/E (price/earnings) multiple of roughly 17.5x our 2013 EPS (earnings

per share) estimate of C\$2.54. In addition, we use an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) of 10.4x. We also use the dividend method, based on 4.0%.

**Risks:** Our C\$44.00 target price for TransCanada is subject to a number of risks: interest rates; commodity prices; operating rates; electricity market volatility; and, pipeline volumes. In any regulated business, one should never underestimate the power of the regulator.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (CPX.TO, FTS.TO, TRP.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (CPX.TO, FTS.TO, TRP.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (CPX.TO) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (CPX.TO, TRP.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (CPX.TO, FTS.TO, TRP.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

### Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (CPX.TO, FTS.TO, TA.TO, TRP.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

Taiwanese Disclosures: Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## CREDIT SUISSE SECURITIES (USA) LLC

United States of America: +1 (212) 325-2000

## Fortis Inc. (FTS.TO)

### FORECAST REDUCTION

Rating **NEUTRAL\***  
Price (24 Apr 12, C\$) 33.27  
Target price (C\$) 34.00<sup>†</sup>  
52-week price range 29.08 - 29.11  
Market cap. (C\$ m) 6,297.16  
Enterprise value (C\$ m) 12,945.67

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

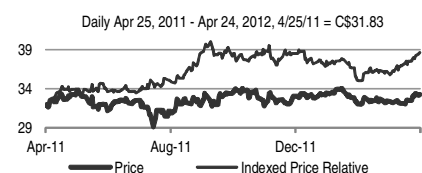
416 352 4593

paul.tan@credit-suisse.com

## Q1 earnings preview

- **Earnings revisions:** For several reasons, we made a number of revisions to our Fortis Inc. financial model. Our changes focused on several areas ahead of the forthcoming Q1 2012 results. Specifically, our Q1 EPS estimate declined from C\$0.71 to C\$0.68. Our annual estimate declines from C\$1.79 to C\$1.76. For greater details, please refer to our Canadian Infrastructure Q1 2012 earnings preview "Starting the season: Q1 earnings preview" (25 April 2012).

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.68	0.31	0.26	0.51
2013E	0.72	0.32	0.27	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.76	1.85	1.87
Prev. EPS (C\$)	—	1.79	—	—
P/E (x)	19.6	18.9	18.0	17.8
P/E rel. (%)	137.6	143.0	157.6	170.3
Revenue (C\$ m)	3,747.0	4,112.1	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,291.7	1,373.6	1,435.0
OCFPS (C\$)	4.51	3.64	3.82	3.95
P/OCF (x)	7.4	9.1	8.7	8.4
EV/EBITDA (current)	10.3	9.4	8.8	8.5
Net debt (C\$ m)	5,855	6,649	7,233	7,723
ROIC (%)	5.80	5.68	5.74	5.67
Number of shares (m)	189.27	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	21.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,010.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	126.5	Dividend yield (%)		0.90

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure:** Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



**Companies Mentioned** (Price as of 24 Apr 12)  
Fortis Inc. (FTS.TO, C\$33.27, NEUTRAL, TP C\$34.00)

## Disclosure Appendix

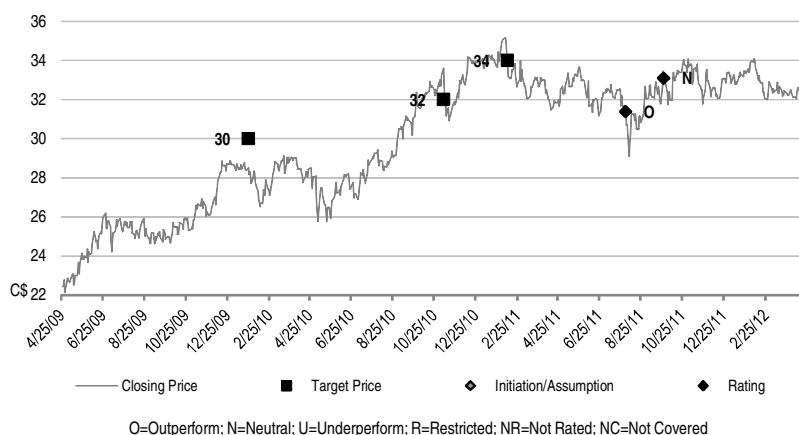
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO Date	Closing Price (C\$)	Target Price (C\$)	Initiation/ Rating Assumption
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

---

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
<b>Outperform/Buy*</b>	46%	(60% banking clients)
<b>Neutral/Hold*</b>	42%	(58% banking clients)
<b>Underperform/Sell*</b>	10%	(51% banking clients)
<b>Restricted</b>	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

---

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

**Taiwanese Disclosures: This research report is for reference only. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. Reports may not be reprinted without permission of CS. Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.**

---

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## Fortis Inc. (FTS.TO)

Rating **NEUTRAL\***  
Price (02 May 12, C\$) 34.55  
Target price (C\$) 34.00<sup>1</sup>  
52-week price range 34.55 - 29.11  
Market cap. (C\$ m) 6,539.43  
Enterprise value (C\$ m) 13,042.34

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

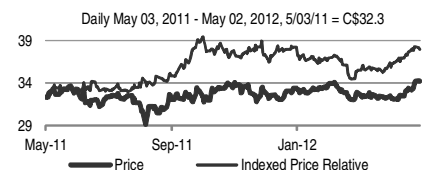
paul.tan@credit-suisse.com

### FORECAST REDUCTION

## The regulatory march

- **Earnings review:** Fortis reported Q1 2012 headline EPS (FD) of C\$0.62, which missed our C\$0.68 and the Street's C\$0.67 view and at the low end of the C\$0.62-C\$0.69 range. In general, we believe Fortis is making steady progress in delivering consistent financial results from a largely regulated asset base. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until sometime after close. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis' 5-year capex outlook continues to stand at C\$5.5bn. Eighty-seven percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. In our view, the company is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition. The company stated, "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating.

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.32	0.27	0.51
2013E	0.72	0.32	0.28	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.72	1.85	1.87
Prev. EPS (C\$)	—	1.76	—	—
P/E (x)	20.4	20.1	18.7	18.4
P/E rel. (%)	142.8	151.9	163.3	176.5
Revenue (C\$ m)	3,747.0	3,855.4	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,279.6	1,373.6	1,435.0
OCFPS (C\$)	4.51	4.10	3.83	3.96
P/OCF (x)	7.4	8.4	9.0	8.7
EV/EBITDA (current)	10.5	9.7	9.0	8.6
Net debt (C\$ m)	5,855	6,503	7,084	7,571
ROIC (%)	5.80	5.72	5.67	5.60
Number of shares (m)	189.27	IC (current, C\$ m)	10,532.00	
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)	1.1	
Net debt (Next Qtr., C\$ m)	6,091.1	Dividend (Next Qtr., C\$)	0.30	
Net debt/tot cap (Next Qtr., %)	120.3	Dividend yield (%)	0.87	

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S.**  
Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our and the Street's estimate

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2012	Q1 2011	chg y/y
Regulated Gas Utilities - Canadian	82	75	9%
Regulated Electric Utilities - Canadian	51	52	-2%
Regulated Electric Utilities - Caribbean	3	4	-25%
Non-regulated - Fortis Generation	5	3	67%
Non-regulated - Fortis Properties	1	1	0%
Corporate and other	(21)	(19)	-11%
Net earnings applicable to common shares	121	116	4%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment improved by roughly 9% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Net customer additions were 1,000 during Q1 2012 versus net additions of 1,400 in Q1 2011;
- The amount of customer additions decreased versus Q1 2012 due to lower building activity; and,
- Sales volumes for the quarter decreased for the residential and commercial, industrial segments, while increased for the transportation segment.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q1 2012	Q1 2011	chg y/y
FortisBC Energy	82.0	75.0	9%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q1 2012	Q1 2011	chg y/y
FortisAlberta	21	21	0%
FortisBC Electric	16	19	-16%
Newfoundland Power	7	6	17%
Other Cdn Electric Utilities	7	6	17%
Earnings	51	52	-2%

Source: Company data and Credit Suisse

## FortisAlberta

Earnings at this regulated utility were flat comparing Q1 2012 versus the prior period. See Exhibit 4 for selected highlights.

Slight increase in energy delivery in Alberta

### Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	4,482	4,402	2%
Revenue (C\$/MWh)	24.10	22.72	6%
Operating expenses (C\$/MWh)	8.70	7.95	9%
Gross margin (C\$/MWh)	15.39	14.77	4%
Earnings (C\$millions)	21	21	0%

Source: Company data and Credit Suisse

## FortisBC Electric

Segmented earnings at FortisBC Electric decreased by 16% compared to the same period last year. The decrease was due to increased operating expense, lower capitalized AFUDC and expiry of PBR mechanism on December 31, 2011.

Flat energy deliveries in BC

See Exhibit 5 for selected highlights.

### Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	909	905	0%
Revenue (C\$/MWh)	95.71	91.71	4%
Energy supply costs (C\$/MWh)	27.50	25.41	8%
Operating expenses (C\$/MWh)	23.10	19.89	16%
Gross margin (C\$/MWh)	45.10	46.41	-3%
Earnings (C\$millions)	16	19	-16%

Source: Company data and Credit Suisse

## Newfoundland Power

This segment's earnings gained by 17% when comparing Q1 2012 versus Q1 2011. Higher electricity sales and lower effective corporate taxes led to result in higher earnings. Energy deliveries were up by approximately 4% (see Exhibit 6).

Increase in NP's energy deliveries

### Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	1,914	1,834	4%
Revenue (C\$/MWh)	100.31	99.78	1%
Energy supply costs (C\$/MWh)	74.19	73.06	2%
Operating expenses (C\$/MWh)	10.45	10.91	-4%
Gross margin (C\$/MWh)	15.67	15.81	-1%
Earnings (C\$millions)	7	6	17%

Source: Company data, Credit Suisse estimates

## Other Canadian Electric Utilities

This segment's earning increased by 17% in Q1 2012 versus Q1 2011 primarily due to increased electricity sales on PEI and lower effective corporate income taxes. The energy deliveries for the period declined by 1% compared to Q1 2011. Exhibit 7 contains selected highlights.

Decrease in energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	645	654	-1%
Revenue (C\$/MWh)	141.09	139.14	1%
Energy supply costs (C\$/MWh)	89.92	91.74	-2%
Operating expenses (C\$/MWh)	18.60	18.35	1%
Gross margin (C\$/MWh)	32.56	29.05	12%
Earnings (C\$millions)	7	6	17%

Source: Company data and Credit Suisse

**Regulated Electric Utilities – Caribbean**

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment declined by 25% in Q1 2012 versus the same quarter last year. Energy deliveries declined 35% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time.

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	166	257	-35%
Revenue (C\$/MWh)	379.52	291.83	30%
Energy supply costs (C\$/MWh)	240.96	178.99	35%
Operating expenses (C\$/MWh)	48.19	42.80	13%
Gross margin (C\$/MWh)	90.36	70.04	29%
Earnings (C\$millions)	3	4	-25%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Generation**

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 67% in Q1 2012 compared to the same quarter last year. Energy deliveries increased by 16% from Q1 2011 to Q1 2012 due to increased production in Belize. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q1 2012	Q1 2011	chg y/y
Energy deliveries (GWh)	88	76	16%
Revenue (C\$/MWh)	102.27	92.11	11%
Operating expenses (C\$/MWh)	34.09	39.47	-14%
Gross margin (C\$/MWh)	68.18	52.63	30%
Earnings (C\$millions)	5	3	67%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution remained flat during the quarter. REVPAR increased by 5% to C\$66.54 on a year over year comparison. While, the occupancy rate of the Real Estate Division was down by 2.1%.

**Corporate**

Corporate expenses increase by C\$2 million to C\$10 million in Q1 2012, when compared with last quarter during the same period.



## Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$229 million, of which C\$176 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 87% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 13% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the

company's growth strategy. Fortis is currently working towards to complete its acquisition of CH Energy Group (see "Acquiring American assets" on 21 February 2012), which it expects to occur by the end of Q1 2013. We view Fortis management to continue to look to further grow in the US. The company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see "A positive pass" published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

#### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp.	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors



Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

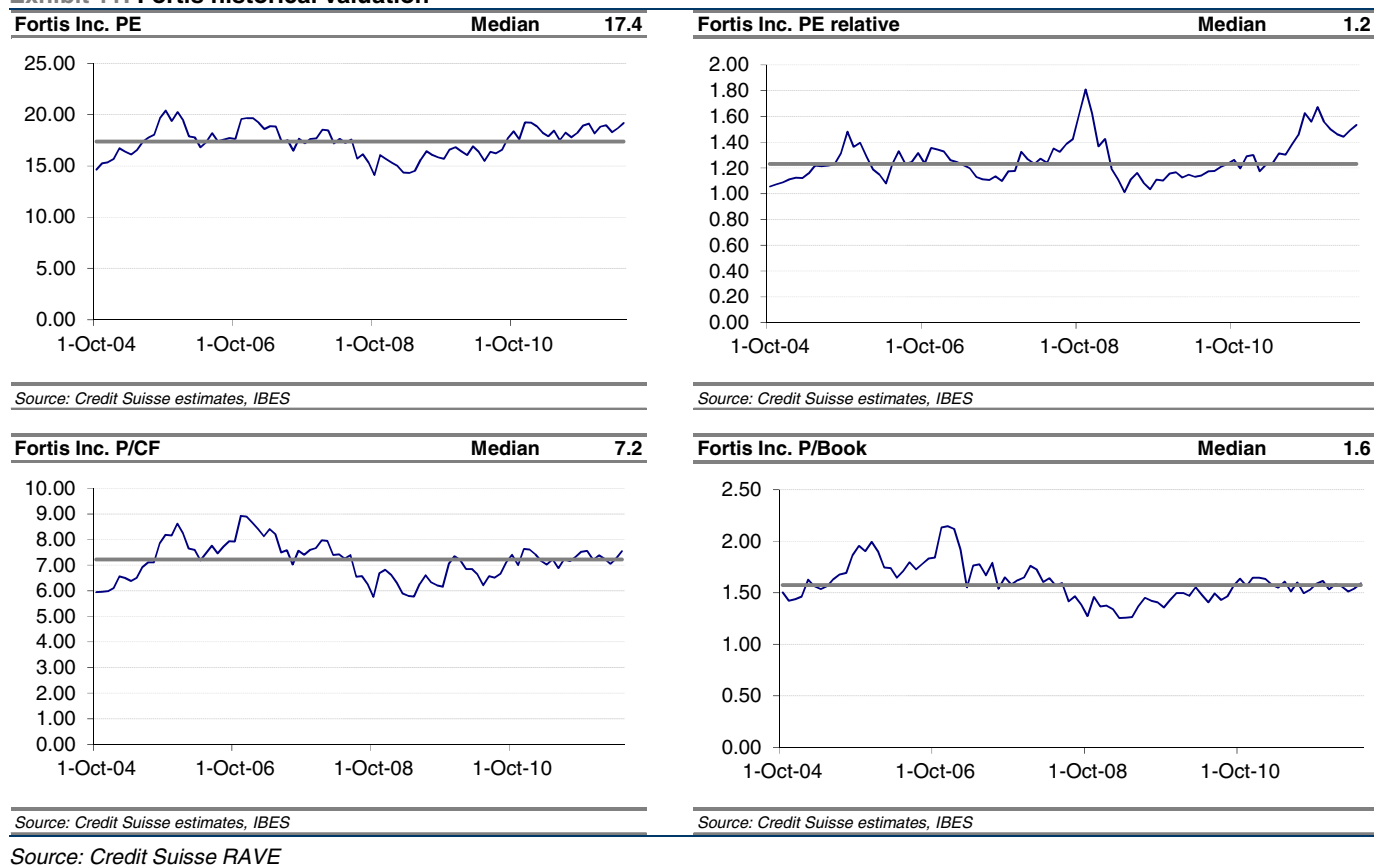
## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. In our view, the company faces a delicate balance of capital investment opportunities and cash flow needs. After the quarter, we revised our EPS estimates for 2012 to C\$1.72 from C\$1.76. Our Neutral rating and C\$34.00 target price is obtained from multiple valuation approaches, including: a 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF based valuation. We reiterate our Neutral rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

Rating: Neutral

Target: C\$34

**Exhibit 11: Fortis historical valuation**



The author of this report wishes to acknowledge the contribution made by Setu Kumar Sharda, an employee of Irevna, a division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.

### Companies Mentioned (Price as of 02 May 12)

Fortis Inc. (FTS.TO, C\$34.55, NEUTRAL, TP C\$34.00)

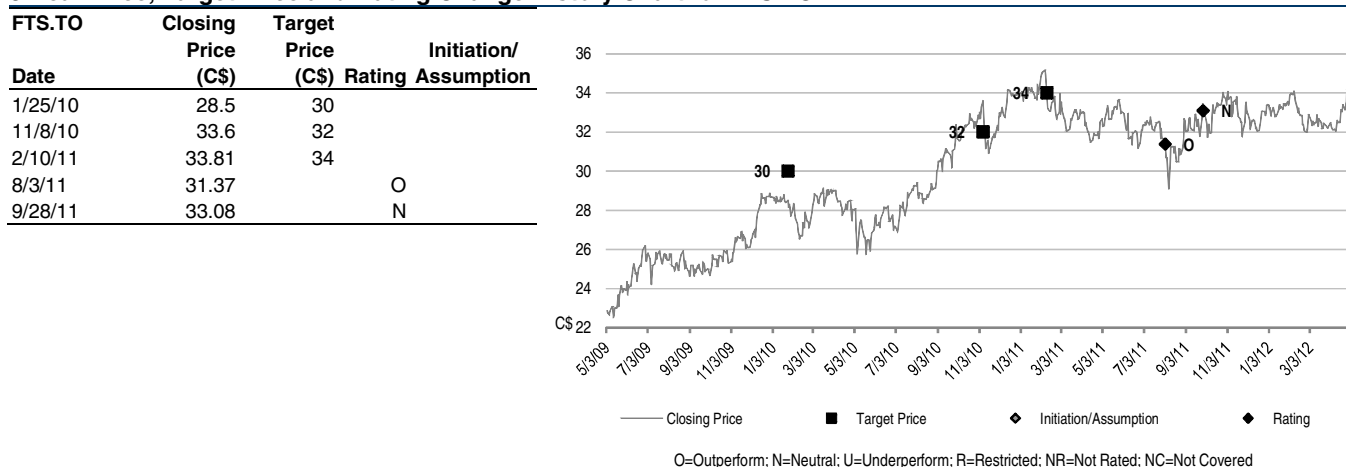
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

### Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution		
Outperform/Buy*	47%	(59% banking clients)
Neutral/Hold*	41%	(57% banking clients)
Underperform/Sell*	10%	(52% banking clients)

**Restricted**

2%

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FTS.TO) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

### **Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

**Taiwanese Disclosures: This research report is for reference only. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. Reports may not be reprinted without permission of CS. Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.**

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## Fortis Inc. (FTS.TO)

Rating **NEUTRAL\***  
Price (19 Jun 12, C\$) 33.08  
Target price (C\$) 34.00<sup>†</sup>  
52-week price range 34.55 - 29.11  
Market cap. (C\$ m) 6,262.13  
Enterprise value (C\$ m) 12,765.04

\*Stock ratings are relative to the relevant country benchmark.  
†Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

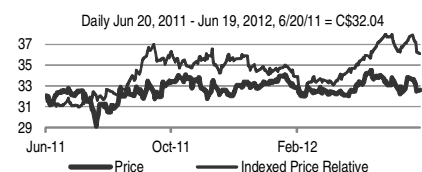
paul.tan@credit-suisse.com

### COMPANY UPDATE

## Finalizing funding for CH

- **Funding announcement:** Fortis Inc. announced an underwriter agreement for an 18.5m subscription receipt bought deal at C\$32.50 (~1.8% discount to the share price prior to announcement). Gross proceeds equate to roughly C\$601m before the 2.775m over-allotment option (C\$691m with the exercise of that option). As largely expected, the net proceeds will be used to fund a portion of the previously announced CH Energy Group Inc. acquisition for roughly US\$1.5 billion. Unlike some other offerings in the market, we believe this deal is likely better placed for a variety of reasons. Given the offering and some other factors, we believe the stock is likely to be somewhat range-bound until the closing of the acquisition.
- **Transaction timing:** Fortis expects the offering to close on or about 27 June 2012. Additionally, the company continues to expect the CH deal closes by the end of Q1 2013. In our view, Fortis will continue to be acquisitive and is well positioned to benefit from potential North American asset sales from selected Spanish companies (see the 23 April note for details).
- **Improving capital market conditions:** Historically, Fortis has been very adept at acquisitions. After the closing of the CH deal, we believe FTS is well positioned for additional opportunities. Fortis stated, "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders."
- **Valuation:** Our C\$34 target price and Neutral rating are obtained utilizing multiple valuation approaches, including: an 18.5x P/E multiple of 2013 earnings; a 1.7x book value multiple; and, a DCF-based valuation. We reiterate our Neutral rating.

### Share price performance



On 06/19/12 the S&P/TSX COMPS INDEX closed at 11736.

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.32	0.27	0.51
2013E	0.72	0.32	0.28	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.72	1.85	1.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.5	19.2	17.9	17.7
P/E rel. (%)	146.0	150.4	161.7	177.4
Revenue (C\$ m)	3,747.0	3,855.4	4,293.0	4,436.1
EBITDA (C\$ m)	1,185.0	1,279.6	1,373.6	1,435.0
OCFPS (C\$)	4.51	4.10	3.83	3.96
P/OCF (x)	7.4	8.1	8.6	8.4
EV/EBITDA (current)	10.2	9.5	8.8	8.5
Net debt (C\$ m)	5,855	6,503	7,084	7,571
ROIC (%)	5.80	5.72	5.67	5.60
Number of shares (m)	189.30	IC (current, C\$ m)	10,532.00	
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)	1.1	
Net debt (Next Qtr., C\$ m)	6,091.1	Dividend (Next Qtr., C\$)	0.30	
Net debt/tot cap (Next Qtr., %)	120.3	Dividend yield (%)	0.91	

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure:** Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



**Companies Mentioned** (Price as of 19 Jun 12)

Ch Energy Group, Inc. (CHG, \$65.10)

Fortis Inc. (FTS.TO, C\$33.08, NEUTRAL, TP C\$34.00)

## Disclosure Appendix

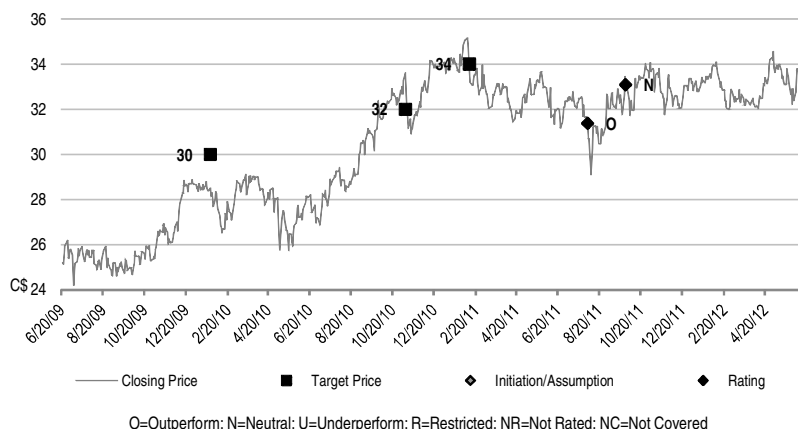
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO

FTS.TO	Closing Price	Target Price	Initiation/
Date	(C\$)	(C\$)	Rating Assumption
1/25/10	28.5	30	
11/8/10	33.6	32	
2/10/11	33.81	34	
8/3/11	31.37		O
9/28/11	33.08		N



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.



**Credit Suisse's distribution of stock ratings (and banking clients) is:**

Global Ratings Distribution		
Outperform/Buy*	48%	(59% banking clients)
Neutral/Hold*	41%	(56% banking clients)
Underperform/Sell*	9%	(51% banking clients)
Restricted	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$34.00 target price for Fortis Inc. by using multiple valuation methodologies, yield base analysis, and discounted cash flow, all of which produce the C\$34.00 target. Our target price implies a P/E (price/earnings) multiple of 18.5x our 2013 EPS (earnings per share) estimate of C\$1.85 and an EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation, and amortization) multiple of 10.3x our EBITDA estimate.

**Risks:** There are a number of risks to Fortis' achievement of our C\$34.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

**Taiwanese Disclosures: This research report is for reference only. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. Reports may not be reprinted without permission of CS. Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.**

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (31 Jul 12, C\$)	33.54
Target price (C\$)	38.00 <sup>1</sup>
52-week price range	34.55 - 29.11
Market cap. (C\$ m)	6,371.50
Enterprise value (C\$ m)	13,043.71

\*Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

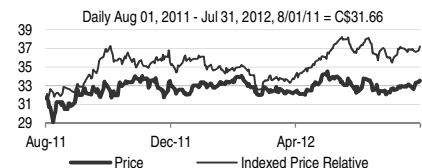
paul.tan@credit-suisse.com

### FORECAST INCREASE

## A British Columbia Bolt On

- **Earnings review:** Fortis reported Q2 2012 headline EPS (FD) of C\$0.33, which was ahead of our C\$0.32 and inline with the Street's C\$0.33 view and within the C\$0.32-C\$0.34 range. In general, we believe Fortis continues to deliver rather consistent financial results from a largely regulated asset base. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until sometime after close. Notably, FTS announced negotiations for the Kelowna, BC electricity utility's ownership that is already operated by the company's BC-based business. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis' 5-year capex outlook continues to stand at C\$5.5bn. Eighty-six percent of that total amount is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** A large part of corporate growth has come from successfully acquiring and integrating assets. In our view, Fortis is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition. FTS stated, "[w]e remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders".
- **Valuation:** We obtain our C\$38 target price from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We maintain our Outperform rating.

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.33	0.26	0.52
2013E	0.73	0.32	0.27	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.73	1.85	1.87
Prev. EPS (C\$)	—	1.72	—	—
P/E (x)	19.8	19.4	18.1	17.9
P/E rel. (%)	145.7	144.5	156.0	169.4
Revenue (C\$ m)	3,747.0	3,835.1	4,254.3	4,396.5
EBITDA (C\$ m)	1,185.0	1,291.0	1,368.4	1,429.7
OCFPS (C\$)	4.51	4.67	3.94	4.08
P/OCF (x)	7.4	7.2	8.5	8.2
EV/EBITDA (current)	10.7	9.8	9.2	8.8
Net debt (C\$ m)	5,855	6,672	7,270	7,782
ROIC (%)	5.80	5.77	5.54	5.48
Number of shares (m)	189.97	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	20.6	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,488.1	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	127.0	Dividend yield (%)		0.89

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results surpassed our estimate

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q2 2012	Q2 2011	chg y/y
Regulated Gas Utilities - Canadian	13	15	-13%
Regulated Electric Utilities - Canadian	52	43	21%
Regulated Electric Utilities - Caribbean	6	6	0%
Non-regulated - Fortis Generation	5	2	150%
Non-regulated - Fortis Properties	8	8	0%
Corporate and other	(22)	(17)	-29%
Net earnings applicable to common shares	62	57	9%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 13% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Sales volumes for the quarter decreased for the residential and commercial, industrial segments, while there was a slight increase for the transportation segment.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q2 2012	Q2 2011	chg y/y
FortisBC Energy	13.0	15.0	-13%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q2 2012	Q2 2011	chg y/y
FortisAlberta	26	18	44%
FortisBC Electric	9	9	0%
Newfoundland Power	12	10	20%
Other Cdn Electric Utilities	5	6	-17%
Earnings	52	43	21%

Source: Company data and Credit Suisse

### FortisAlberta

Earnings at this regulated utility were up comparing Q2 2012 versus the prior period. See Exhibit 4 for selected highlights.

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	3,853	3,822	1%
Revenue (C\$/MWh)	28.55	26.95	6%
Operating expenses (C\$/MWh)	9.60	9.42	2%
Gross margin (C\$/MWh)	18.95	17.53	8%
Earnings (C\$millions)	26	18	44%

Source: Company data and Credit Suisse

Slight increase in energy delivery in Alberta

**FortisBC Electric**

Segmented earnings at FortisBC Electric remained flat compared to the same period last year.

See Exhibit 5 for selected highlights.

Slight decrease in energy deliveries in BC

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	676	682	-1%
Revenue (C\$/MWh)	99.11	95.31	4%
Energy supply costs (C\$/MWh)	19.23	16.13	19%
Operating expenses (C\$/MWh)	31.07	30.79	1%
Gross margin (C\$/MWh)	48.82	48.39	1%
Earnings (C\$millions)	9	9	0%

Source: Company data and Credit Suisse

**Newfoundland Power**

This segment's earnings gained by 20% when comparing Q2 2012 versus Q2 2011. Higher ROE and lower effective corporate taxes led to result in higher earnings. Energy deliveries were down by approximately 1% (see Exhibit 6).

Slight decrease in NP's energy deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	1,259	1,269	-1%
Revenue (C\$/MWh)	103.26	104.81	-1%
Energy supply costs (C\$/MWh)	61.95	63.04	-2%
Operating expenses (C\$/MWh)	13.50	13.40	1%
Gross margin (C\$/MWh)	27.80	28.37	-2%
Earnings (C\$millions)	12	10	20%

Source: Company data, Credit Suisse estimates

**Other Canadian Electric Utilities**

This segment's earning decreased by roughly 17% in Q2 2012 versus Q2 2011 primarily due to increased operating expenses at FortisOntario. The energy deliveries for the period were flat compared to Q2 2011. Exhibit 7 contains selected highlights.

Flat energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	563	562	0%
Revenue (C\$/MWh)	145.65	138.79	5%
Energy supply costs (C\$/MWh)	90.59	83.63	8%
Operating expenses (C\$/MWh)	21.31	19.57	9%
Gross margin (C\$/MWh)	33.75	35.59	-5%
Earnings (C\$millions)	5	6	-17%

Source: Company data and Credit Suisse



## Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat in Q2 2012 versus the same quarter last year. Energy deliveries declined 52% for several reasons. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rational manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time.

See Exhibit 8 below for selected highlights.

### Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	184	383	-52%
Revenue (C\$/MWh)	364.13	221.93	64%
Energy supply costs (C\$/MWh)	211.96	138.38	53%
Operating expenses (C\$/MWh)	48.91	28.72	70%
Gross margin (C\$/MWh)	103.26	54.83	88%
Earnings (C\$millions)	6	6	0%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 150% in Q2 2012 compared to the same quarter last year. Energy deliveries decreased by 3% from Q2 2011 to Q2 2012 due to decreased production in Upstate New York and in Ontario. Exhibit 9 provides selected highlights.

### Exhibit 9: Non-regulated generation – selected highlights

	Q2 2012	Q2 2011	chg y/y
Energy deliveries (GWh)	87	90	-3%
Revenue (C\$/MWh)	103.45	77.78	33%
Energy supply costs (C\$/MWh)	11.49	11.11	n/a
Operating expenses (C\$/MWh)	11.49	11.11	3%
Gross margin (C\$/MWh)	80.46	55.56	45%
Earnings (C\$millions)	5	2	150%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution remained flat during the quarter. REVPAR increased by 2.4% to C\$85.56 on a year over year comparison. While, the occupancy rate of the Real Estate Division was down by 2.0%.

## Corporate

Corporate expenses increase by C\$5 million to C\$22 million in Q2 2012, when compared with last quarter during the same period.

## Outlook

We continue to believe investors, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$282 million, of which C\$215 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on

Ongoing organic growth



Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 86% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 21% of the total capex amount, and 14% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. In light of current market conditions, we believe there is a much less compelling case for the monetization of these assets than as in the past. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. Additionally, we view acquisitions as somewhat central to the company's growth strategy. Fortis is currently working towards to complete its acquisition of CH Energy Group (see "*Acquiring American assets*" on 21 February 2012), which it expects to occur by the end of Q1 2013. On 31 July 2012, on the company's Q2 2012 results, announced that they are in discussion with the City of Kelowna (British Columbia) to acquire the city's electricity distribution utility. No details were given, however, we don't believe the amount to be meaningful to Fortis Inc. We view Fortis management to continue to look to further grow in the US. The company's most recent Management Discussion and Analysis stated "We remain disciplined and patient in our pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders". Fortis showed discipline in its acquisition strategy by not competing in a

bidding war for Central Vermont Service Corp. The company received a C\$17m termination fee. For further details see “A positive pass” published on 12 July 2011.

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

#### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,214.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. After the quarter, we revised our EPS estimates for 2012 to C\$1.73 from C\$1.72. Our Outperform rating and C\$38.00 target price is obtained

Rating: Outperform  
Target: C\$38

from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We reiterate our Outperform rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

#### Exhibit 11: Fortis historical valuation

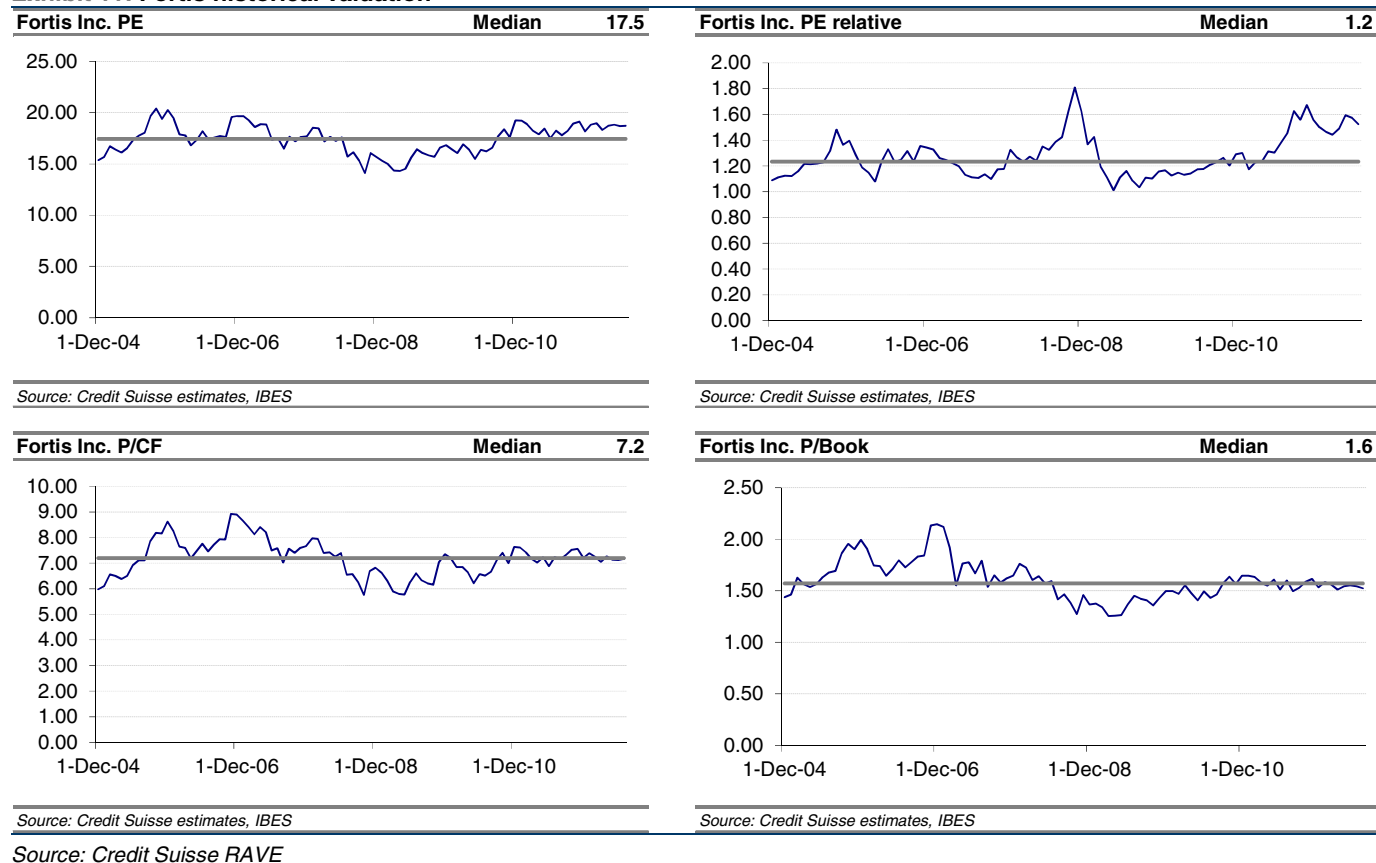
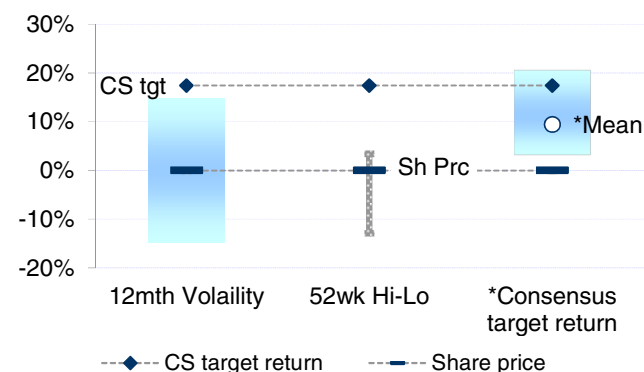


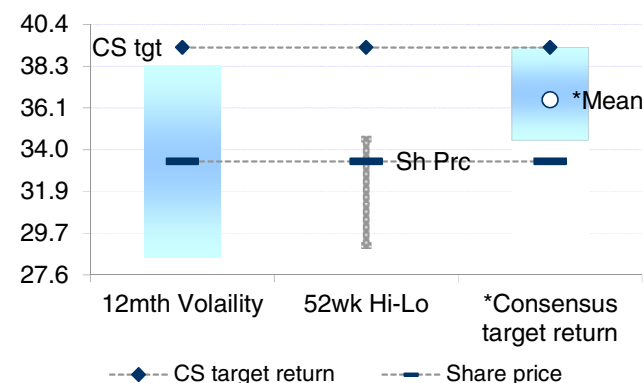
Exhibit 12 and Exhibit 13 put our rating into context versus the Street.

#### Exhibit 12: Total return forecast in perspective



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

#### Exhibit 13: Total return forecast in perspective



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

#### Companies Mentioned (Price as of 31 Jul 12)

Fortis Inc. (FTS.TO, C\$33.54, OUTPERFORM, TP C\$38.00)

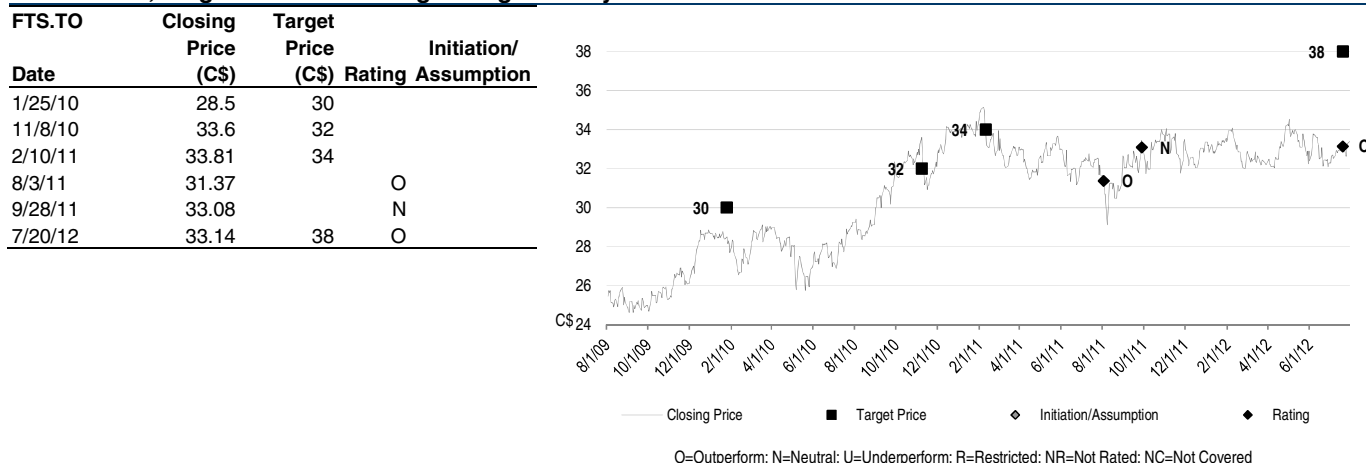
## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for FTS.TO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows:

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe\*\*. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

\*\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

### Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

### Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution		
Outperform/Buy*	46%	(59% banking clients)
Neutral/Hold*	42%	(55% banking clients)
Underperform/Sell*	10%	(48% banking clients)

**Restricted**

2%

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (FTS.TO)

**Method:** We obtain our C\$38.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.25% and an imputed 125 bps spread over a 2% Canadian 10-year bond yield.

**Risks:** There are a number of risks to Fortis' achievement of our C\$38.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names.*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (FTS.TO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months. The analyst may not have visited all material operations of the subject company. The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

**Taiwanese Disclosures: This research report is for reference only. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. Reports may not be reprinted without permission of CS. Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.**

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..
- Paul Tan, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc..

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.



This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse AG; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (01 Nov 12, C\$)	33.90
Target price (C\$)	38.00 <sup>1</sup>
52-week price range	34.55 - 31.77
Market cap. (C\$ m)	6,440.09
Enterprise value (C\$ m)	12,945.05

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

#### Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

#### Paul Tan

416 352 4593

paul.tan@credit-suisse.com

### FORECAST REDUCTION

## Waiting for close

- **Earnings review:** Fortis reported Q3 2012 headline EPS (FD) of C\$0.24, which missed our C\$0.26 and the Street's C\$0.257 view and below the C\$0.25-C\$0.26 range. Versus our numbers, the miss was centered around some F/X moves and CH acquisition-related expenses totaling US\$3.5m. In general, we believe Fortis continues to deliver rather consistent financial results from a largely regulated asset base. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until well after close. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2012. Additionally, Fortis' 5-year capex outlook continues to stand at C\$5.5bn. Of note, CH Energy could add another C\$0.5bn to that figure upon close. In our view, there is meaningful transmission upside from CH over the longer-term. Eighty-seven percent of the capex plan is expected to go towards regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** A large part of corporate growth has come from successfully acquiring and integrating assets. In our view, Fortis is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition.
- **Valuation:** We obtain our C\$38 target price from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We maintain our Outperform rating.

### Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.65	0.33	0.26	0.45
2012E	0.62	0.33	0.24	0.53
2013E	0.72	0.32	0.28	0.53

### Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (C\$)	1.70	1.72	1.85	1.87
Prev. EPS (C\$)	—	1.73	—	—
P/E (x)	20.0	19.7	18.4	18.1
P/E rel. (%)	135.3	132.0	141.1	153.2
Revenue (C\$ m)	3,747.0	3,834.4	4,258.1	4,400.6
EBITDA (C\$ m)	1,185.0	1,290.5	1,370.1	1,431.5
OCFPS (C\$)	4.51	4.91	3.83	3.96
P/OCF (x)	7.4	6.9	8.9	8.6
EV/EBITDA (current)	10.8	9.9	9.3	8.9
Net debt (C\$ m)	5,855	6,505	7,084	7,577
ROIC (%)	5.80	5.87	5.61	5.55
Number of shares (m)	189.97	IC (current, C\$ m)		10,532.00
BV/share (Next Qtr., C\$)	20.9	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,505.0	Dividend (Next Qtr., C\$)		0.30
Net debt/tot cap (Next Qtr., %)	125.6	Dividend yield (%)		0.88

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our estimate

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q3 2012	Q3 2011	chg y/y
Regulated Gas Utilities - Canadian	(6)	(4)	-50%
Regulated Electric Utilities - Canadian	54	43	26%
Regulated Electric Utilities - Caribbean	7	6	17%
Non-regulated - Fortis Generation	5	8	-38%
Non-regulated - Fortis Properties	8	9	-11%
Corporate and other	(23)	(6)	-283%
Net earnings applicable to common shares	45	56	-20%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 50% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Sales volumes for the quarter increased by roughly 13% due to higher gas transportation volumes to industrial customers, primarily from customers switching to natural gas from other fuel sources.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q3 2012	Q3 2011	chg y/y
FortisBC Energy	(6.0)	(4.0)	-50%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q3 2012	Q3 2011	chg y/y
FortisAlberta	26	19	37%
FortisBC Electric	13	10	30%
Newfoundland Power	9	8	13%
Other Cdn Electric Utilities	6	6	0%
Earnings	54	43	26%

Source: Company data and Credit Suisse

### FortisAlberta

Earnings at this regulated utility were up comparing Q3 2012 versus the prior period due to the distribution revenue requirements decisions received in April 2012; rate base growth from continued investment in the asset; and timing of operating expenses in 2012. See Exhibit 4 for selected highlights.

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q3 2012	Q3 2011	chg y/y
Energy deliveries (GWh)	4,099	3,911	5%
Revenue (C\$/MWh)	28.54	26.34	8%
Operating expenses (C\$/MWh)	9.76	8.95	9%
Gross margin (C\$/MWh)	18.79	17.39	8%
Earnings (C\$millions)	26	19	37%

Source: Company data and Credit Suisse

Increase in energy delivery  
in Alberta

**FortisBC Electric**

Segmented earnings at FortisBC Electric increased compared to the same period last year due primarily to rate base growth; higher pole-attachment revenues and lower than expected finance charges.

Increase in energy  
deliveries in BC

See Exhibit 5 for selected highlights.

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q3 2012	Q3 2011	chg y/y
Energy deliveries (GWh)	728	713	2%
Revenue (C\$/MWh)	97.53	93.97	4%
Energy supply costs (C\$/MWh)	21.98	21.04	4%
Operating expenses (C\$/MWh)	27.47	26.65	3%
Gross margin (C\$/MWh)	48.08	46.28	4%
Earnings (C\$millions)	13	10	30%

Source: Company data and Credit Suisse

**Newfoundland Power**

This segment's earnings gained by 13% when comparing Q3 2012 versus Q3 2011. Higher ROE, lower effective corporate taxes and electricity sales growth led to higher earnings. Energy deliveries were up by approximately 2% (see Exhibit 6).

Increase in NP's energy  
deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q3 2012	Q3 2011	chg y/y
Energy deliveries (GWh)	940	923	2%
Revenue (C\$/MWh)	106.38	109.43	-3%
Energy supply costs (C\$/MWh)	57.45	56.34	2%
Operating expenses (C\$/MWh)	18.09	18.42	-2%
Gross margin (C\$/MWh)	30.85	34.67	-11%
Earnings (C\$millions)	9	8	13%

Source: Company data, Credit Suisse estimates

**Other Canadian Electric Utilities**

This segment's earnings were flat when comparing Q3 2012 versus Q3 2011. The energy deliveries for the period were up compared to Q3 2011. Exhibit 7 contains selected highlights.

Increased energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q3 2012	Q3 2011	chg y/y
Energy deliveries (GWh)	595	582	2%
Revenue (C\$/MWh)	152.94	149.48	2%
Energy supply costs (C\$/MWh)	99.16	96.22	3%
Operating expenses (C\$/MWh)	18.49	18.90	-2%
Gross margin (C\$/MWh)	35.29	34.36	3%
Earnings (C\$millions)	6	6	0%

Source: Company data and Credit Suisse

**Regulated Electric Utilities – Caribbean**

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were up in Q3 2012 versus the same quarter last year. Energy deliveries were flat. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rational manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. Notably, the company's MD&A contained a very useful account of the interaction with the Government of Belize and Fortis in relation to this utility asset.

Very useful account of the Belize situation in the MD&A

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q3 2012	Q3 2011	chg y/y
Energy deliveries (GWh)	197	197	0%
Revenue (C\$/MWh)	365.48	375.63	-3%
Energy supply costs (C\$/MWh)	228.43	238.58	-4%
Operating expenses (C\$/MWh)	35.53	45.69	-22%
Gross margin (C\$/MWh)	101.52	91.37	11%
Earnings (C\$millions)	7	6	17%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Generation**

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 38% in Q3 2012 compared to the same quarter last year. Energy deliveries decreased by 27% from Q3 2011 to Q3 2012 due to decreased production in Upstate New York and in Belize from lower rainfall. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q3 2012	Q3 2011	chg y/y
Energy deliveries (GWh)	81	111	-27%
Revenue (C\$/MWh)	98.77	99.10	0%
Operating expenses (C\$/MWh)	24.69	18.02	37%
Gross margin (C\$/MWh)	74.07	81.08	-9%
Earnings (C\$millions)	5	8	-38%

Source: Company data and Credit Suisse

**Non-regulated – Fortis Properties**

Fortis Properties' net unadjusted earning contribution was down 11.1% during the quarter. REVPAR decreased by 0.8% to C\$94.04 on a year over year comparison. While, the occupancy rate of the Real Estate Division was down by 2.5%.

**Corporate**

Corporate expenses increased by C\$17 million to C\$23 million in Q3 2012, when compared with last quarter during the same period.

## Outlook

We continue to believe investors, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$283 million, of which C\$235 million was spent at regulated utilities. Fortis guided that capital expenditures for 2012 will be roughly C\$1.3 billion. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2012-2016) stood at C\$5.5bn with 87% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 23% of the total capex amount, and 13% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

Ongoing organic growth

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee.

In fact, some of the media reports prior to the official announcement of PPL Corporation's acquisition of E.ON's Kentucky utility assets for US\$7.625 billion stated that a consortium led by Fortis Inc. was one of three finalists for those assets. We would regard that type of information in media reports as being something akin to an asset management style of approach. Ultimately, we believe that such a strategy would help Fortis generate a higher level of returns. Additionally, the use of an asset management type approach would make large acquisitions which could potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. We view acquisitions as central to the company's growth strategy. Fortis is currently working towards to complete the acquisition of CH Energy Group (see

“Acquiring American assets” on 21 February 2012) by the end of Q1 2013. Several smaller scale acquisitions were also completed in the quarter, but we view Fortis management to continue to look to further grow in the US utility sector. That acquisition based strategy will come with a significant amount of discipline as exhibited on past deals. The company's most recent Management Discussion and Analysis stated “Fortis remains disciplined and patient in its pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.”

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

#### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
10/1/2012	StationPark All Suite Hotel	CAD 13.00	Acquire 126-room hotel in London, Ontario
9/13/2012	Electric utility assets from City of Kelowna	CAD 55.00	Pending purchase electric utility assets that serve 15,000 customers expect close Q1'13
8/31/2012	Turks and Caicos Utilities Limited	CAD 13.00	Purchased regulated electric utility with a 50-year licence expiring in 2036
4/1/2012	Distribution asset of the City of Port Colborne	CAD 7.00	Purchased electricity distribution assets in Port Colborne
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,234.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,

Fortis possesses a number of absolute and relative advantages over some other competitors

- Bought deal financing commonly employed in Canada.

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

## Valuation

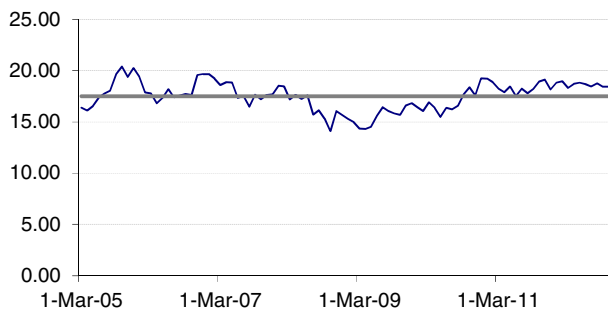
We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. After the quarter, we revised our EPS estimates for 2012 to C\$1.72 from C\$1.73. Our Outperform rating and C\$38.00 target price is obtained from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We reiterate our Outperform rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

Rating: Outperform

Target: C\$38

**Exhibit 11: Fortis historical valuation**

**Fortis Inc. PE** **Median** **17.5**



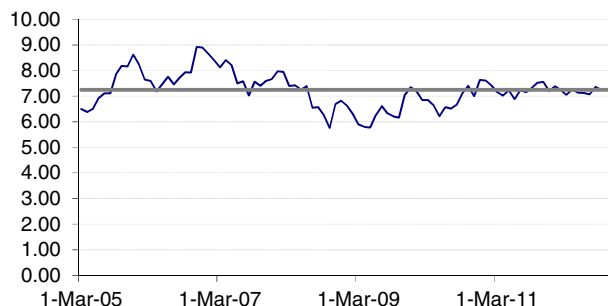
Source: Credit Suisse estimates, IBES

**Fortis Inc. PE relative** **Median** **1.2**



Source: Credit Suisse estimates, IBES

**Fortis Inc. P/CF** **Median** **7.2**



Source: Credit Suisse estimates, IBES

**Fortis Inc. P/Book** **Median** **1.6**

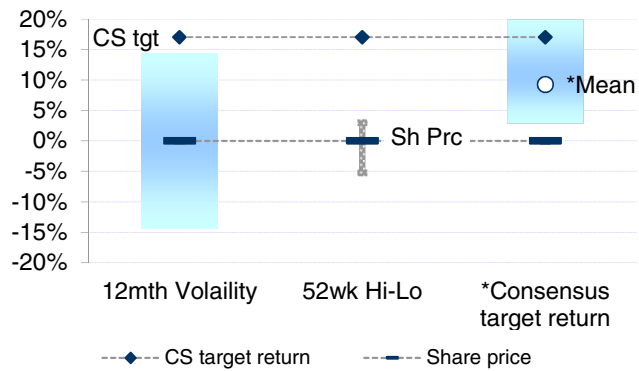


Source: Credit Suisse estimates, IBES

Source: I/B/E/S, Credit Suisse RAVE

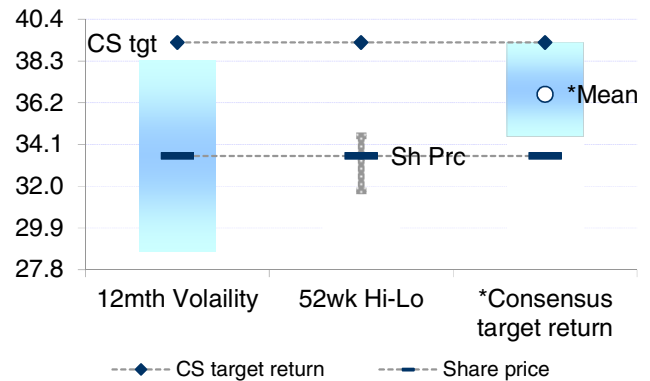
Exhibit 12 and Exhibit 13 put our rating into context versus the Street.

**Exhibit 12: Total return forecast in perspective**



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

**Exhibit 13: Total return forecast in perspective**



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

The author of this report wishes to acknowledge the contribution made by Kapil Chauhan, an employee of Evalueserve, a third-party provider of offshore research services to Credit Suisse.



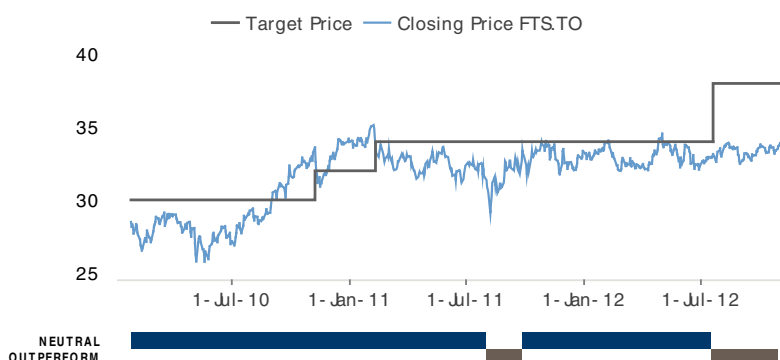
**Companies Mentioned** (Price as of 01-Nov-2012)**CH Energy Group** (CHG.N, \$64.83)**Fortis Inc.** (FTS.TO, C\$33.9, OUTPERFORM, TP C\$38.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
25-Jan-10	28.50	30.00	N
08-Nov-10	33.60	32.00	
10-Feb-11	33.81	34.00	
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of October 2, 2012 Analysts' stock rating are defined as follows :**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* by at least 10-15% or more, (depending on perceived risk) over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation::

**Overweight:** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight:** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight:** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe(%)	Of which banking clients (%)
Outperform/Buy*	43%	(52% banking clients)
Neutral/Hold*	39%	(48% banking clients)
Underperform/Sell*	15%	(40% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$38.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.25% and an imputed 125 bps spread over a 2% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$38.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

### Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research

analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T-+91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines ) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2012 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (07 Feb 13, C\$)	34.24
Target price (C\$)	38.00 <sup>1</sup>
52-week price range	34.72 - 32.00
Market cap. (C\$ m)	6,582.22
Enterprise value (C\$ m)	13,472.87

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

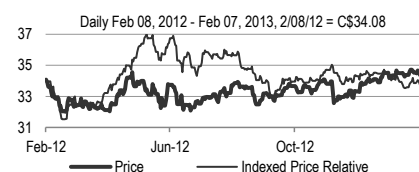
paul.tan@credit-suisse.com

### RESULTS

## CH closing countdown; thesis intact

- **Earnings review:** Fortis reported Q4 2012 headline EPS (FD) of C\$0.45 missing our C\$0.53 estimate and the Street's C\$0.48 view (C\$0.30-C\$0.54 range). Against our numbers, the miss came from several items, including: a smaller contribution from FortisBC Energy given warmer weather along with a C\$3m non-recurring provision from CWLP. Adjusted numbers were much closer to the Street's view. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until well after close (expected in Q2 2013). We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook with guidance of C\$1.3bn for 2013. In addition, Fortis' 5-year capex outlook continues to stand at around C\$6bn. In our view, there is meaningful transmission upside from CH over the longer-term that may become more clear post-closing. Of the planned capex, 89% of the capital is expected to target regulated utility activities that should deliver favourable risk adjusted returns.
- **Improving capital market conditions:** A large part of corporate growth has come from successfully acquiring and integrating assets. In our view, Fortis is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition.
- **Valuation:** We obtain our C\$38 target price from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We maintain our Outperform rating.

### Share price performance



On 02/07/13 the S&P/TSX COMPS INDEX closed at 12754.62

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.68	0.35	0.29	0.53
2014E	0.74	0.32	0.28	0.55

### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.84	1.90	1.92
Prev. EPS (C\$)	—	1.85	1.87	1.89
P/E (x)	20.9	18.7	18.1	17.9
P/E rel. (%)	140.5	124.8	134.8	148.0
Revenue (C\$ m)	3,654.0	4,186.8	4,400.6	4,533.7
EBITDA (C\$ m)	1,264.0	1,361.0	1,431.5	1,486.3
OCFPS (C\$)	4.73	3.99	4.16	4.27
P/OCF (x)	7.2	8.6	8.3	8.0
EV/EBITDA (current)	10.2	9.5	9.0	8.7
Net debt (C\$ m)	6,310	6,891	7,378	7,749
ROIC (%)	5.81	5.54	5.54	5.51
Number of shares (m)	191.57	IC (current, C\$ m)		11,720.00
BV/share (Next Qtr., C\$)	21.3	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,415.9	Dividend (current, C\$)		1.2
Net debt/tot cap (Next Qtr., %)	117.0	Dividend yield (%)		0.90

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our estimate

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q4 2012	Q4 2011	chg y/y
Regulated Gas Utilities - Canadian	49	51	-4%
Regulated Electric Utilities - Canadian	50	36	39%
Regulated Electric Utilities - Caribbean	3	4	-25%
Non-regulated - Fortis Generation	2	5	-60%
Non-regulated - Fortis Properties	5	5	0%
Corporate and other	(22)	(19)	-16%
Net earnings applicable to common shares	87	82	6%

Source: Company data and Credit Suisse

### Regulated Gas Utilities - Canadian

The unadjusted earnings for this segment decreased by roughly 4% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include:

- Sales volumes for the quarter decreased by roughly 5% due to lower average consumption from residential and commercial because of warmer temperatures.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q4 2012	Q4 2011	chg y/y
FortisBC Energy	49.0	51.0	-4%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q4 2012	Q4 2011	chg y/y
FortisAlberta	23	16	44%
FortisBC Electric	12	10	20%
Newfoundland Power	9	8	13%
Other Cdn Electric Utilities	6	2	200%
Earnings	50	36	39%

Source: Company data and Credit Suisse

### FortisAlberta

Earnings at this regulated utility were up comparing Q4 2012 versus the prior period due to the distribution revenue requirements decisions received in April 2012 and rate base growth from continued investment in the asset. See Exhibit 4 for selected highlights.



**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q4 2012	Q4 2011	chg y/y
Energy deliveries (GWh)	4,365	4,232	3%
Revenue (C\$/MWh)	25.89	24.10	7%
Operating expenses (C\$/MWh)	9.62	8.98	7%
Gross margin (C\$/MWh)	16.27	15.12	8%
Earnings (C\$millions)	23	16	44%

Source: Company data and Credit Suisse

Increase in energy delivery in Alberta

**FortisBC Electric**

Segmented earnings at FortisBC Electric increased compared to the same period last year due primarily to rate base growth; higher pole-attachment revenues and lower than expected finance charges.

Decrease in energy deliveries in BC

See Exhibit 5 for selected highlights.

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q4 2012	Q4 2011	chg y/y
Energy deliveries (GWh)	830	843	-2%
Revenue (C\$/MWh)	97.59	96.09	2%
Energy supply costs (C\$/MWh)	26.51	27.28	-3%
Operating expenses (C\$/MWh)	27.71	29.66	-7%
Gross margin (C\$/MWh)	43.37	39.15	11%
Earnings (C\$millions)	12	10	20%

Source: Company data and Credit Suisse

**Newfoundland Power**

This segment's earnings gained by 13% when comparing Q4 2012 versus Q4 2011. Higher ROE, lower effective income taxes and electricity sales growth led to higher earnings. Energy deliveries were up by approximately 1% (see Exhibit 6).

Increase in NP's energy deliveries

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q4 2012	Q4 2011	chg y/y
Energy deliveries (GWh)	1,539	1,527	1%
Revenue (C\$/MWh)	103.31	102.16	1%
Energy supply costs (C\$/MWh)	68.88	67.45	2%
Operating expenses (C\$/MWh)	13.00	13.75	-6%
Gross margin (C\$/MWh)	21.44	20.96	2%
Earnings (C\$millions)	9	8	13%

Source: Company data, Credit Suisse estimates

**Other Canadian Electric Utilities**

This segment's earnings were higher when comparing Q4 2012 versus Q4 2011. The energy deliveries for the period were up compared to Q4 2011. Exhibit 7 contains selected highlights.

Increased energy deliveries

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q4 2012	Q4 2011	chg y/y
Energy deliveries (GWh)	578	568	2%
Revenue (C\$/MWh)	153.98	146.13	5%
Energy supply costs (C\$/MWh)	102.08	96.83	5%
Operating expenses (C\$/MWh)	22.49	24.65	-9%
Gross margin (C\$/MWh)	29.41	24.65	19%
Earnings (C\$millions)	6	2	200%

Source: Company data and Credit Suisse



## Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were down in Q4 2012 versus the same quarter last year. Energy deliveries were higher. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rationale manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. Notably, the company's MD&A contained a very useful account of the interaction with the Government of Belize and Fortis in relation to this utility asset.

Very useful account of the Belize situation in the MD&A

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean - Regulated Electric Utilities performance highlights (unadjusted)**

	Q4 2012	Q4 2011	chg y/y
Energy deliveries (GWh)	181	174	4%
Revenue (C\$/MWh)	392.27	408.05	-4%
Energy supply costs (C\$/MWh)	254.14	264.37	-4%
Operating expenses (C\$/MWh)	55.25	51.72	7%
Gross margin (C\$/MWh)	82.87	91.95	-10%
Earnings (C\$millions)	3	4	-25%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were down 60% in Q4 2012 compared to the same quarter last year. Energy deliveries decreased by 55% from Q4 2011 to Q4 2012 due to decreased production in Upstate New York and in Belize from lower rainfall. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q4 2012	Q4 2011	chg y/y
Energy deliveries (GWh)	50	112	-55%
Revenue (C\$/MWh)	100.00	80.36	24%
Operating expenses (C\$/MWh)	60.00	17.86	236%
Gross margin (C\$/MWh)	40.00	62.50	-36%
Earnings (C\$millions)	2	5	-60%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution was flat during the quarter. REVPAR increased by 0.4% to C\$73.94 on a year over year comparison. While, the occupancy rate of the Real Estate Division was down by 1.4%.

## Corporate

Corporate expenses increased from C\$19m to C\$22m in Q4 2012, when compared with last quarter during the same period.

## Outlook

We continue to believe investor, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

### Funding organic growth

In the most recent quarter the company's reported capital expenditures totaled C\$336m, of which C\$273m was spent at regulated utilities. Fortis guided that capital expenditures for

Ongoing organic growth

2013 will be roughly C\$1.3bn. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5 year plan (2013-2017) stood at C\$6bn with 89% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 19% of the total capex amount, 11% at Central Hudson; and 11% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. We believe Fortis explored this management fee approach with a past M&A deal that was not successfully won. This structure could be used for larger packages of assets in a more capital efficient fashion to potentially further accelerate growth.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis have been positive contributors and also provide the company a bit of financial flexibility for a selection of reasons. We note Fortis Properties continues to increase in scale and scope which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. We view acquisitions as central to the company's growth strategy. Fortis is currently working towards to complete the acquisition of CH Energy Group (see "Acquiring American assets" on 21 February 2012) within Q2 2013. Several smaller scale acquisitions were also completed in the quarter, but we view Fortis management to continue to look to further grow in the US utility sector. That acquisition based strategy will come with a significant amount of discipline as exhibited on past deals. The company's most recent Management Discussion and Analysis stated "Fortis remains disciplined and patient in its pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy."

Given the success of Fortis in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to some potentially value creating acquisition activity (see Exhibit 10 below for select Fortis M&A transactions).

**Exhibit 10: Selected Fortis M&A transactions**

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
10/1/2012	StationPark All Suite Hotel	CAD 13.00	Acquire 126-room hotel in London, Ontario
9/13/2012	Electric utility assets from City of Kelowna	CAD 55.00	Pending purchase electric utility assets that serve 15,000 customers expect close Q1'13
8/31/2012	Turks and Caicos Utilities Limited	CAD 13.00	Purchased regulated electric utility with a 50-year licence expiring in 2036
4/1/2012	Distribution asset of the City of Port Colborne	CAD 7.00	Purchased electricity distribution assets in Port Colborne
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,234.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

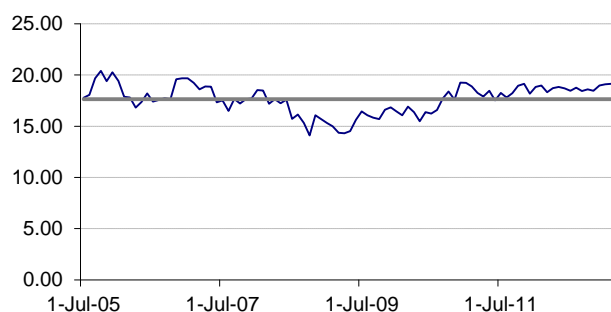
Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

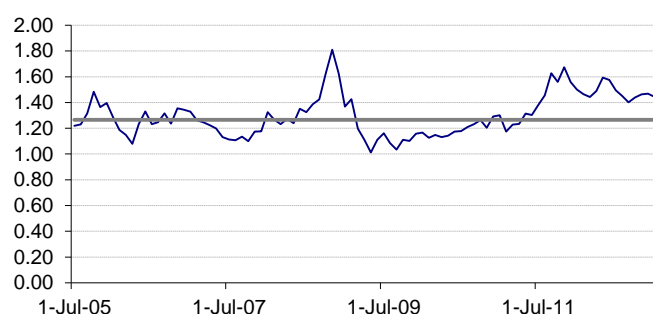
## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. After the quarter, we revised our EPS estimates to C\$1.84, C\$1.90 and C\$1.92 from the previous C\$1.85, C\$1.87 and C\$1.89 for 2013, 2014 and 2015 respectively. Our Outperform rating and C\$38.00 target price is obtained from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We reiterate our Outperform rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

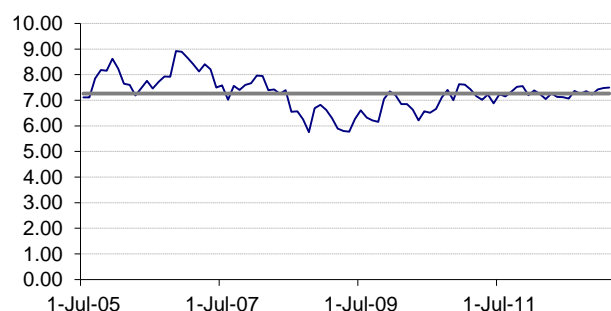
Rating: Outperform  
Target: C\$38

**Exhibit 11: Fortis historical valuation****Fortis Inc. PE** Median **17.6**

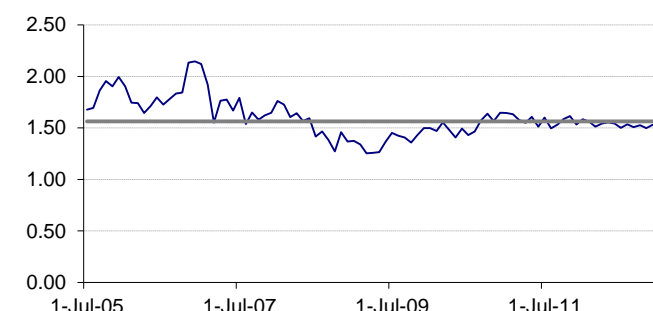
Source: Credit Suisse estimates, IBES

**Fortis Inc. PE relative** Median **1.3**

Source: Credit Suisse estimates, IBES

**Fortis Inc. P/CF** Median **7.3**

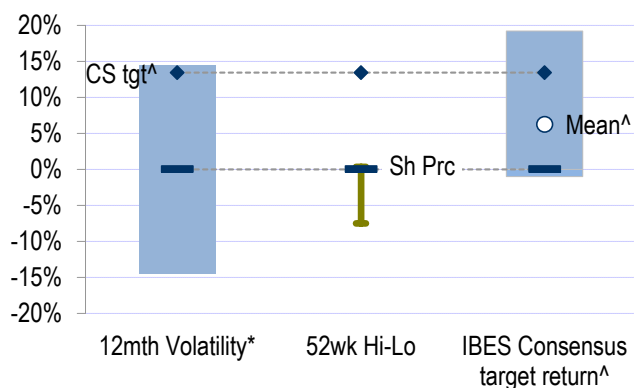
Source: Credit Suisse estimates, IBES

**Fortis Inc. P/Book** Median **1.6**

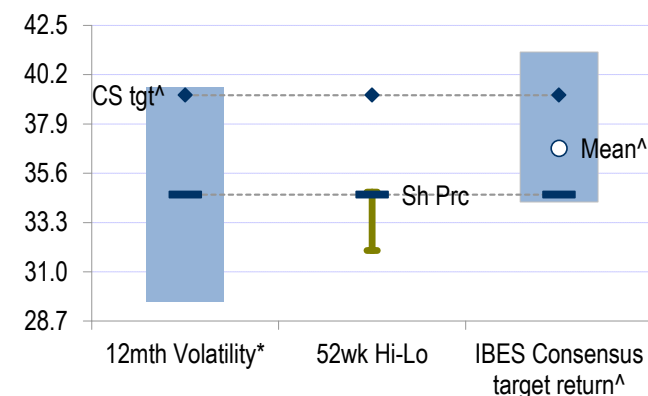
Source: Credit Suisse estimates, IBES

Source: Credit Suisse RAVE

Exhibit 12 and Exhibit 13 put our rating into context versus the Street.

**Exhibit 12: Total return forecast in perspective**

Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

**Exhibit 13: Total return forecast in perspective**

Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

The author of this report wishes to acknowledge the contribution made by Kapil Chauhan, an employee of Evalueserve, a third-party provider of offshore research services to Credit Suisse.

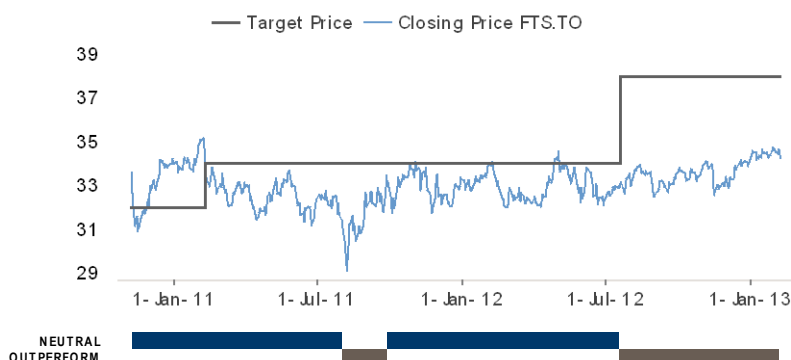
**Companies Mentioned** (Price as of 07-Feb-2013)**CH Energy Group** (CHG.N, \$65.12)**Fortis Inc.** (FTS.TO, C\$34.24, OUTPERFORM, TP C\$38.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
08-Nov-10	33.60	32.00	N
10-Feb-11	33.81	34.00	
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	38%	(47% banking clients)
Underperform/Sell*	16%	(41% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$38.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.25% and an imputed 125 bps spread over a 2% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$38.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research

analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

---



References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en/>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INF010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2013 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (07 May 13, C\$)	34.97
Target price (C\$)	38.00 <sup>1</sup>
52-week price range	35.01 - 32.09
Market cap. (C\$ m)	6,730.88
Enterprise value (C\$ m)	13,574.50

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

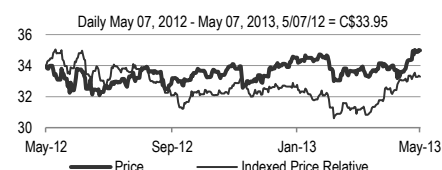
paul.tan@credit-suisse.com

### RESULTS

## Coming closer to CH closing (likely June)

- **Earnings review:** Fortis reported Q1 2013 headline EPS (FD) of C\$0.76 and an adjusted figure of C\$0.66 (C\$22m of extraordinary gain from the settlement on the expropriation of Exploits River Hydro Partnership). The adjusted figure missed our C\$0.68 estimate and was in line with the Street's C\$0.66 view (C\$0.63-C\$0.68 range). Against our numbers, the miss came from several items, including: a smaller contribution from FortisBC Energy and Newfoundland Power and a higher diluted share count. With the current regulatory process surrounding the CH Energy deal, we do not believe Fortis will be involved in major transactional activity until well after close (expected in June 2013). We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook of C\$1.3bn for 2013. In addition, Fortis' 5-year capex outlook continues to stand at around C\$6bn. In our view, there is meaningful transmission upside from CH over the longer term that may have greater clarity post-closing. Of the existing planned capex, 89% of the capital is expected to target regulated utility activities that should deliver favorable risk-adjusted returns.
- **Improving capital market conditions:** A large part of corporate growth has come from successfully acquiring and integrating assets. In our view, Fortis is well positioned in the current market for acquisition opportunities post completion of the CH Energy acquisition.
- **Valuation:** We obtain our C\$38 target price from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We lower our 2013 EPS to C\$1.82 from C\$1.84. We maintain our Outperform rating.

### Share price performance



On 05/07/13 the S&P/TSX COMPS INDEX closed at 12464.11

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.66	0.35	0.29	0.53
2014E	0.73	0.33	0.29	0.55

### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.82	1.90	1.92
Prev. EPS (C\$)	—	1.84	—	—
P/E (x)	21.3	19.2	18.4	18.2
P/E rel. (%)	152.0	145.1	157.8	170.6
Revenue (C\$ m)	3,654.0	3,946.8	4,400.6	4,533.7
EBITDA (C\$ m)	1,264.0	1,356.6	1,431.5	1,486.3
OCFPS (C\$)	4.73	3.97	3.97	4.08
P/OCF (x)	7.2	8.8	8.8	8.6
EV/EBITDA (current)	10.4	9.7	9.2	8.8
Net debt (C\$ m)	6,310	6,844	7,331	7,702
ROIC (%)	5.81	5.57	5.53	5.50
Number of shares (m)	192.48	IC (current, C\$ m)		11,720.00
BV/share (Next Qtr., C\$)	21.5	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,537.0	Dividend (current, C\$)		1.2
Net debt/tot cap (Next Qtr... %)	117.5	Dividend yield (%)		0.89

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research note is divided into three parts: (a) results; (b) outlook; and, (c) valuation. Each of these areas will be addressed in greater detail below.

## Results

Exhibit 1 highlights the segmented unadjusted earnings contributions for the most recent quarter and for the comparable period one year ago. Our commentary for each segment appears under the various headings below.

Results missed our estimate

### Exhibit 1: Segmented unadjusted earnings contribution

C\$ in millions, unless otherwise stated

	Q1 2013	Q1 2012	chg y/y
Regulated Gas Utilities - Canadian	85	82	4%
Regulated Electric Utilities - Canadian	57	51	12%
Regulated Electric Utilities - Caribbean	3	3	0%
Non-regulated - Fortis Generation	24	5	380%
Non-regulated - Fortis Properties	-	1	-100%
Corporate and other	(18)	(21)	14%
Net earnings applicable to common shares	151	121	25%

Source: Company data and Credit Suisse

### Regulated Gas Utilities – Canadian

The unadjusted earnings for this segment increased by roughly 4% year-over-year (see Exhibit 2). Some notable items for the regulated gas utilities include the following:

- Sales volumes for the quarter decreased by roughly 1.4% due to lower average consumption from residential and commercial because of warmer temperatures.
- Earnings increased by roughly 4% primarily due to rate base growth from continued investment in energy infrastructure.

### Exhibit 2: Regulated Gas Utilities (unadjusted)

	Q1 2013	Q1 2012	chg y/y
FortisBC Energy	85.0	82.0	4%

Source: Company data and Credit Suisse

### Regulated Electric Utilities – Canadian

This segment includes operating companies like FortisAlberta, FortisBC Electric, Newfoundland Power and Other Canadian Electric Utilities, which includes Maritime Electric and FortisOntario. Detailed contributions for each of these divisions can be found in Exhibit 3.

### Exhibit 3: Regulated electric utilities – Canadian contribution (unadjusted)

C\$ in millions, unless otherwise stated

	Q1 2013	Q1 2012	chg y/y
FortisAlberta	26	21	24%
FortisBC Electric	18	16	13%
Newfoundland Power	7	7	0%
Other Cdn Electric Utilities	6	7	-14%
Earnings	57	51	12%

Source: Company data and Credit Suisse

### FortisAlberta

Earnings at this regulated utility were up comparing Q1 2013 versus the prior period due to the distribution revenue requirements decisions received in April 2012 and rate base growth from continued investment in the asset. See Exhibit 4 for selected highlights.

**Exhibit 4: Selected FortisAlberta performance highlights (unadjusted)**

	Q1 2013	Q1 2012	chg y/y
Energy deliveries (GWh)	4,491	4,482	0%
Revenue (C\$/MWh)	26.27	24.10	9%
Operating expenses (C\$/MWh)	8.91	8.70	2%
Gross margin (C\$/MWh)	17.37	15.39	13%
Earnings (C\$millions)	26	21	24%

Source: Company data and Credit Suisse

Slight increase in energy delivery in Alberta

**FortisBC Electric**

Segmented earnings at FortisBC Electric increased compared to the same period last year due primarily to rate base growth, lower operating costs due to timing and lower-than-expected finance charges.

See Exhibit 5 for selected highlights.

**Exhibit 5: Selected FortisBC Electric performance highlights (unadjusted)**

	Q1 2013	Q1 2012	chg y/y
Energy deliveries (GWh)	891	909	-2%
Revenue (C\$/MWh)	98.77	95.71	3%
Energy supply costs (C\$/MWh)	28.06	27.50	2%
Operating expenses (C\$/MWh)	22.45	23.10	-3%
Gross margin (C\$/MWh)	48.26	45.10	7%
Earnings (C\$millions)	18	16	13%

Source: Company data and Credit Suisse

Decrease in energy deliveries in BC

**Newfoundland Power**

This segment's earnings were flat when comparing Q1 2013 versus Q1 2012. Higher electricity sales growth was offset by increased operating expenses and higher depreciation. Energy deliveries were up by approximately 1% (see Exhibit 6).

**Exhibit 6: Selected Newfoundland Power performance highlights (unadjusted)**

	Q1 2013	Q1 2012	chg y/y
Energy deliveries (GWh)	1,942	1,914	1%
Revenue (C\$/MWh)	101.44	100.31	1%
Energy supply costs (C\$/MWh)	74.67	74.19	1%
Operating expenses (C\$/MWh)	11.84	10.45	13%
Gross margin (C\$/MWh)	14.93	15.67	-5%
Earnings (C\$millions)	7	7	0%

Source: Company data, Credit Suisse estimates

Increase in NP's energy deliveries

**Other Canadian Electric Utilities**

This segment's earnings were lower when comparing Q1 2013 versus Q1 2012, primarily due to higher supply costs at Maritime Electric. The energy deliveries for the period were up compared to Q1 2012. Exhibit 7 contains selected highlights.

**Exhibit 7: Selected Other Canadian Electric Utilities performance highlights (unadjusted)**

	Q1 2013	Q1 2012	chg y/y
Energy deliveries (GWh)	671	645	4%
Revenue (C\$/MWh)	143.07	141.09	1%
Energy supply costs (C\$/MWh)	92.40	89.92	3%
Operating expenses (C\$/MWh)	19.37	18.60	4%
Gross margin (C\$/MWh)	31.30	32.56	-4%
Earnings (C\$millions)	6	7	-14%

Source: Company data and Credit Suisse

Increased energy deliveries

## Regulated Electric Utilities – Caribbean

This segment includes Belize Electricity (up to June 20, 2011), Caribbean Utilities, and Fortis Turks and Caicos. Earnings for this segment were flat in Q1 2013 versus the same quarter last year. Energy deliveries were higher. In our view, Belize Electricity was not overly material to Fortis. Additionally, we anticipate the dispute to be resolved in a rational manner with Fortis recovering, at least, the rate base value. Yet, any such recovery may be over a period of time. Notably, the company's MD&A contained a very useful account of the interaction with the Government of Belize and Fortis in relation to this utility asset.

Very useful account of the Belize situation in the MD&A

See Exhibit 8 below for selected highlights.

**Exhibit 8: Caribbean – Regulated Electric Utilities performance highlights (unadjusted)**

	Q1 2013	Q1 2012	chg y/y
Energy deliveries (GWh)	170	166	2%
Revenue (C\$/MWh)	388.24	379.52	2%
Energy supply costs (C\$/MWh)	241.18	240.96	0%
Operating expenses (C\$/MWh)	47.06	48.19	-2%
Gross margin (C\$/MWh)	100.00	90.36	11%
Earnings (C\$millions)	3	3	0%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Generation

The non-regulated generation assets within this segment are located in Belize, British Columbia, Central Newfoundland, Ontario and Upper New York State. Earnings for the segment were up 380% in Q1 2013 compared to the same quarter last year, primarily due to a C\$22m after-tax extraordinary gain from the settlement with the Government of Newfoundland and Labrador expropriation of Exploits River Hydro Partnership in December 2008. Energy deliveries decreased by 38% from Q1 2012 to Q1 2013 due to decreased production in Belize from lower rainfall. Exhibit 9 provides selected highlights.

**Exhibit 9: Non-regulated generation – selected highlights**

	Q1 2013	Q1 2012	chg y/y
Energy deliveries (GWh)	55	88	-38%
Revenue (C\$/MWh)	90.91	102.27	-11%
Operating expenses (C\$/MWh)	36.36	34.09	7%
Gross margin (C\$/MWh)	54.55	68.18	-20%
Earnings (C\$millions)	24	5	380%

Source: Company data and Credit Suisse

## Non-regulated – Fortis Properties

Fortis Properties' net unadjusted earning contribution was lower during the quarter. REVPAR decreased by 0.8% to C\$66.04 on a year-over-year comparison, while the occupancy rate of the Real Estate Division was down by 1.1%.

## Corporate

Net corporate expenses declined from C\$21m to C\$19m in Q1 2013, when compared with last quarter during the same period.

## Outlook

We continue to believe investors, whether existing or prospective, should consider several major issues, including (a) funding organic growth; and (b) acquisition trail. Each of these issues is addressed below.

## Funding organic growth

Ongoing organic growth



In the most recent quarter, the company's reported capital expenditures totaled C\$250m, of which C\$189m was spent at regulated utilities. Fortis guided that capital expenditures for 2013 will be roughly C\$1.3bn. A majority of the total will be spent on Western Canadian assets (FortisBC Energy, FortisAlberta, and FortisBC Electric). Fortis' consolidated gross capital expenditures expectations over the 5-year plan (2013-2017) stood at C\$6bn, with 89% of that total amount being allocated to regulated utilities. Both FortisAlberta and FortisBC Electric will receive the vast majority of that amount; whereas, the regulated gas utilities are planned to receive 20% of the total capex amount, 11% at Central Hudson; and 11% is allocated to non-regulated operations. Given the regulated rates of return with utility capital expenditures, the increases should be viewed as longer-term positives provided an appropriate financial balance is struck.

With the significant current relative valuation advantages, we believe that Fortis may become more motivated to explore possible capital efficiency initiatives. In our view, the company possesses ample opportunities to become much more capital efficient. One strategy involves divesting certain non-utility assets and redeploying capital into utility assets or funding the capital program. Another option would entail divesting partial interests in selected utility assets in an asset management model approach and receiving a management fee. We believe Fortis explored this management fee approach with a past M&A deal that was not successfully won. This structure could be used for larger packages of assets in a more capital efficient fashion potentially to accelerate growth further.

Opportunities for improved capital efficiency

Generally, we continue to prefer pure-play utility companies without an undue amount of non-core asset exposure. Historically, non-core assets (especially real estate) have been somewhat commonplace for many utilities. Fortis has been no exception to that approach. Notably, the mix of commercial and hospitality real estate assets held by Fortis has been a positive contributor and also provides the company a bit of financial flexibility for a variety of reasons. We note Fortis Properties continues to increase in scale and scope, which may eventually make it more attractive for acquisition or monetization. Yet, for a number of reasons, we continue to believe there is a rather low probability of either of those events occurring.

Even discounting the potential monetization of assets that we would consider to be non-core, we believe Fortis possesses considerable potential to become much more capital efficient. Given the significant interest in infrastructure assets by many investors seeking long-dated types of return, Fortis could easily divest portions of its existing asset base to pension fund investors and charge a management fee for their operational and management expertise. This type of approach could significantly improve capital efficiency and returns on capital. In addition, this asset management approach could also free-up capital that could be used to fund the existing capital program or fund future acquisitions.

Capital efficiency initiatives could aid funding of acquisitions or the existing capital program funding

### Acquisition trail

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. We view acquisitions as central to the company's growth strategy. Fortis is currently working towards to complete the acquisition of CH Energy Group (see "*Acquiring American assets*" on 21 February 2012) around June 2013. Several smaller scale acquisitions were also completed in the quarter, but we expect Fortis management to continue to look to further grow in the US utility sector. That acquisition-based strategy will come with a significant amount of discipline, as exhibited on past deals. The company's most recent Management Discussion and Analysis stated "The Corporation also remains disciplined and patient in its pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for its shareholders. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy."

Given Fortis' success in past transactions, as measured in terms of financials, share price and operationally, we believe the company's current valuation and skill set may lead to

some potentially value-creating acquisition activity (see Exhibit 10 below for a selection of Fortis' M&A transactions).

#### Exhibit 10: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
10/1/2012	StationPark All Suite Hotel	CAD 13.00	Acquire 126-room hotel in London, Ontario
9/13/2012	Electric utility assets from City of Kelowna	CAD 55.00	Pending purchase electric utility assets that serve 15,000 customers expect close Q1'13
8/31/2012	Turks and Caicos Utilities Limited	CAD 13.00	Purchased regulated electric utility with a 50-year licence expiring in 2036
4/1/2012	Distribution asset of the City of Port Colborne	CAD 7.00	Purchased electricity distribution assets in Port Colborne
2/21/2012	CH Energy Group	USD 1,500.00	Pending acquisition of NY State electric utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 1,565.50	
	Total CAD	CAD 6,234.48	

Source: Bloomberg, Company data, Credit Suisse

In terms of acquisitions, we believe Fortis has a few advantages over others, including the following:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a larger spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield-oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets.

## Valuation

We continue to believe that Fortis has strong organic growth in key areas such as British Columbia, Alberta and the Caribbean. After the quarter, we revised our EPS estimates to C\$1.82 from the previous C\$1.84 for 2013. Our Outperform rating and C\$38.00 target

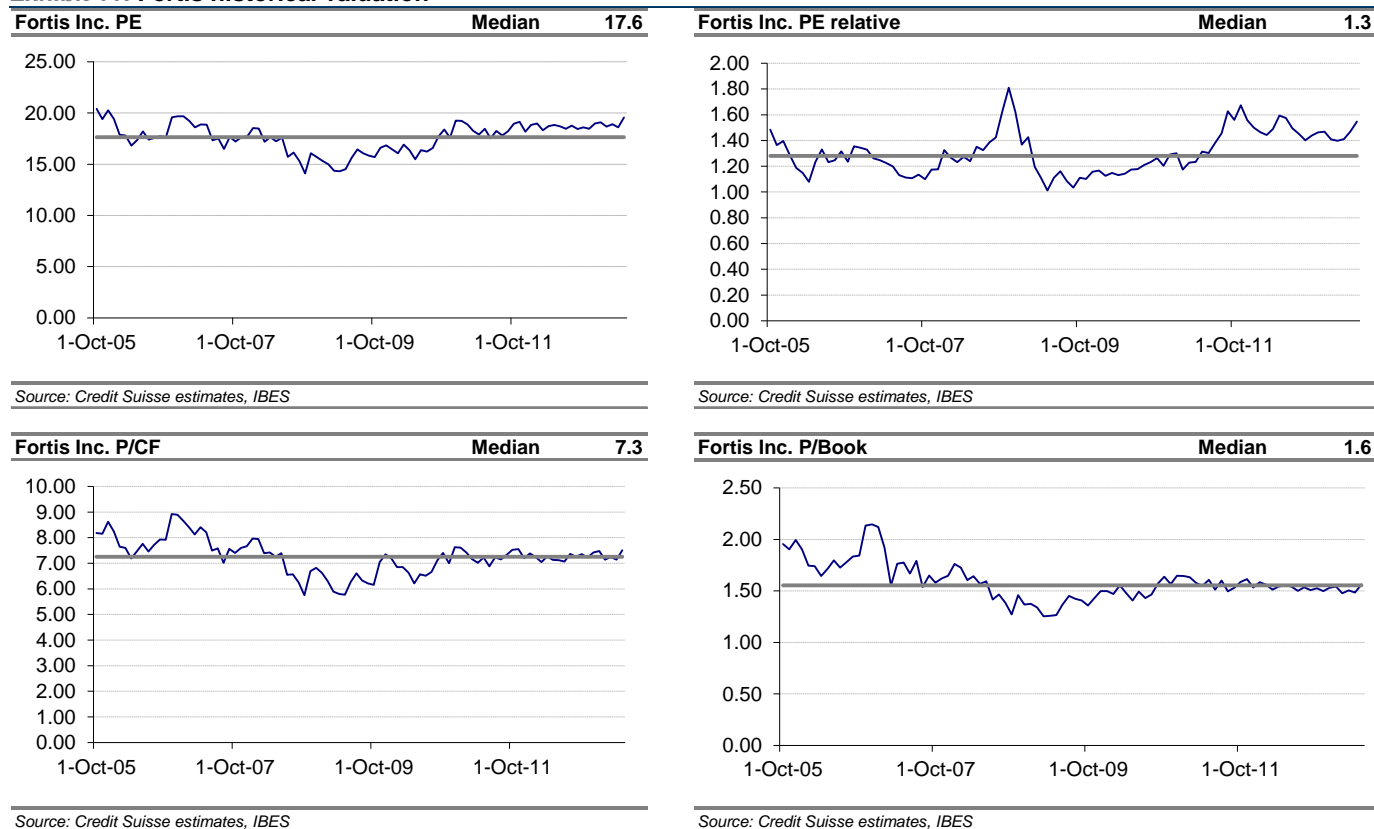
Rating: Outperform

Target: C\$38



price are obtained from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We reiterate our Outperform rating. Some historical Fortis valuation parameters appear in Exhibit 11 below generated by Credit Suisse RAVE.

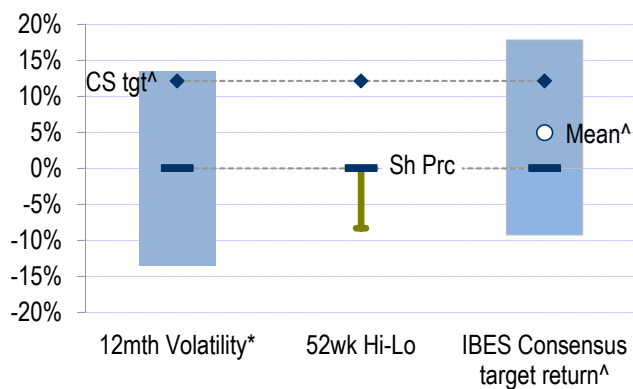
**Exhibit 11: Fortis historical valuation**



Source: Credit Suisse RAVE

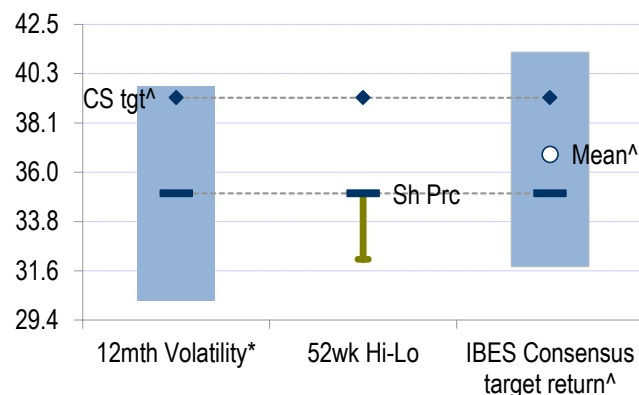
Exhibit 12 and Exhibit 13 put our rating into context versus the Street.

**Exhibit 12: Total return forecast in perspective**



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

**Exhibit 13: Total return forecast in perspective**



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

The author of this report wishes to acknowledge the contribution made by Kapil Chauhan, an employee of Evalueserve, a third-party provider of offshore research services to Credit Suisse.



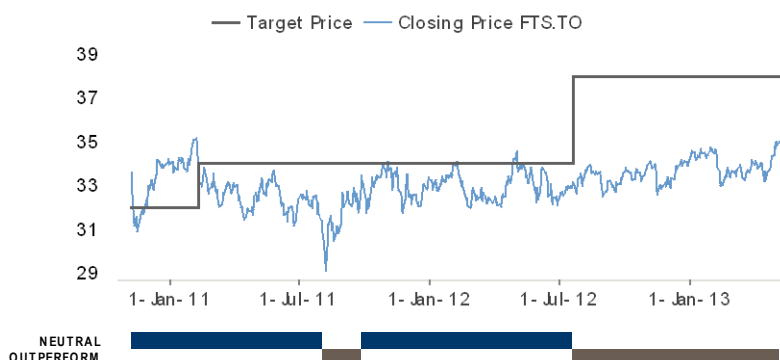
**Companies Mentioned** (Price as of 07-May-2013)**CH Energy Group** (CHG.N, \$64.27)**Fortis Inc.** (FTS.TO, C\$34.97, OUTPERFORM, TP C\$38.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
08-Nov-10	33.60	32.00	N
10-Feb-11	33.81	34.00	
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	39%	(47% banking clients)
Underperform/Sell*	15%	(39% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$38.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.25% and an imputed 125 bps spread over a 2% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$38.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en/>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahman Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangrak, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2013 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

# Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (01 Aug 13, C\$)	32.01
Target price (C\$)	38.00 <sup>1</sup>
52-week price range	35.01 - 31.18
Market cap. (C\$ m)	6,777.06
Enterprise value (C\$ m)	13,620.68

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

### Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

### Paul Tan

416 352 4593

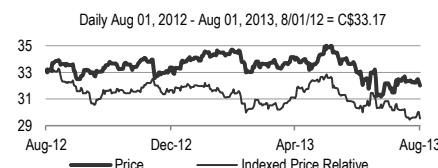
paul.tan@credit-suisse.com

## RESULTS

## Another American acquisition (eventually)

- **Earnings review:** Fortis reported Q2 2013 headline EPS (FD) of C\$0.28 and an adjusted figure of C\$0.32 (excluding acquisition-related costs and tax impacts). The adjusted figure missed our C\$0.35 estimate and inline with the Street's C\$0.32 view (C\$0.29-C\$0.35 range). Against our numbers, the miss came from several items, including: a smaller contribution from FortisBC Energy and Other Canadian Electric and a higher diluted share count. With the closing of the CH Energy deal and the large organic capex program, we do not believe Fortis will be involved in major transactional activity in the near future. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook of C\$1.3bn for 2013. In addition, Fortis' 5-year capex outlook continues to stand at around C\$6bn. In our view, there is meaningful transmission upside from CH over the longer-term that may have greater clarity in the quarters ahead. Of the existing planned capex, 90% of the capital is expected to target regulated utility activities that should deliver favourable risk-adjusted returns.
- **Building book value:** A large part of FTS corporate growth has come from successfully acquiring and integrating assets. Notably, the FTS track record over time is one of significant book value creation – something that we view as necessary for longer-term share price appreciation. With a large capital program, we believe FTS is poised to continue BVPS growth in the future.
- **Valuation:** We obtain our C\$38 target price from multiple valuation methods, but primarily rely upon a targeted dividend yield of 3.25%. We maintain our Outperform rating.

## Share price performance



On 08/01/13 the TSX-Toronto Stock Exchange 300 Comp closed at 12588.63

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.66	0.35	0.29	0.53
2014E	0.73	0.33	0.29	0.55

## Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.82	1.90	1.92
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.5	17.6	16.9	16.7
P/E rel. (%)	133.1	120.3	130.0	142.1
Revenue (C\$ m)	3,654.0	3,946.8	4,400.6	4,533.7
EBITDA (C\$ m)	1,264.0	1,356.6	1,431.5	1,486.3
OCFPS (C\$)	4.73	3.97	3.97	4.08
P/OCF (x)	7.2	8.1	8.1	7.8
EV/EBITDA (current)	10.4	9.7	9.2	8.8
Net debt (C\$ m)	6,310	6,844	7,331	7,702
ROIC (%)	5.81	5.57	5.53	5.50
Number of shares (m)	211.72	IC (current, C\$ m)		11,720.00
BV/share (Next Qtr., C\$)	21.5	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	6,537.0	Dividend (current, C\$)		1.2
Net debt/tot cap (Next Qtr... %)	117.5	Dividend yield (%)		0.97

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



Our commentary below was originally published in the July 22<sup>nd</sup> note entitled "[Considering: Building book value; Convexity and cyclical concerns; and, quarterly results](#)". From a FTS perspective, some of the key extracts are highlighted below.

We believe that book value per share is a useful metric for evaluating the efficiency and the productivity of capital allocation over time. FTS stands out among the utility companies for delivering very consistent BVPS growth.

Book value as a measure of capital allocation efficiency and productivity

As a caveat, we obtained all of the book value per share data from Bloomberg for these companies. That data is internally consistent in approach, however, we note some quality errors look to exist in selected numbers. Compounding the potential data issues is simple reality that accounting policies and corporate reorganizations can meaningfully impact the book value numbers. More specifically, the two pronounced issues relate to the conversion of income funds to corporate structures and changes from Canadian GAAP to either IFRS or to US GAAP. Generally, these issues make the data useful and internally consistent for comparisons. Yet, there are certain challenges naturally embedded within the numbers.

Some data and accounting distortions with book value

For the utility companies in our sample set, we provide the BVPS figures from 2000-2012 in Exhibit 1.

**Exhibit 1: Utilities - book value per share (C\$)**

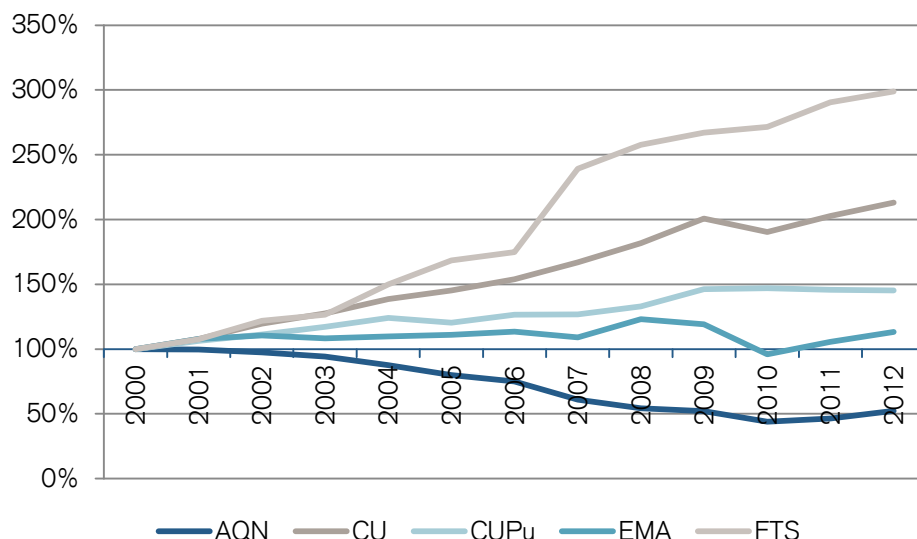
Utilities	Ticker	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Algonquin Power & Utilities Corp.	AQN	8.13	8.09	7.92	7.66	7.11	6.50	6.10	4.94	4.41	4.23	3.56	3.78	4.24
Canadian Utilities	CU	6.03	6.49	7.22	7.69	8.35	8.76	9.27	10.06	10.95	12.10	11.47	12.22	12.85
Caribbean Utilities Co.*	CUPu	4.16	4.41	4.62	4.87	5.16	5.00	5.26	5.26	5.52	6.08	6.11	6.05	6.04
Emera Inc.	EMA	11.19	12.06	12.36	12.12	12.28	12.41	12.69	12.20	13.78	13.33	10.73	11.83	12.66
Fortis Inc.	FTS	6.97	7.49	8.50	8.82	10.45	11.74	12.19	16.69	17.97	18.62	18.92	20.25	20.84

Source: Bloomberg

Based on the Bloomberg data, we indexed the BVPS figures in 2000 to provide a visual for the relatively growth of this metric. Exhibit 2 provides an indexed view of the BVPS data from 2000.

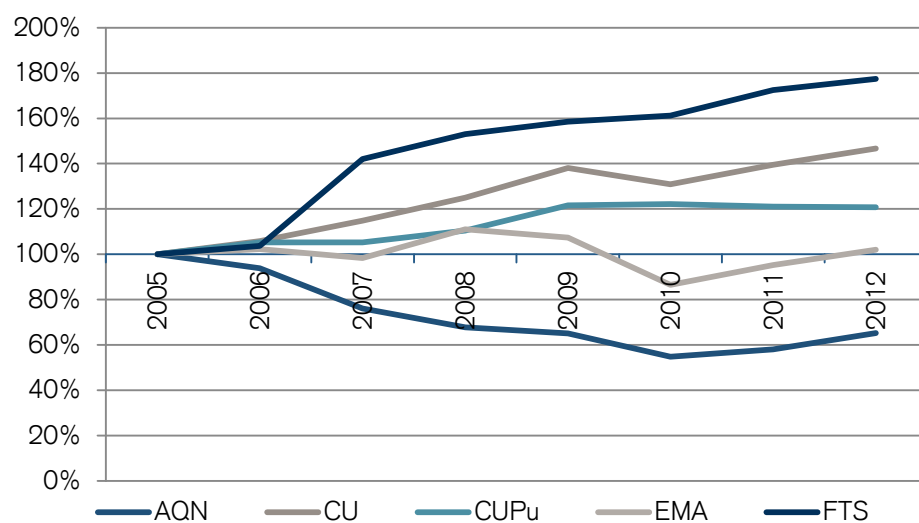
**Exhibit 2: Utilities BVPS growth**

Index starting in 2000



Source: Bloomberg and Credit Suisse

For additional perspective over a shorter time frame, we generated similar chart in Exhibit 3 with an index point of the beginning in 2005.

**Exhibit 3: Utilities BVPS growth***Index starting in 2005**Source: Bloomberg and Credit Suisse*

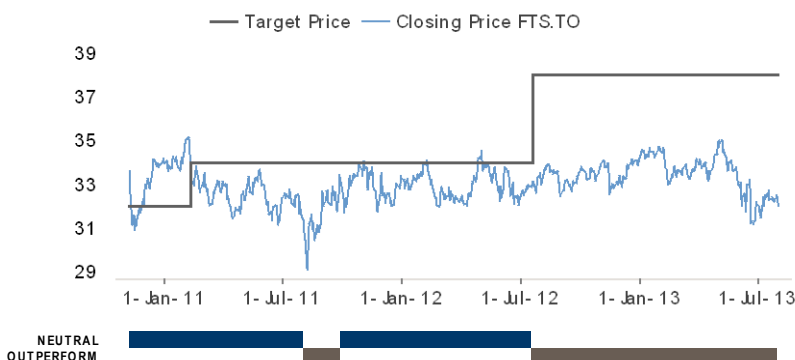
**Companies Mentioned** (Price as of 01-Aug-2013)**Algonquin Pwr** (AQN.TO, C\$6.92)**Canadian Utilities Limited** (CU.TO, C\$37.28)**Emera Inc.** (EMA.TO, C\$32.41)**Fortis Inc.** (FTS.TO, C\$32.01, OUTPERFORM, TP C\$38.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
08-Nov-10	33.60	32.00	N
10-Feb-11	33.81	34.00	
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	40%	(49% banking clients)
Underperform/Sell*	15%	(39% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$38.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.25% and an imputed 125 bps spread over a 2% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$38.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahman Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines ) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA and regulated by the FCA and the PRA or in respect of which the protections of the PRA and FCA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2013 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.



## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (31 Oct 13, C\$)	32.43
Target price (C\$)	36.00 <sup>1</sup>
52-week price range	35.01 - 29.99
Market cap. (C\$ m)	6,888.72
Enterprise value (C\$ m)	14,659.97

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

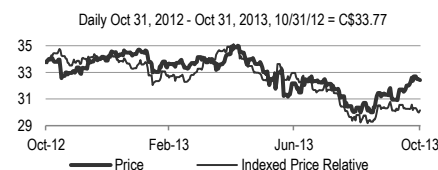
paul.tan@credit-suisse.com

### RESULTS

## At a glance: A matter of timing; long-term capital allocation continues to be robust

- **Earnings review:** Fortis reported Q3 2013 headline EPS (FD) of C\$0.23 that missed our C\$0.30 estimate and the Street's C\$0.26 view (C\$0.22-C\$0.29 range). Against our numbers, the miss came from several items, including: certain seasonality impacts, a smaller contribution from FortisBC Energy, Central Hudson, FortisAlberta along with a higher diluted share count. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets. In our view, potential exists for meaningful transactional activity – especially in Alberta transmission with funding help from longer-term institutional partners.
- **Significant organic growth continues:** Fortis continues to provide a rather robust capital expenditure outlook of C\$1.2bn for 2013. In addition, Fortis' 5-year capex outlook continues to stand at around C\$6bn. In our view, there is meaningful transmission upside from CH over the longer-term that may have greater clarity in the quarters ahead. Of the existing planned capex, 89% of the capital is expected to target regulated utility activities that should deliver favourable risk adjusted returns.
- **Building book value:** A large part of FTS corporate growth has come from successfully acquiring and integrating assets. Notably, the FTS track record over time is one of significant book value creation – something that we view as necessary for longer-term share price appreciation. With a large capital program, we believe FTS is poised to continue BVPS growth in the future.
- **Valuation:** Our target price of C\$36.00 is on an implied yield of 3.56% and a yield spread of roughly 81 bps on a 2.75% Canadian 10-year. We maintain our Outperform rating.

### Share price performance



On 10/31/13 the TSX-Toronto Stock Exchange 300 Comp closed at 13361.26

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.66	0.28	0.30	0.52
2014E	0.70	0.34	0.30	0.53

### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.76	1.88	1.92
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.7	18.4	17.2	16.9
P/E rel. (%)	130.5	119.9	125.7	136.5
Revenue (C\$ m)	3,654.0	3,998.0	4,707.1	4,859.7
EBITDA (C\$ m)	1,264.0	1,413.7	1,567.2	1,630.1
OCFPS (C\$)	4.73	4.59	4.11	4.24
P/OCF (x)	7.2	7.1	7.9	7.6
EV/EBITDA (current)	11.3	10.1	9.1	8.8
Net debt (C\$ m)	6,310	7,771	8,291	8,689
ROIC (%)	5.81	5.78	5.45	5.44
Number of shares (m)	212.42	IC (current, C\$ m)		11,720.00
BV/share (Next Qtr., C\$)	24.3	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	7,630.3	Dividend (current, C\$)		1.2
Net debt/tot cap (Next Qtr., %)	123.7	Dividend yield (%)		0.96

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



**Companies Mentioned** (Price as of 31-Oct-2013)

Fortis Inc. (FTS.TO, C\$32.43, OUTPERFORM, TP C\$36.0)

## Disclosure Appendix

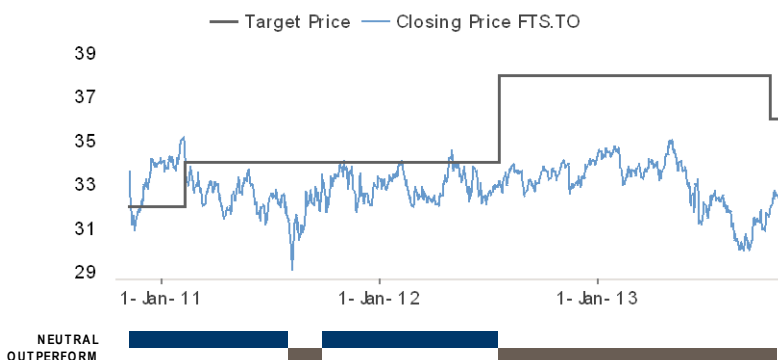
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
08-Nov-10	33.60	32.00	N
10-Feb-11	33.81	34.00	
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(55% banking clients)
Neutral/Hold*	41%	(49% banking clients)
Underperform/Sell*	15%	(40% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$36.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.56% and an imputed 81 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$36.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahim Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA and regulated by the FCA and the PRA or in respect of which the protections of the PRA and FCA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2013 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (11 Dec 13, C\$)	31.19
Target price (C\$)	36.00 <sup>1</sup>
52-week price range	35.01 - 29.99
Market cap. (C\$ m)	6,625.76
Enterprise value (C\$ m)	13,855.75

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

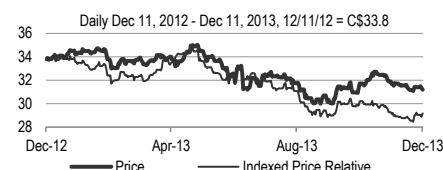
paul.tan@credit-suisse.com

### M&A PROPOSAL

## Raising Arizona! FTS for UNS with converts; potential regulatory issues on the horizon

- **American asset acquisition:** Fortis Inc. (FTS) announced an agreement to acquire UNS Energy Corp. (UNS) for US\$60.25/sh with a total US\$4.3bn EV. That price presents a 31.5% premium to the UNS close. To help finance the deal, Fortis issued roughly C\$1.8bn of convertible debentures with a strike of C\$30.72/sh (a 1.5% discount to the close). FTS expects the deal to be "accretive to earnings per common share...in the first full year, excluding one-time Acquisition-related costs." With potential Arizona regulatory issues along with the deal's economics, our preliminary view of the transaction is somewhat muted versus past FTS deals.
- **Deal details:** Selected details include: (a) FTS expects deal closing by the end of 2014; (b) several approvals are required (UNS shareholders, Arizona Corporation Commission, HSR, FERC, CFIUS along with others); (c) the convertible debenture installments is creative; (d) on Street 2015 numbers, UNS trades at roughly 18x P/E versus FTS at 16.9x; and, (e) this deal comes less than six months after completing CH Energy.
- **Investment thesis:** Over the last decade, FTS made outsized deals that were transformative, but we do not necessarily view UNS in that category. Yet, FTS has a positive track record with such deals over a period of time.
- **Valuation:** At this time, our numbers remain unchanged for the UNS deal. Our target price of C\$36.00 is on an implied yield of 3.56% and a yield spread of roughly 81 bps on a 2.75% Canadian 10-year. We maintain our Outperform rating.

### Share price performance



On 12/11/13 the TSX-Toronto Stock Exchange 300 Comp closed at 13133.42

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.66	0.28	0.23	0.52
2014E	0.68	0.33	0.29	0.52

### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.68	1.82	1.89
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.0	18.6	17.2	16.5
P/E rel. (%)	121.8	115.9	120.8	127.9
Revenue (C\$ m)	3,654.0	4,129.6	4,707.1	4,859.7
EBITDA (C\$ m)	1,264.0	1,398.7	1,567.2	1,630.1
OCFPS (C\$)	4.73	4.14	4.05	4.22
P/OCF (x)	7.2	7.5	7.7	7.4
EV/EBITDA (current)	10.8	9.8	8.7	8.4
Net debt (C\$ m)	6,310	7,230	7,787	8,216
ROIC (%)	5.81	5.89	5.63	5.61
Number of shares (m)	212.43	IC (current, C\$ m)		11,720.00
BV/share (Next Qtr., C\$)	22.3	EV/IC (x)		1.0
Net debt (Next Qtr., C\$ m)	7,230.0	Dividend (current, C\$)		1.2
Net debt/tot cap (Next Qtr., %)	114.5	Dividend yield (%)		0.99

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

We will more thoroughly review the transaction economics in a future note. Yet, Exhibit 1 and Exhibit 2 provide a basic analysis of the accretion on an illustrative basis for the transaction assuming the full dilution of the convertibles and no dilution for the convertibles.

**Exhibit 1: Accretion analysis (full dilution of convertibles)**
*in millions, unless otherwise stated*

FY 2015	CS	Consensus
Net income		
FTS	403	410
UNS	142	147
Subtotal	545	557
Tax impacted incremental Interest	19	19
Total combined	526	538
Combined share count (FD)	271	271
Combined EPS (FD)	1.94	1.98
Stand alone FTS EPS	1.89	1.90
Accretion/(Dilution)	2.6%	4.4%

Source: Company data, Credit Suisse estimates and FactSet

**Exhibit 2: Accretion analysis (no dilution of convertibles)**
*in millions, unless otherwise stated*

FY 2015	CS	Consensus
Net income		
FTS	403	410
UNS	142	147
Subtotal	545	557
Tax impacted incremental Interest	68	68
Total combined	477	489
Combined share count (FD)	213	213
Combined EPS (FD)	2.24	2.30
Stand alone FTS EPS	1.89	1.90
Accretion/(Dilution)	18.7%	21.0%

Source: Company data, Credit Suisse estimates and FactSet

Given the FTS language of expecting the deal to be "accretive to earnings per common share...in the first full year, excluding one-time Acquisition-related costs," the illustrative assumptions in Exhibit 1 and Exhibit 2 may be slightly aggressive.

There are clear merits to the Arizona exposure and the UNS, however, we have a degree of concern regarding some potential regulatory issues in that state. Our regulatory views combined with a trend of somewhat lackluster stock performance after major deals creates a concern for near-term stock market performance. Exhibit 3 highlights FTS common stock performance after the major deals in the last decade from announcement to completion and for one-year after completion.

**Exhibit 3: Post-deal announcement performance**
*in billions, unless otherwise stated*

Target	Size (bn)	Announced Date	Completed Date	Stock Performance	
				Announcement to Completion	Completion + 1 Year
CH Energy Group, Inc.	US\$1.5	2/21/2012	6/27/2013	-2.0%	-1.7%
Terasen Inc.	C\$3.7	2/26/2007	5/17/2007	3.7%	-3.7%
Aquila Networks Canada	C\$1.5	9/15/2003	5/31/2004	1.5%	25.4%

Source: Company data, Credit Suisse estimates; Note: CH Energy deal performance is since completion

Clearly, for a variety of reasons, Aquila was a transformative transaction and faced a very favourable stock market reaction. Our preliminary view of the UNS deal is more muted in light of the economics and some potential regulatory issues. We will fine tune our views in a more formal fashion in due course. Finally, with this announcement, we believe FTS would be an unlikely bidder for part or all of AltaLink ([see our previous note](#)).



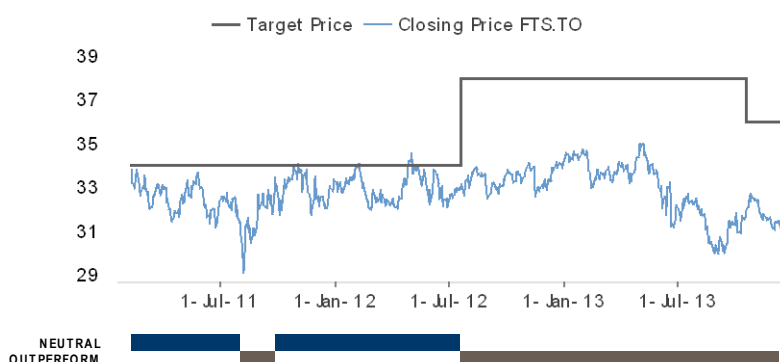
**Companies Mentioned** (Price as of 11-Dec-2013)**Fortis Inc.** (FTS.TO, C\$31.19, OUTPERFORM, TP C\$36.0)**Unisource Energy Corp** (UNS.N, \$45.84)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

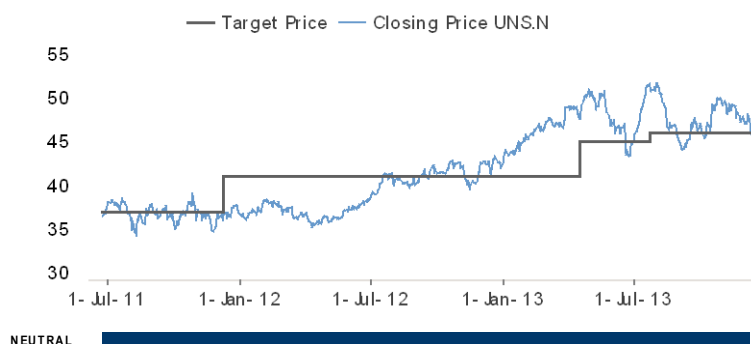
FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
10-Feb-11	33.81	34.00	N
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	

\* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Unisource Energy Corp (UNS.N)**

UNS.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
24-Jun-11	36.52	37.00	N
09-Dec-11	36.64	41.00	
17-Apr-13	47.60	45.00	
23-Jul-13	51.63	46.00	

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.



**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(54% banking clients)
Neutral/Hold*	40%	(50% banking clients)
Underperform/Sell*	15%	(42% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$36.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.56% and an imputed 81 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$36.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

The subject company (FTS.TO, UNS.N) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO, UNS.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO, UNS.N) within the past 12 months

As of the date of this report, Credit Suisse makes a market in the following subject companies (UNS.N).

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (UNS.N) within the past 12 months

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

Credit Suisse has acted as lead manager or syndicate member in a public offering of securities for the subject company (UNS.N) within the past 3 years.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahman Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines ) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA and regulated by the FCA and the PRA or in respect of which the protections of the PRA and FCA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2013 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

### DOWNGRADE RATING

Rating	(from Outperform) <b>NEUTRAL*</b>
Price (27 Jan 14, C\$)	30.20
Target price (C\$)	(from 36.00) 32.00 <sup>1</sup>
52-week price range	35.01 - 29.76
Market cap. (C\$ m)	6,437.57
Enterprise value (C\$ m)	13,667.56

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

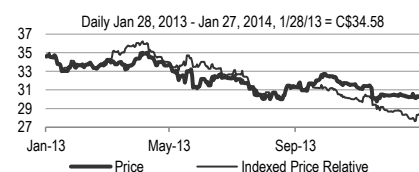
416 352 4593

paul.tan@credit-suisse.com

## Downgrade to Neutral: favourable core growth outweighed by acquisition overhang

- **Reduced rating and target price:** With greater reflection on the Fortis Inc. (FTS) deal for UNS Energy Corp. (UNS), we downgrade the stock to Neutral from the prior Outperform and reduce our target price from C\$36 to C\$32. At this juncture, several factors support our reductions, including: (a) the near-term impact of acquisition related financing; (b) the type of financing; (c) the regulatory risks related to the UNS deal; and, (d) a future view of potential deal economics. We continue to view FTS as a savvy utility investor with a longer-term view that matches well with longer-term equity holders, but the financing volatility can be problematic for shorter-term investors.
- **On the horizon:** Industry participants understand the many challenges and the uniqueness of utility M&A compared to many other industries. The critical nature of utility assets often translates into greater regulatory scrutiny. From our view, that reality along with size of outright deals starts to position FTS in an almost perpetual state of acquisition overhang. Given the likely volatility of financing M&A activities and the normal course equity issues for balance sheet "tweaking," stock performance may be more associated with tactical positioning rather than the fundamentals.
- **Valuation:** Our EPS estimates change to C\$1.66, C\$1.57 and C\$1.95 from C\$1.68, C\$1.82 and C\$1.89 for 2013, 2014 and 2015 respectively. We downgrade our rating from Outperform to Neutral and lower our target price to C\$32 from C\$36. The revised target is obtained from multiple valuation methods, including: a targeted dividend yield of 4.13% (138bps spread on a forecast 2.75% Canadian 10-year) and a 16.4x P/E multiple on 2015 EPS.

#### Share price performance



On 01/27/14 the TSX-Toronto Stock Exchange 300 Compo closed at 13574.13

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.66	0.28	0.23	0.50
2014E	0.62	0.27	0.23	0.46

#### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.66	1.57	1.95
Prev. EPS (C\$)	—	1.68	1.82	1.89
P/E (x)	18.4	18.2	19.3	15.5
P/E rel. (%)	119.1	113.7	135.0	120.6
Revenue (C\$ m)	3,654.0	4,129.6	4,707.1	5,809.5
EBITDA (C\$ m)	1,264.0	1,398.7	1,567.2	1,945.5
OCFPS (C\$)	4.73	4.14	3.80	3.79
P/OCF (x)	7.2	7.3	7.9	8.0
EV/EBITDA (current)	10.7	9.7	8.6	6.9
Net debt (C\$ m)	6,310	7,230	10,340	10,714
ROIC (%)	5.81	5.89	4.32	5.75
Number of shares (m)	213.16	IC (current, C\$ m)		11,720.00
BV/share (12/12A, C\$)	21.0	EV/IC (x)		1.0
Net debt (12/12A, C\$ m)	6,310.0	Dividend (current, C\$)		1.2
Net debt/tot cap (current, %)	—	Dividend yield (%)		4.0

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This research report is divided into three parts:

- Acquisition acumen;
- Revised financials; and,
- Valuation.

Each of these areas will be addressed in greater detail below.

## Acquisition acumen

In our view, Fortis continues to demonstrate a rather impressive ability to successfully integrate acquisitions. We view acquisitions as central to the company's growth strategy. In light of some specific dynamics in the Canadian utility market, we believe FTS will be increasingly focused on the US utility market. Despite this ability, track record and south of the 49<sup>th</sup> parallel focus, we viewed the UNS deal as surprising on multiple fronts, including:

- The CH Energy Group deal closed only on June 27, 2013.
- The UNS deal increases the FTS asset base by roughly one-third.
- UNS deal related funding was the largest amount in FTS in history.
- Clearly, synergies are somewhat rare in the utility industry given the standalone nature of the business. Yet, network benefits can often exist with roughly contiguous assets and, therefore, the Desert Southwest geography was at odds with some expectations.
- In light of the size of the deal, the funding was done with convertible debentures – an uncommon instrument in the Canadian infrastructure/utility landscape.

From our perspective, FTS truly takes a longer-term view towards utility M&A and, after the UNS deal closes, we expect an ongoing focus on US utility assets. In the most recent Management Discussion and Analysis (prior to the UNS deal announcement), the company stated "Fortis remains disciplined and patient in its pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy."

In the UNS acquisition press release, Fortis provided a consistent view, in part, stating:

"The Acquisition of UNS Energy is consistent with our strategy of investing in high-quality regulated Canadian and U.S. utility assets and is expected to be accretive to earnings per common share in the first full year after closing, excluding one-time Acquisition-related costs. The Acquisition further mitigates business risk for Fortis by enhancing the geographic diversification of our businesses, resulting in no more than one-third of total assets being located in any one regulatory jurisdiction."

"The Fortis approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to utility management experience and expertise of Fortis. The senior management team of UNS Energy, which Fortis expects to retain, will add valuable operational expertise in electric generation, transmission and distribution and natural gas distribution to the existing expertise of Fortis in such areas. This approach allows local managers to continue to build relationships with, and be responsive to, both their customers and regulators while availing of the resources of a large utility

A southward looking focus

UNS deal done with a relatively uncommon financing structure

Acquisitions a mainstay of the FTS strategy



group. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation."

From our perspective, the UNS deal is very similar to other FTS acquisitions – except for the size of the transaction. As partly illustrated in Exhibit 1, FTS has a long history of M&A transactions.

UNS deal follows the typical FTS template

### Exhibit 1: Selected Fortis M&A transactions

\$ in millions, unless otherwise stated

Announced Date	Asset/Company	Deal value (\$m)	Comment
12/12/2013	UNS Energy Corp.	USD 4,300.00	Pending acquisition of AZ State electric and gas utility
10/1/2012	StationPark All Suite Hotel	CAD 13.00	Acquire 126-room hotel in London, Ontario
9/13/2012	Electric utility assets from City of Kelowna	CAD 55.00	Purchased electric utility assets that serve 15,000 customers expect close Q1'13
8/31/2012	Turks and Caicos Utilities Limited	CAD 13.00	Purchased regulated electric utility with a 50-year licence expiring in 2036
4/1/2012	Distribution asset of the City of Port Colborne	CAD 7.00	Purchased electricity distribution assets in Port Colborne
2/21/2012	CH Energy Group	USD 1,500.00	Acquired NY State electric and gas utility
7/22/2009	Caribbean Utilities Co.	CAD 6.74	Acquired an additional 2.7% of Caribbean Utilities Co.
6/23/2009	Great Lakes Power Distribution	CAD 68.00	Acquired from Brookfield the utility that serves the District of Algoma in northern Ontario.
10/1/2008	Grimsby Power Inc.	CAD 1.10	Acquired a 10% minority interest.
10/1/2008	Caribbean Utilities Co.	CAD 3.00	Acquired an additional 1% of Caribbean Utilities Co.
8/15/2008	Caribbean Utilities Co.	CAD 25.00	Acquired an additional 2% of Caribbean Utilities Co.
7/23/2007	Delta Regina	CAD 49.95	Delta hotel located in Regina, Saskatchewan.
2/26/2007	Terasen Inc.	CAD 3,700.00	Gas distribution in British Columbia.
11/7/2006	Caribbean Utilities Co.	CAD 55.70	Acquired an additional 16% of Caribbean Utilities Co.
10/19/2006	4 hotels in western Canada	CAD 51.60	4 hotels (Holiday Inn, Best Western and Ramada) located in BC and Alberta.
8/28/2006	PPC Ltd & Atlantic Equipment & Power (Turks & Caicos) Ltd.	CAD 97.70	Electric utility that services ~80% of the Turks and Caicos Islands.
1/25/2005	3 hotels in western Canada	CAD 62.60	3 hotels in Western Canada from Greenwood Inns (Calgary, Edmonton and Winnipeg).
12/15/2004	Princeton Light & Power	CAD 3.70	PLP is an electric utility that services Princeton, BC.
5/21/2004	Belize Electric Company Ltd.	USD 3.50	Acquired the remaining 5% interest of the company.
9/17/2003	4 hotels in Ontario	CAD 43.20	4 hotels located in Ontario (Cambridge, Kitchener, Sarnia and Peterborough).
9/15/2003	Alberta Utility & British Columbia Utility (from Aquila)	CAD 1,500.00	BC and Alberta units of Aquila Inc.
2/26/2003	Granite Power Corp	CAD 8.80	Company consist of Granite Power Distribution & Granite Power Generation.
1/30/2003	Caribbean Utilities Co.	CAD 71.00	Acquired additional 3,863,695 Class A Ordinary Shares, representing approximately 15.9 per cent of the outstanding shares of the company and increased Fortis' holding to roughly 38%.
12/1/2002	Delta St John's Hotel and conference centre	CAD 25.90	Hotel in downtown St. John's, Newfoundland
5/9/2002	Cornwall Street Railway Light	CAD 67.70	City of Cornwall electric transmission & distribution utility.
4/16/2002	Kings Place	CAD 27.70	Commercial property in Fredericton, NB.
3/13/2002	Caribbean Utilities Co.	CAD 12.90	Acquired additional ~2% of the company.
3/20/2002	Niagara Power Co.	CAD 49.00	Purchase remaining 50% of Niagara Power Co.
2/1/2002	Cabot palace I	CAD 14.30	133,327 Square feet premium office tower in St. John's, Newfoundland
9/18/2001	Portfolio of properties in St. John's	CAD 8.30	Purchased TD Place commercial bldg and 6 parcels of land.
9/14/2001	Aliant Poles	CAD 46.00	Purchased 102,000 poles and related infrastructure from Aliant Telecom.
1/26/2001	Belize Electric Company Ltd.	USD 62.00	Acquired 95% of company from Duke Energy.
12/19/2000	2 Hydro generating stations	CAD 6.90	2 generating stations (6.88MW) in upper New York state.
12/14/2000	Brunswick Square Ltd.	CAD 6.20	Acquired 50% of the company Fortis doesn't own.
12/1/2000	Fort William Building and Blue cross centre	CAD 52.70	Fort William building in St. John's, Newfoundland and Blue cross centre in Moncton, New Brunswick.
2/23/2000	Caribbean Utilities Co.	CAD 79.90	Acquired 20% of the company.
12/30/1999	2 Hydro generating stations	CAD 19.77	2 generating stations (16MW) in upper New York state (Moose River & Philadelphia)
10/28/1999	Belize Electricity Ltd.	CAD 36.80	Acquired 67% interest in the main commercial generator, transmitter & distributor of electricity in Belize.
8/31/1999	Brunswick Square Ltd.	CAD 10.12	Acquired 50% of the company by Fortis Properties.
1/31/1999	Mount Peyton	CAD 2.20	Acquired all common shares and notes payable.
	Total USD	USD 5,865.50	
	Total CAD	CAD 6,302.48	

Source: Bloomberg, Company data and Credit Suisse

In terms of acquisitions, we believe Fortis often possesses a few advantages over others, including:

- Fortis has growing expertise with both electric and gas utilities;
- Larger size will allow it to look at a broader spectrum of potential target companies;
- A proven ability to effectively integrate acquisitions;
- A rather strong appetite for yield oriented securities in Canada;
- The potential ability to support a transaction with pension fund capital;
- Canada's rather benign interest rate environment; and,
- Bought deal financing commonly employed in Canada.

Fortis possesses a number of absolute and relative advantages over some other competitors

Historically, Fortis has been very adept at acquisitions. Corporate growth has benefited from the company's ability to successfully acquire and integrate selected assets. There are clear merits to UNS Energy's Arizona exposure. Yet, we have some concerns regarding

potential regulatory issues in that state. Our regulatory views combined with a trend of somewhat lackluster stock performance after major deals creates a concern for near-term stock market performance. Exhibit 2 illustrates common stock performance for FTS after the major deals in the last decade from announcement to completion and for one-year after completion.

**Exhibit 2: Post-deal announcement performance**

*in billions, unless otherwise stated*

Target	Size (bn)	Announced Date	Completed Date	Stock Performance	
				Announcement to Completion	Completion + 1 Year
UNS Energy Corp.*	US\$4.3	12/11/2013	Q4 2014e	-2.8%	
CH Energy Group, Inc.	US\$1.5	2/21/2012	6/27/2013	-2.0%	-4.4%
Terasen Inc.	C\$3.7	2/26/2007	5/17/2007	3.7%	-3.7%
Aquila Networks Canada	C\$1.5	9/15/2003	5/31/2004	1.5%	25.4%

*Source: Company data, Credit Suisse estimates; Note:\* UNS acquisition is still pending. CH Energy deal performance is since completion.*

Clearly, for a variety of reasons, Aquila was a transformative transaction and faced a very favourable stock market reaction. As we stated in our initial note regarding this deal ([link](#)), our view of this deal is a bit more muted in light of the economics and potential regulatory issues. We will address some of the economics in the next section.

The Aquila deal delivered transformative returns

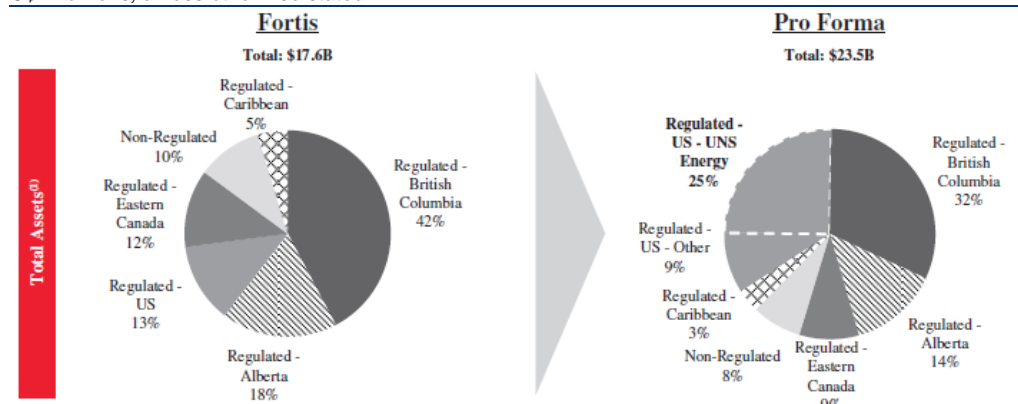


## Revised financials

Our starting point for considering the impact of the Fortis-UNS deal is the pro-forma total asset base as disclosed in the convertible debenture prospectus (Exhibit 3).

### Exhibit 3: Fortis asset base transformation

C\$ in billions, unless otherwise stated



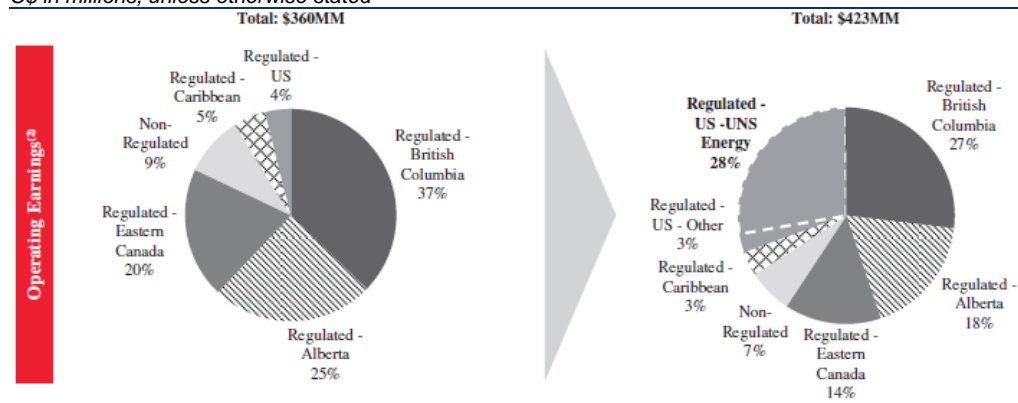
UNS projected to be 25% of FTS consolidated assets

Note: (1) As at September 30, 2013. Source: Company data

In light of the nature of UNS Energy's potential returns (i.e. generally higher allowed ROEs and greater equity thickness than many existing FTS assets), the pro forma operating earnings contributions from the acquired assets outperform their asset weight as partially evidenced in Exhibit 4.

### Exhibit 4: FTS operating earnings (current and pro-forma)

C\$ in millions, unless otherwise stated



UNS greater equity thickness and ROE than many existing FTS assets

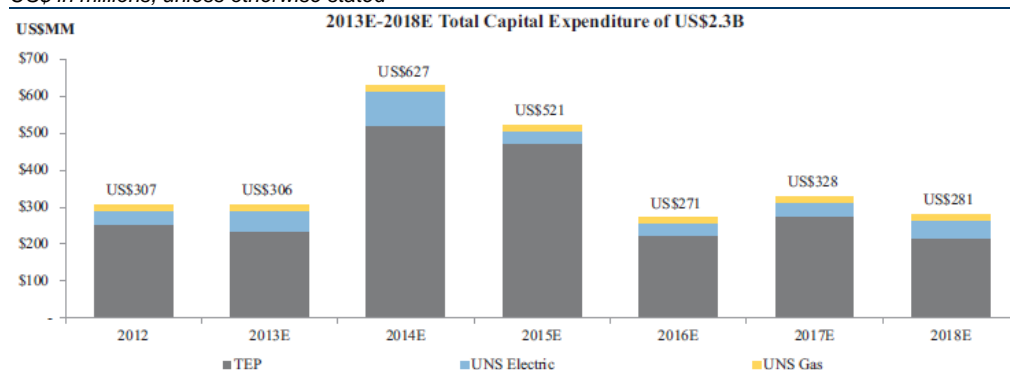
Note: (2) For the nine-month period ended September 30, 2013. Operating earnings of Fortis excludes the \$22 million extraordinary gain on settlement of expropriation matters associated with the Exploits River Hydro Partnership. Source: Company data

For the sake of simplicity, we chose to present the FTS numbers as per the prospectus. In our view, a more critical aspect of this transaction is the "going-in ROE" compared to the investment plan in the next few years. Clearly, the purchase of any utility for a premium to the rate base results in an effective decline on realized ROEs compared to the deployed capital. One method of justifying the premium is the pace of capital deployment at allowed ROEs that eventually help "average up" the realized ROE on the purchased assets.

In this context, we start this part of the analysis with the FTS disclosure of UNS Energy's capex in Exhibit 5.

Going in ROE versus pace of averaging up

**Exhibit 5: UNS Energy's capex**  
 US\$ in millions, unless otherwise stated



Source: Company data

A robust capital program

To provide a basic comparative of the return profiles for UNS Energy standalone and for the FTS acquisition, we made several assumptions that include:

- In terms of equity value, the FTS deal for UNS totals US\$2.5bn;
- UNS has a regulatory utility rate base of roughly US\$1.9bn for 2013;
- Year-end 2015 regulatory rate base to be roughly US\$3.0bn (FTS disclosure);
- On a blended basis, we assumed an allowed equity thickness of 43.5%;
- Across the utilities, we provided for an allowed ROE of 10%;
- Rate base depreciation of 4% per annum;
- We utilized the capex figures in Exhibit 5 along with the data from the UNS preliminary proxy statement;
- Collectively, these figures provide a baseline calculation for rate base earnings that is contrasted by CS forecasts and UNS Energy's own longer-term forecasts;
- The longer-term forecasts come from UNS Energy's preliminary proxy statement that provide enhanced perspective to the potential returns with their forecast earnings until 2024;
- As per FTS and UNS expectations, we forecast the transaction closing late at the end of 2014 with 2015 being the first full year of contribution.

Clearly, these figures don't perfectly correspond to some actuals, however, they are useful for illustrating future returns on equity. In terms of returns, there is a debate on the starting year for calculation purposes.

Exhibit 6 provides an illustrative view of the comparative returns on equity for UNS as a standalone entity and through the lens of the FTS acquisition. Given the deal value along with the timing of close, we believe the US\$3.13bn rate base forecast in 2015 (Exhibit 6) is the proper reference point for calculating returns on the acquisition capital. In that context, FTS would be forecast to earn a 6.3% without accounting for the clear capital drag of the financing activities that recently closed. Beyond 2015, we simply assume that UNS Energy is self-financing from a FTS perspective and, thus, no incremental capital contributions will be required.

Projecting a 6.3% ROE on deployed capital in 2015

As illustrated in Exhibit 6, the FTS returns on equity begin to reach levels comparable to some of their other utility investments by 2023. Clearly, this illustrative view does not take into account movements in the USD/CAD exchange rate, regulatory decisions along with a

considerable number of other factors. Yet, the illustrative view is fairly clear on the price of growth in terms of estimated future ROE generation.

#### Exhibit 6: Illustrative returns for FTS-UNS

US\$ in millions, unless otherwise stated

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
UNS Rate Base	2,202	2,728	3,130	3,270	3,461	3,598	3,809	4,012	4,401	4,764	5,112	5,301
FTS Acquisition Equity Base	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Depreciation (4%)		101	120	131	137	144	151	160	172	187	202	213
Capex*	306	627	521	271	328	281	362	363	561	550	549	402
Rate Base Earnings	96	107	127	139	146	154	161	170	183	199	215	226
Equity Capitalization	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%	43.5%
UNS assumed ROE	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
FTS Acquisition ROE	3.8%	4.3%	5.1%	5.6%	5.9%	6.1%	6.4%	6.8%	7.3%	8.0%	8.6%	9.1%
UNS Corp Earnings (CS Estimate)	130	138	154									
UNS Corp Earnings (UNS Estimate)	130	140	158	171	166	173	175	181	197	187	207	232
UNS Corp Earnings (ROE) - CSe	13.5%	11.6%	11.3%									
UNS Corp Earnings (ROE) - UNSe	13.6%	11.8%	11.6%	12.0%	11.0%	11.1%	10.6%	10.4%	10.3%	9.0%	9.3%	10.1%
FTS Acquisition (ROE) - CSe	5.2%	5.5%	6.2%									
FTS Acquisition (ROE) - UNSe	5.2%	5.6%	6.3%	6.8%	6.6%	6.9%	7.0%	7.2%	7.9%	7.5%	8.3%	9.3%

\*Capex prior to 2019 from FTS prospectus and post 2019 from UNS proxy. Proxy figures are "Capital Expenditures & Other". Source: Company data and Credit Suisse estimates

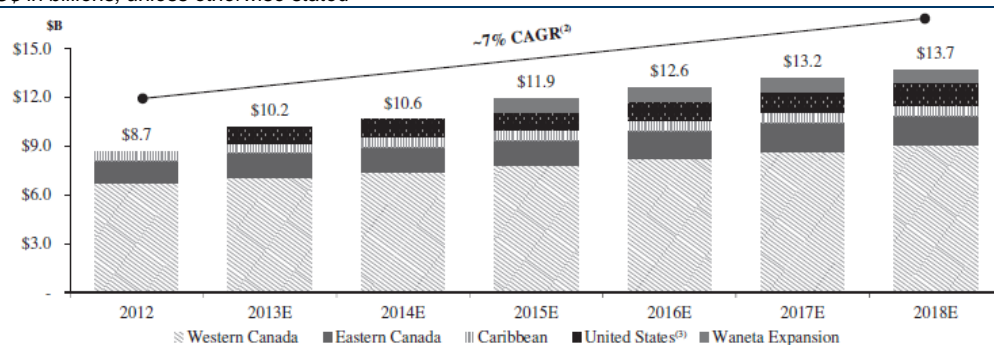
One caveat on longer-term forecast numbers is the lack of visibility and certainty for capital allocation – even in the long-cycle infrastructure industry – may look to depress the overall returns in a somewhat fading rate base context. Even with those considerations, one may view 2023 as being the year comparable returns are generated from the FTS-UNS deal. A recent notable potential positive for FTS is the rather rapid decline of the CAD against the USD. In the near-term, this situation may exacerbate some financing issues, however, the structurally lower CAD translates into an effectively improved earnings stream from the US utility assets in CAD terms. These factors have not been taken into account in Exhibit 6.

Between deal announcement and projected close, UNS Energy's overall utility rate base is positioned to increase by nearly US\$1bn or more than 40%. That rate base growth can be considered in the context of the overall FTS enterprise as appears in Exhibit 7.

UNS rate base projected to increase by 40% from announcement to close

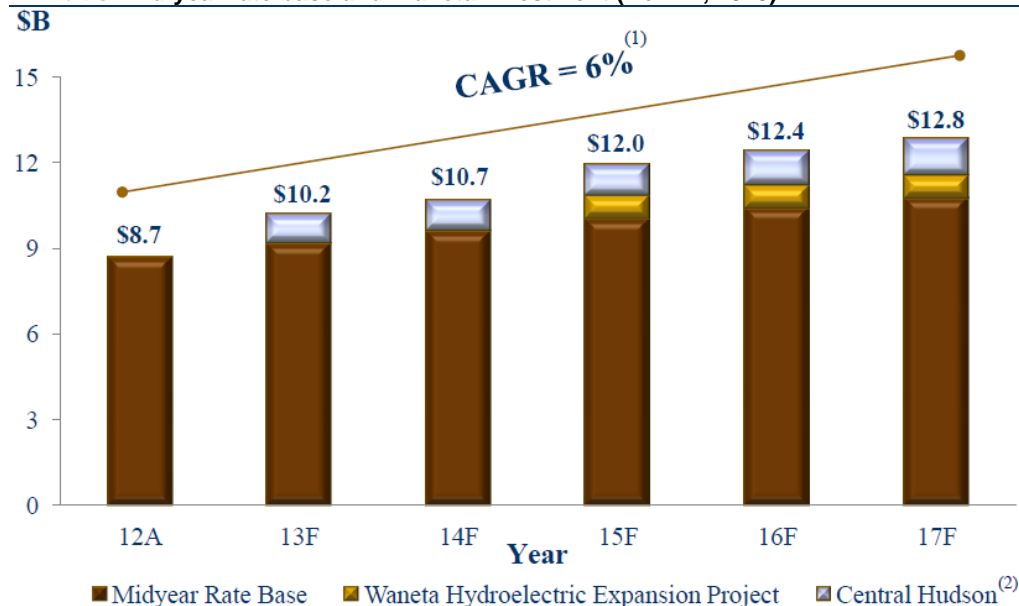
#### Exhibit 7: Mid-year rate base including Waneta expansion investment (Dec 20, 2013)

C\$ in billions, unless otherwise stated



Note: Rate base includes 100% of the Waneta Expansion Project investment (51% ownership) to be completed by Spring 2015 and Caribbean Utilities (~60% ownership). (2) CAGR excludes the initial ~\$1B rate base addition in 2013 related to the Central Hudson acquisition. (3) Assumes C\$/US\$ FX rate of 1.03. Source: Company data

These capex forecasts may be compared to FTS numbers disclosed at the Edison Electric Institute conference in November appearing in Exhibit 8.

**Exhibit 8: Mid-year rate base and Waneta investment (Nov 12, 2013)**

<sup>(1)</sup> CAGR excludes the initial approximate \$1B rate base addition in 2013 related to the Central Hudson acquisition

<sup>(2)</sup> Includes approximately \$1B of rate base related to Central Hudson upon acquisition and expected rate base growth thereafter

Source: Company data

Clearly, we view growth capex positively in the infrastructure and utility business. Yet, one issue facing any growth profile is the balancing act of funding from internal cash flows and maintaining a strong balance sheet. Fortis is similar to many other utility and infrastructure investors and occasionally needs to bolster the balance sheet with external equity issues. Exhibit 9 illustrates deal and non-deal related common equity and convertible issuance for more than 10 years (the DRIP program is not included in these figures).

A delicate balancing act

**Exhibit 9: Selected FTS equity issuance (Shaded are non-M&A related equity transactions)**

Announced Date	Offer Price (C\$/sh)	# of shares (m)	Amount C\$m		Shoe Exercised	Use of Proceeds
			Original	Green Shoe		
12/11/2013	30.72	58.6	1,800.0	239.1		Convertible debt for M&A financing.
6/19/2012	32.50	18.5	601.3	90.2	N	Subscription receipts for M&A financing.
5/30/2011	33.00	9.1	300.3	40.9	Y	General corporate purposes and repay loan.
12/2/2008	25.65	11.7	300.1	45.0	N	General corporate purposes and repay debt.
2/26/2007	26.00	38.5	1,001.0	150.2	Y	Subscription receipts for M&A financing - Terasen Inc.
1/3/2007	29.00	5.2	149.9	-		General corporate purposes, M&A financing and repay debt/loan.
2/10/2005	74.65	1.7	129.9	-		General corporate purposes and repay loan.
9/16/2003	55.50	6.3	350.2	-		Subscription receipts for M&A financing and replay loan.
9/29/2000	34.50	1.5	51.8	7.8	N	Replay loan.

Source: Company data, Bloomberg and Credit Suisse

For the sake of completeness, we provide a list of preference share issues in Exhibit 10.

**Exhibit 10: Selected FTS preference shares issuance**

Announced Date	Offer Price (C\$/sh)	# of shares (m)	Amount C\$m		Shoe Exercised	Use of Proceeds
			Original	Upsized		
7/9/2013	25.00	10.0	250.0	50.0	N	Repay debt, Waneta Expansion, equity injection to subsidiary and general corp. purposes.
11/1/2012	25.00	6.0	150.0	50.0	Y	Repay debt for Waneta Expansion and general corp. purposes.
1/11/2010	25.00	10.0	250.0	-		Repay debt and equity injection into regulated subsidiary.
5/6/2008	25.00	8.0	200.0	30.0	Y	Repay debt for acquisitions and general corp. purposes.
9/15/2006	25.00	5.0	125.0			Repay debt for acquisition, equity injection into subsidiary and general corp. purposes
1/20/2004	6.25	8.0	50.0			Repay debt for acquisitions and general corp. purposes.

Source: Company data and Bloomberg

Pulling these issues together, we rely upon the FTS capital structure disclosure from each Q4 MD&A document over the last 10 years.

#### Exhibit 11: FTS historical capital structure

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Q3 2013
Total debt and capital lease and finance obligations (net of cash)	60.0%	61.4%	58.7%	61.1%	64.3%	59.5%	60.2%	58.4%	57.1%	55.3%	55.9%
Preference Shares	6.7%	9.4%	8.6%	10.0%	5.2%	7.3%	6.9%	9.0%	8.3%	9.7%	9.2%
Common shareholder's equity	33.3%	29.2%	32.7%	28.9%	30.5%	33.2%	32.9%	32.6%	34.6%	35.0%	34.9%

Source: Company data

With greater equity thickness requirements at most US utilities versus those in Canada, we have some concerns about the need for FTS to more regularly tap the common equity market to maintain balance sheet integrity. These figures look to be manageable in light of a growing balance sheet and overall company. Yet, the potential for ongoing capital needs and FTS being in an almost perpetual state of acquisition may somewhat detract from the fundamental analysis and create a more tactical positioning for the stock.

A cross-border capital structure question

With that background and context, we turn to our financial forecasts. Our initial take on the FTS-UNS deal can be seen on the note titled "[Raising Arizona](#)". In that note, we provided a very basic accretion analysis with the full dilution of the convertibles appearing Exhibit 12.

#### Exhibit 12: Accretion analysis (full dilution of convertibles)

in millions, unless otherwise stated

FY 2015	CS	Consensus
Net income		
FTS	403	410
UNS	142	147
Subtotal	545	557
Tax impacted incremental Interest	19	19
Total combined	526	538
Combined share count (FD)	271	271
Combined EPS (FD)	1.94	1.98
Stand alone FTS EPS	1.89	1.90
Accretion/(Dilution)	2.6%	4.4%

Source: Company data, Credit Suisse estimates and FactSet

With the CS coverage of both FTS and UNS, we based this rather quick analysis on our team's actual coverage and provided the consensus figures at that time for addition 2015 perspective. Given the FTS language expecting the deal to be "accretive to earnings per common share... ..in the first full year, excluding one-time Acquisition-related costs", the illustrative assumptions in Exhibit 12 might be slightly aggressive.

After a more thorough review of various filings, we have more robust financial forecasts that appear in Exhibit 13, Exhibit 14 and Exhibit 15. We start with our income statement in Exhibit 13 with the following highlights:

- EPS changes to C\$1.66, C\$1.57 and C\$1.95 from the previous C\$1.68, C\$1.82 and C\$1.89 for 2013, 2014 and 2015 respectively;
- The significant 2014 EPS decline is the result of the convertible debenture financing costs of roughly C\$72m (pre-tax) without the revenue contribution from the acquisition as the UNS transaction is expected to close near the end of 2014;

- The 2015 share count significantly increased to account for the convertible debenture conversion to common equity; and,
- The dividend per share forecast is unchanged.

**Exhibit 13: Selected summary income statement***C\$ in millions, unless otherwise stated*

Summary IS	2013	2014	2015	2016
Revenue	4,129.6	4,707.1	5,809.5	6,172.3
Expenses	(3,243.5)	(3,604.4)	(4,355.9)	(4,638.5)
EBIT	886.1	1,102.6	1,453.6	1,533.8
Interest	(394.4)	(539.0)	(652.5)	(689.7)
Others	(14.0)	-	-	-
EBT	477.7	563.6	801.1	844.0
Income tax	(48.7)	(154.7)	(196.7)	(205.9)
Non-controlling interest	(10.1)	(10.9)	(11.0)	(11.0)
Earnings	418.9	398.0	593.5	627.1
Preferred dividends	(60.0)	(64.0)	(64.0)	(64.0)
Adjustments	(18.0)	-	-	-
Net Income	340.9	334.0	529.5	563.1
EPS	1.66	1.57	1.95	2.07
DPS	1.24	1.28	1.32	1.36
Shares (diluted)	205.6	213.1	272.1	272.7
Dividend payout ratio	75%	82%	68%	66%
EPS - growth	1%	-5%	24%	6%
DPS - growth rate	2%	3%	3%	3%

*Source: Company data and Credit Suisse estimates*

From our perspective, perhaps the major takeaway from our balance sheet forecast is the gradual creep in net debt to total cap (including preference shares). Precisely, that ratio is roughly 54.8%, 63.2%, 57.3% and 57.1% for 2013, 2014, 2015 and 2016, respectively, on our forecasts. Exhibit 14 illustrates the full forecasts.

**Exhibit 14: Selected summary balance sheet**
*C\$ in millions, unless otherwise stated*

<b>Summary BS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Assets</b>				
Cash and cash equivalents	217.5	47.4	397.4	743.2
Accounts receivables	523.0	523.0	523.0	523.0
Others	405.0	405.0	405.0	405.0
Total current assets	1,145.5	975.4	1,325.4	1,671.2
Deferred charges and other assets	233.0	233.0	233.0	233.0
Regulatory assets	1,825.0	1,825.0	1,825.0	1,825.0
Future income taxes	4.0	4.0	4.0	4.0
Utility capital assets	11,539.6	16,515.9	17,065.2	17,440.0
Income producing properties	656.7	663.5	670.1	676.5
Intangibles, net of amortization	356.0	356.0	356.0	356.0
Goodwill	2,064.0	2,064.0	2,064.0	2,064.0
Total assets	17,823.8	22,636.7	23,542.7	24,269.7
<b>Liabilities &amp; Shareholders Equity</b>				
Short-term borrowings	111.0	111.0	111.0	111.0
Accounts payable and accrued charges	847.0	847.0	847.0	847.0
Current installments of long-term debt	376.0	376.0	376.0	376.0
Regulatory liabilities	108.0	108.0	108.0	108.0
Other	9.0	9.0	9.0	9.0
	1,451.0	1,451.0	1,451.0	1,451.0
Deferred credits	1,229.0	1,229.0	1,229.0	1,229.0
Regulatory liabilities	804.0	804.0	804.0	804.0
Future income taxes	1,064.0	1,064.0	1,064.0	1,064.0
Long-term debt and capital lease obligations	6,960.5	9,900.4	10,624.2	11,147.0
Non-controlling interest	358.1	369.0	380.0	391.0
	11,866.6	14,817.4	15,552.2	16,086.0
Common shares	3,760.0	3,760.0	5,560.0	5,560.0
Preference shares	1,229.0	1,229.0	1,229.0	1,229.0
Contributed surplus	16.0	16.0	16.0	16.0
Convertible debt	-	1,800.0	-	-
Accumulated other comprehensive loss	(101.0)	(101.0)	(101.0)	(101.0)
Retained earnings	1,053.2	1,115.3	1,286.5	1,479.7
	5,957.2	7,819.3	7,990.5	8,183.7
Total liability & shareholders equity	17,823.8	22,636.7	23,542.7	24,269.7

*Source: Company data and Credit Suisse estimates*

Finally, our forecasted cash flow statement appears in Exhibit 15.



**Exhibit 15: Selected summary cash flow statement**

C\$ in millions, unless otherwise stated

Summary CF	2013	2014	2015	2016
<b>Operating Activities</b>				
Net Income	425.9	398.0	593.5	627.1
Non cash items	431.7	475.6	502.8	617.6
Change in non-cash working capital	53.0	-	-	-
Cash flow from operating	910.6	873.5	1,096.3	1,244.6
<b>Investing Activities</b>				
Additions to utility assets	(1,049.8)	(1,127.8)	(1,027.8)	(967.8)
Business acquisitions	(1,055.0)	(4,300.0)	-	-
Other	(26.0)	(20.0)	(20.0)	(20.0)
Cash flow from investing	(2,130.8)	(5,447.8)	(1,047.8)	(987.8)
<b>Financing Activities</b>				
Change in debt	661.5	2,939.9	723.8	522.8
Change in convertible debt	-	1,800.0	(1,800.0)	-
Change in preference shares	117.0	-	-	-
Change in common equity	592.0	-	1,800.0	-
Dividends - common	(199.8)	(271.8)	(358.3)	(369.9)
Dividends - preference shares	(60.0)	(64.0)	(64.0)	(64.0)
Others	173.0	-	-	-
Cash flow from financing	1,283.8	4,404.1	301.5	88.9
Change in cash	63.5	(170.2)	350.0	345.8

Source: Company data and Credit Suisse estimates

## Valuation

With greater reflection on the FTS deal for UNS, we downgrade the stock to Neutral from the prior Outperform and reduce our target price from C\$36 to C\$32. At this juncture, a few reasons support our reductions, including:

Rating: Neutral (from OP)

Target: C\$32 (from C\$36)

- The near-term impact of acquisition related financing;
- The type of financing;
- The regulatory risks related to the UNS deal; and,
- A future view of potential deal economics.

We continue to view FTS is a savvy utility investor with a longer-term view that matches well with longer-term equity holders, but the financing volatility can be problematic for shorter-term investors. To help put these views into context, we reflected upon a variety of historical valuation metrics that included:

- Price-to-earnings;
- Price-to-book;
- Dividend yield;
- Dividend yield spread; and,
- Dividend discount model.

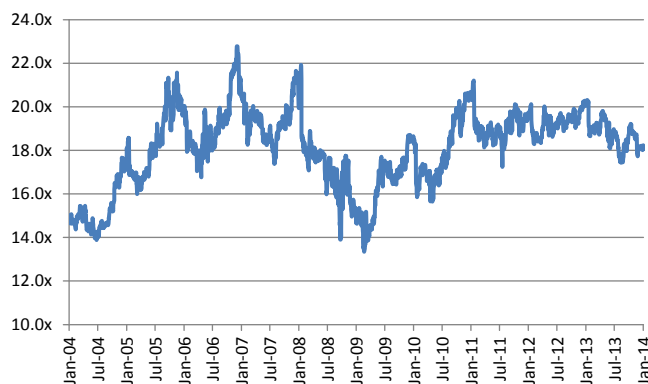
Each of these valuation approaches appears in greater detail below.

## Price-to-earnings

Using FactSet data, we provide multiple valuation analyses using 10-year historical forward P/E multiples (see Exhibit 16 and Exhibit 17).

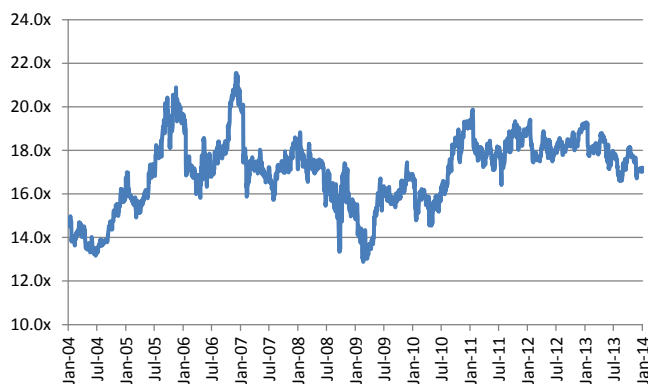
- For 1-year forward P/E peak multiple stood at roughly 22.8x, mean at 18.1x, while the stock is currently trading at roughly 18.1x; and,
- For 2-year forward P/E peak multiple stood at roughly 21.6x, mean at 17.0x, while the stock is currently trading at roughly 17.0x.

**Exhibit 16: Historical forward 1-year P/E**



Source: FactSet

**Exhibit 17: Historical forward 2-year P/E**



Source: FactSet

Base on a range of EPS and P/E multiples, hypothetical FTS share prices are presented below (Exhibit 18).

**Exhibit 18: Hypothetical FTS share price based on P/E**

		Earnings per share (C\$)									
		1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.30	2.40
P/E Multiple	10.0x	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	23.00	24.00
	11.0x	16.50	17.60	18.70	19.80	20.90	22.00	23.10	24.20	25.30	26.40
	12.0x	18.00	19.20	20.40	21.60	22.80	24.00	25.20	26.40	27.60	28.80
	13.0x	19.50	20.80	22.10	23.40	24.70	26.00	27.30	28.60	29.90	31.20
	14.0x	21.00	22.40	23.80	25.20	26.60	28.00	29.40	30.80	32.20	33.60
	15.0x	22.50	24.00	25.50	27.00	28.50	30.00	31.50	33.00	34.50	36.00
	16.0x	24.00	25.60	27.20	28.80	30.40	32.00	33.60	35.20	36.80	38.40
	17.0x	25.50	27.20	28.90	30.60	32.30	34.00	35.70	37.40	39.10	40.80
	18.0x	27.00	28.80	30.60	32.40	34.20	36.00	37.80	39.60	41.40	43.20
	19.0x	28.50	30.40	32.30	34.20	36.10	38.00	39.90	41.80	43.70	45.60
	20.0x	30.00	32.00	34.00	36.00	38.00	40.00	42.00	44.00	46.00	48.00
	21.0x	31.50	33.60	35.70	37.80	39.90	42.00	44.10	46.20	48.30	50.40
	22.0x	33.00	35.20	37.40	39.60	41.80	44.00	46.20	48.40	50.60	52.80
	23.0x	34.50	36.80	39.10	41.40	43.70	46.00	48.30	50.60	52.90	55.20
	24.0x	36.00	38.40	40.80	43.20	45.60	48.00	50.40	52.80	55.20	57.60
	25.0x	37.50	40.00	42.50	45.00	47.50	50.00	52.50	55.00	57.50	60.00

Source: Credit Suisse estimates

Looking at our illustrative EPS figures for 2016 of C\$2.07 and a less than average 17x 2-year forward multiple results in a theoretical future share price of roughly C\$35.

## Price-to-book

Historically, Fortis Inc. has traded at a 10-year average price-to-book multiple of 1.7x and within a range of 1.2x-2.4x (Exhibit 19).

**Exhibit 19: Historical price-to-book ratio**

Source: Factset

Similar to the price-to-earnings table above, we provide a hypothetical FTS share price based on certain P/B multiple and book values (Exhibit 20).

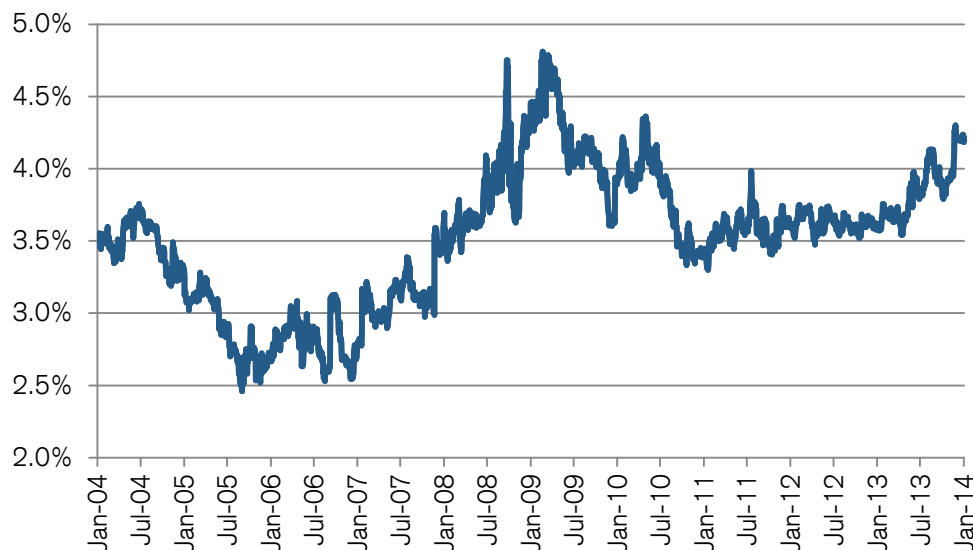
**Exhibit 20: Hypothetical FTS share price based on P/B**

		Book Value per share (C\$)									
		20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00
P/B Multiple	1.00x	20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00
	1.25x	25.00	26.25	27.50	28.75	30.00	31.25	32.50	33.75	35.00	36.25
	1.50x	30.00	31.50	33.00	34.50	36.00	37.50	39.00	40.50	42.00	43.50
	1.75x	35.00	36.75	38.50	40.25	42.00	43.75	45.50	47.25	49.00	50.75
	2.00x	40.00	42.00	44.00	46.00	48.00	50.00	52.00	54.00	56.00	58.00
	2.25x	45.00	47.25	49.50	51.75	54.00	56.25	58.50	60.75	63.00	65.25
	2.50x	50.00	52.50	55.00	57.50	60.00	62.50	65.00	67.50	70.00	72.50
	2.75x	55.00	57.75	60.50	63.25	66.00	68.75	71.50	74.25	77.00	79.75
	3.00x	60.00	63.00	66.00	69.00	72.00	75.00	78.00	81.00	84.00	87.00

Source: Credit Suisse estimates

**Dividend yield**

On a dividend yield basis FTS is currently trading near 10-year average of 3.52%, within the range of 2.46% to 4.81% (see Exhibit 21).

**Exhibit 21: FTS dividend yield**

Source: FactSet

Given various dividend per share assumptions as well as dividend yields, hypothetical FTS share price appears in Exhibit 22.

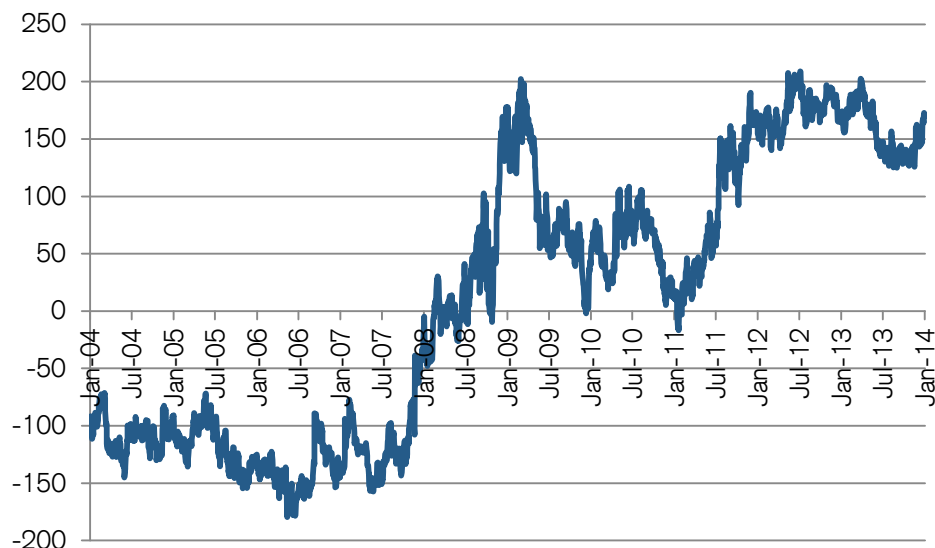
**Exhibit 22: Hypothetical share value based on future dividends at various dividend yields**

Dividend Yield (%)											
		Dividend per share (C\$)									
		1.15	1.20	1.25	1.30	1.35	1.40	1.45	1.50	1.55	1.60
Dividend Yield (%)	2.00%	57.50	60.00	62.50	65.00	67.50	70.00	72.50	75.00	77.50	80.00
	2.25%	51.11	53.33	55.56	57.78	60.00	62.22	64.44	66.67	68.89	71.11
	2.50%	46.00	48.00	50.00	52.00	54.00	56.00	58.00	60.00	62.00	64.00
	2.75%	41.82	43.64	45.45	47.27	49.09	50.91	52.73	54.55	56.36	58.18
	3.00%	38.33	40.00	41.67	43.33	45.00	46.67	48.33	50.00	51.67	53.33
	3.25%	35.38	36.92	38.46	40.00	41.54	43.08	44.62	46.15	47.69	49.23
	3.50%	32.86	34.29	35.71	37.14	38.57	40.00	41.43	42.86	44.29	45.71
	3.75%	30.67	32.00	33.33	34.67	36.00	37.33	38.67	40.00	41.33	42.67
	4.00%	28.75	30.00	31.25	32.50	33.75	35.00	36.25	37.50	38.75	40.00
	4.25%	27.06	28.24	29.41	30.59	31.76	32.94	34.12	35.29	36.47	37.65
	4.50%	25.56	26.67	27.78	28.89	30.00	31.11	32.22	33.33	34.44	35.56
	4.75%	24.21	25.26	26.32	27.37	28.42	29.47	30.53	31.58	32.63	33.68
	5.00%	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00	31.00	32.00
	5.25%	21.90	22.86	23.81	24.76	25.71	26.67	27.62	28.57	29.52	30.48
	5.50%	20.91	21.82	22.73	23.64	24.55	25.45	26.36	27.27	28.18	29.09

Source: Credit Suisse estimates

**Dividend yield spread**

We believe that one should not solely rely upon dividend yield based metrics. In our view, many yield based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered Fortis Inc.'s historic dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 23 displays the historical FTS yield spread. The 10-year average is roughly 12bps with a range of -179bps to 209bps.

**Exhibit 23: FTS dividend yield spread (bps)**

Source: Bloomberg

**The dividend discount model**

The dividend discount model provides a very simplified discounted cash flow based valuation tool. As one would expect, there is a significant amount of valuation sensitivity with a dividend discount model analysis. We capture part of that sensitivity in the table below (Exhibit 24).

**Exhibit 24: Hypothetical share value under different dividend discount model assumptions**

		Cost of Equity (%)									
		5.5%	6.00%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
Dividend Growth	1.0%	27.56	24.80	22.55	20.67	19.08	17.71	16.53	15.50	14.59	13.78
	1.5%	31.00	27.56	24.80	22.55	20.67	19.08	17.71	16.53	15.50	14.59
	2.0%	35.43	31.00	27.56	24.80	22.55	20.67	19.08	17.71	16.53	15.50
	2.5%	41.33	35.43	31.00	27.56	24.80	22.55	20.67	19.08	17.71	16.53
	3.0%	49.60	41.33	35.43	31.00	27.56	24.80	22.55	20.67	19.08	17.71
	3.5%	62.00	49.60	41.33	35.43	31.00	27.56	24.80	22.55	20.67	19.08
	4.0%	82.67	62.00	49.60	41.33	35.43	31.00	27.56	24.80	22.55	20.67
	4.5%	124.00	82.67	62.00	49.60	41.33	35.43	31.00	27.56	24.80	22.55
	5.0%	248.00	124.00	82.67	62.00	49.60	41.33	35.43	31.00	27.56	24.80
	5.5%		248.00	124.00	82.67	62.00	49.60	41.33	35.43	31.00	27.56
	6.0%			248.00	124.00	82.67	62.00	49.60	41.33	35.43	31.00
	6.5%				248.00	124.00	82.67	62.00	49.60	41.33	35.43
	7.0%					248.00	124.00	82.67	62.00	49.60	41.33
	7.5%						248.00	124.00	82.67	62.00	49.60
	8.0%							248.00	124.00	82.67	62.00

Source: Credit Suisse estimates

**Valuation summary**

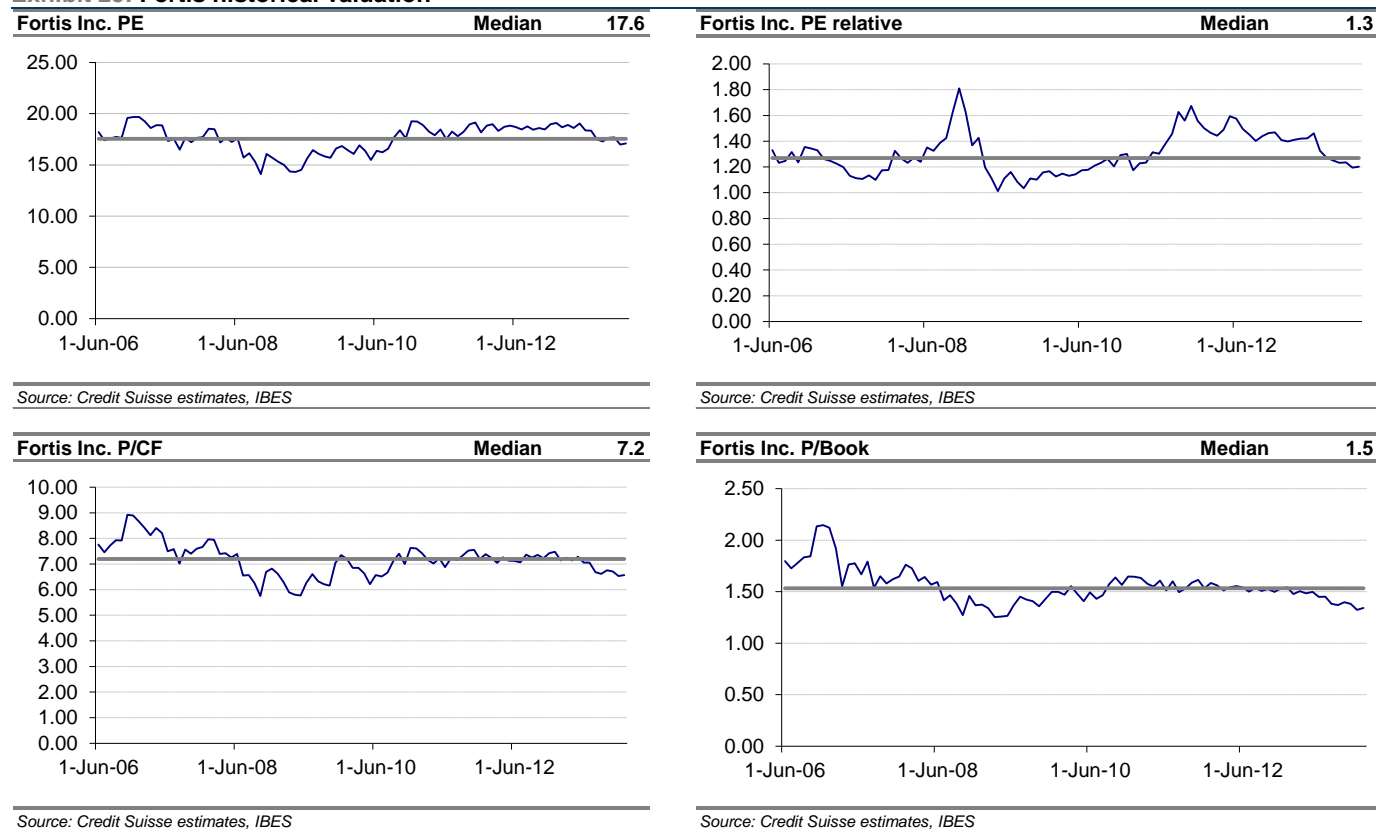
Industry participants understand the many challenges and the uniqueness of utility M&A compared to many other industries. The critical nature of utility assets often translates into greater regulatory scrutiny. From our view, that reality along with size of outright deals starts to position FTS in an almost perpetual state of acquisition overhang. Given the likely volatility of financing M&A activities and the normal course equity issues for balance sheet "tweaking", stock performance may be more associated with tactical positioning rather than the fundamental growth – especially at the current valuation.

We revised our EPS estimates to C\$1.66, C\$1.57 and C\$1.95 from the previous C\$1.68, C\$1.82 and C\$1.89 for 2013, 2014 and 2015 respectively. We downgrade our rating to

Neutral from the prior Outperform and lower our target price to C\$32.00 from C\$36.00. That revised target price is obtained from multiple valuation methods, but primarily relies upon a targeted dividend yield of 4.13% (reflecting a 138bps spread on a forecast 2.75% Canadian 10-year) along with a 16.4x P/E multiple on 2015 EPS.

Our Credit Suisse RAVE powered financial valuation summary appears below (Exhibit 25).

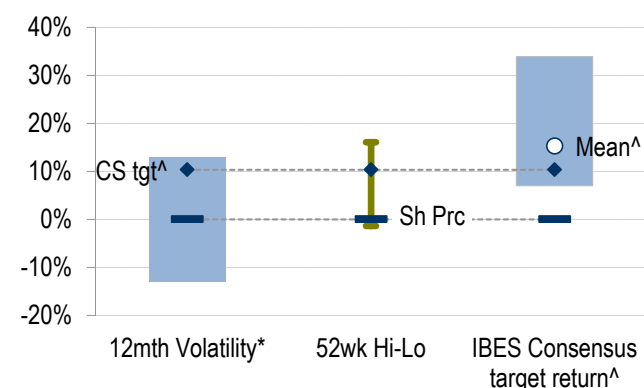
#### Exhibit 25: Fortis historical valuation



Source: Credit Suisse RAVE

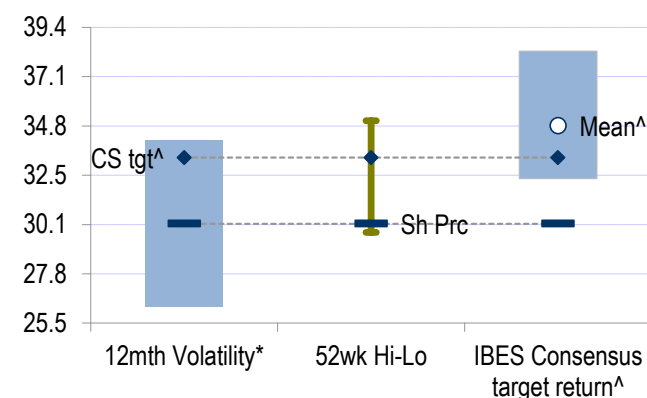
Exhibit 26 and Exhibit 27 put our rating into context versus the Street.

#### Exhibit 26: Total return forecast in perspective



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

#### Exhibit 27: Total return forecast in perspective



Source: \* Consensus mean and range from Thomson Reuters and Credit Suisse RAVE.

**Companies Mentioned** (Price as of 27-Jan-2014)**Fortis Inc.** (FTS.TO, C\$30.2, NEUTRAL, TP C\$32.0)**Unisource Energy Corp** (UNS.N, \$59.7)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
10-Feb-11	33.81	34.00	N
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.



Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(54% banking clients)
Neutral/Hold*	41%	(48% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahim Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (05 Feb 14, C\$)	30.46
Target price (C\$)	32.00 <sup>1</sup>
52-week price range	35.01 - 29.76
Market cap. (C\$ m)	6,493.00
Enterprise value (C\$ m)	13,722.98

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

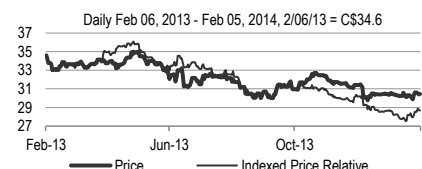
paul.tan@credit-suisse.com

### RESULTS

## At a glance: Near-term UNS timeline and a likely longer-term M&A overhang

- **Earnings review:** Fortis reported Q4 2013 headline EPS (FD) of C\$0.47 a miss versus our C\$0.50 estimate and the Street's C\$0.483 view (range of C\$0.44-C\$0.50). The quarterly dividend increased to C\$0.32/sh from the previous C\$0.31/sh – meeting expectations. We view the performance of FTS shares this year to be largely tied to the UNS acquisition process and timeline rather than core business fundamentals. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** FTSs continues to provide a robust capital expenditure outlook of C\$1.4bn for 2014 (C\$1.2bn in 2013). The 5-year capex outlook increased to C\$6.5bn (ex-US\$1.4bn from UNS) from the previous C\$6bn. FTS stated, "Our capital program, which will be mostly funded with cash from operations and long-term debt at the regulated utility level, will support continuing growth in earnings and dividends". With the UNS deal pending, FTS did not discuss other acquisition opportunities.
- **Investment thesis:** We continue to believe FTS has a positive track record with acquisitions, however, the method of financing for UNS and the sheer size create some stock performance issues. Moreover, we have a degree of concern regarding the UNS return profile in the years ahead. Beyond UNS, we view the FTS stock as suffering from a longer-term M&A overhang.
- **Building book value: Valuation:** Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our Neutral rating.

### Share price performance



On 02/05/14 the TSX-Toronto Stock Exchange 300 Comp closed at 13559.69

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.62	0.33	0.24	0.45
2013E	0.66	0.28	0.23	0.50
2014E	0.62	0.27	0.23	0.46

### Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (C\$)	1.64	1.66	1.57	1.95
Prev. EPS (C\$)	—	—	—	—
P/E (x)	18.5	18.4	19.4	15.7
P/E rel. (%)	120.1	114.7	136.1	121.6
Revenue (C\$ m)	3,654.0	4,129.6	4,707.1	5,809.5
EBITDA (C\$ m)	1,264.0	1,398.7	1,567.2	1,945.5
OCFPS (C\$)	4.73	4.14	3.80	3.79
P/OCF (x)	7.2	7.4	8.0	8.0
EV/EBITDA (current)	10.7	9.7	8.7	7.0
Net debt (C\$ m)	6,310	7,230	10,340	10,714
ROIC (%)	5.81	5.89	4.32	5.75
Number of shares (m)	213.16	IC (current, C\$ m)	11,720.00	
BV/share (Next Qtr., C\$)	22.3	EV/IC (x)	1.0	
Net debt (Next Qtr., C\$ m)	7,230.0	Dividend (current, C\$)	1.2	
Net debt/tot cap (Next Qtr., %)	114.5	Dividend yield (%)	1.0	

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** *(Price as of 05-Feb-2014)*

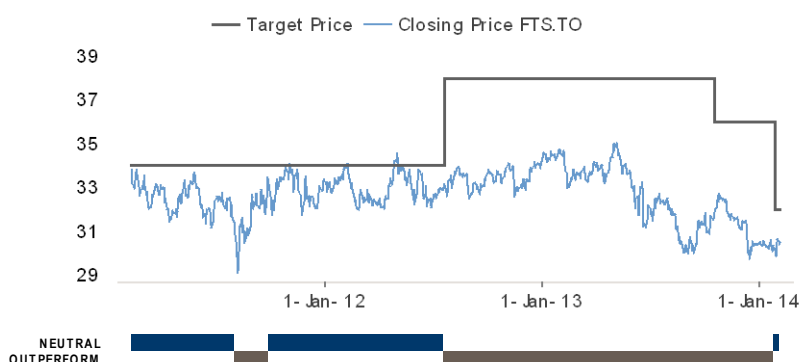
**Companies Mentioned** (Price as of 05-Feb-2014)**Fortis Inc.** (FTS.TO, C\$30.46, NEUTRAL, TP C\$32.0)**Unisource Energy Corp** (UNS.N, \$59.88)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
10-Feb-11	33.81	34.00	N
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.



Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(54% banking clients)
Neutral/Hold*	41%	(48% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.



To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahim Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

# Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (07 May 14, C\$)	32.46
Target price (C\$)	32.00 <sup>1</sup>
52-week price range	34.57 - 29.76
Market cap. (C\$ m)	6,955.49
Enterprise value (C\$ m)	17,788.45

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

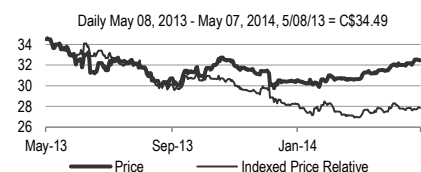
paul.tan@credit-suisse.com

## RESULTS

### At a glance: Awaiting Arizona action

- **Earnings review:** Fortis reported Q1 2014 headline EPS (FD) of C\$0.66 and an adjusted C\$0.70. Our view of the adjusted number is roughly C\$0.64; that excludes a C\$5m gain on sale of Griffith, but includes C\$11m interest on the convertible. That adjusted figure beat both our C\$0.61 view and the Street's C\$0.63 (range of C\$0.61-C\$0.67). We view the performance of FTS shares this year to be largely tied to the regulatory process for the UNS deal rather than core business fundamentals. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** FTS continues to provide a robust capital expenditure outlook of C\$1.4bn for 2014. The 5-year capex outlook is around C\$6.5bn (ex-C\$1.5bn from UNS). With the UNS deal pending, FTS did not focus upon any other acquisition opportunities. For context, Exelon's recent announcement to acquire Pepco and Berkshire's AltaLink deal are two good examples of relative utility asset valuations (see associated notes at ([EXC-POM](#), [AltaLink](#) and [FTS-UNS](#)) that highlight the UNS deal price.
- **Investment thesis:** We continue to believe FTS has a positive track record with acquisitions; however, the method of financing for UNS and the sheer size create some stock performance issues. Moreover, we have a degree of concern regarding the UNS return profile in the years ahead. Beyond UNS, we view the FTS stock as suffering from a longer-term M&A overhang until the organic growth transition is clear.
- **Valuation:** Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our Neutral rating.

### Share price performance



On 05/07/14 the TSX-Toronto Stock Exchange 300 Composite closed at 14656.4

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.61	0.26	0.22	0.45
2015E	0.66	0.38	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.54	1.91	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.9	21.1	17.0	15.9
P/E rel. (%)	110.5	133.9	120.9	128.4
Revenue (C\$ m)	4,047.0	4,707.1	5,809.5	6,172.3
EBITDA (C\$ m)	1,393.0	1,567.2	1,945.5	2,140.3
OCFPS (C\$)	4.10	3.77	3.76	4.31
P/OCF (x)	7.4	8.6	8.6	7.5
EV/EBITDA (current)	10.5	9.4	7.5	6.9
Net debt (C\$ m)	7,716	10,833	11,216	11,401
ROIC (%)	5.63	4.20	5.59	5.80
Number of shares (m)	214.28	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	22.7	EV/IC (x)		0.99
Net debt (Next Qtr., C\$ m)	7,225.1	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	102.6	Dividend yield (%)		0.99

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Companies Mentioned (Price as of 07-May-2014)

**Exelon Corporation** (EXC.N, \$36.76)  
**Fortis Inc.** (FTS.TO, C\$32.46, NEUTRAL, TP C\$32.0)  
**Pepco Holdings Inc.** (POM.N, \$27.46)  
**Unisource Energy Corp** (UNS.N, \$60.21)

## Disclosure Appendix

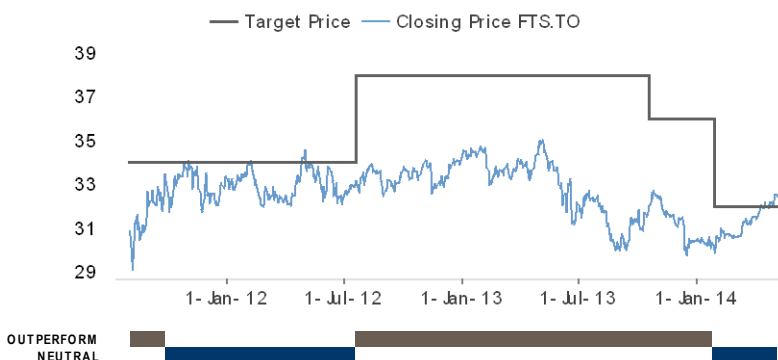
### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

### 3-Year Price and Rating History for Fortis Inc. (FTS.TO)

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

### As of December 10, 2012 Analysts' stock rating are defined as follows:

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(54% banking clients)
Neutral/Hold*	40%	(49% banking clients)
Underperform/Sell*	13%	(44% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (FTS.TO).

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

An analyst involved in the preparation of this report has visited certain material operations of the subject company (FTS.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.



References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahim Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.



## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (31 Jul 14, C\$)	33.55
Target price (C\$)	32.00 <sup>1</sup>
52-week price range	33.76 - 29.76
Market cap. (C\$ m)	7,224.51
Enterprise value (C\$ m)	19,891.09

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

#### Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

#### Paul Tan

416 352 4593

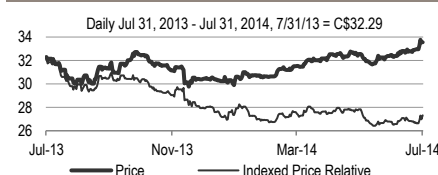
paul.tan@credit-suisse.com

### RESULTS

## At a glance: August ACC Agenda

- **Earnings review:** Fortis reported Q2 2014 headline EPS (FD) of C\$0.22 and an adjusted C\$0.28. In our view, the adjusted number of roughly C\$0.24 excludes C\$4m F/X losses, but includes C\$13m interest on the convertible. The adjusted figure missed both our C\$0.27 view and the Street's C\$0.28 (range of C\$0.24-C\$0.34). FTS stock performance has been largely tied to the regulatory process for the UNS deal rather than core business fundamentals. Notably, the UNS deal looks to be coming to a close on a rather expedited timeline versus most utility M&A. Simply, FTS believes the UNS deal may close at the end of August. We do not place undue emphasis on quarterly results as a result of the inherently long-cycle nature of many assets.
- **Significant organic growth continues:** FTS continues to provide a robust capital expenditure outlook of C\$1.4bn for 2014. The 5-year capex outlook is around C\$6.5bn (ex-C\$1.5bn from UNS). With the UNS deal pending, FTS did not focus upon any other acquisition opportunities.
- **Investment thesis:** We continue to believe FTS has a positive track record with acquisitions, however, the method of financing for UNS and the sheer size create some stock performance issues. Moreover, we have a degree of concern regarding the UNS return profile in the years ahead. Beyond UNS, we view the FTS stock as suffering from a longer-term M&A overhang until the organic growth transition is clear.
- **Valuation:** Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our Neutral rating.

### Share price performance



On 07/31/14 the S&P/TSX Composite closed at 15330.74

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.27	0.24	0.45
2015E	0.67	0.38	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.60	1.92	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.6	21.0	17.5	16.5
P/E rel. (%)	107.4	128.0	120.4	124.7
Revenue (C\$ m)	4,047.0	4,618.0	5,926.7	6,329.1
EBITDA (C\$ m)	1,393.0	1,578.7	1,982.8	2,187.5
OCFPS (C\$)	4.10	3.71	3.71	4.26
P/OCF (x)	7.4	9.0	9.0	7.9
EV/EBITDA (current)	10.7	9.5	7.5	6.8
Net debt (C\$ m)	7,716	12,667	11,439	11,847
ROIC (%)	5.63	4.20	5.61	5.75
Number of shares (m)	215.34	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	22.9	EV/IC (x)		1.0
Net debt (Next Qtr., C\$ m)	7,950.8	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	121.9	Dividend yield (%)		0.95

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 31-Jul-2014)

Fortis Inc. (FTS.TO, C\$33.55, NEUTRAL, TP C\$32.0)

## Disclosure Appendix

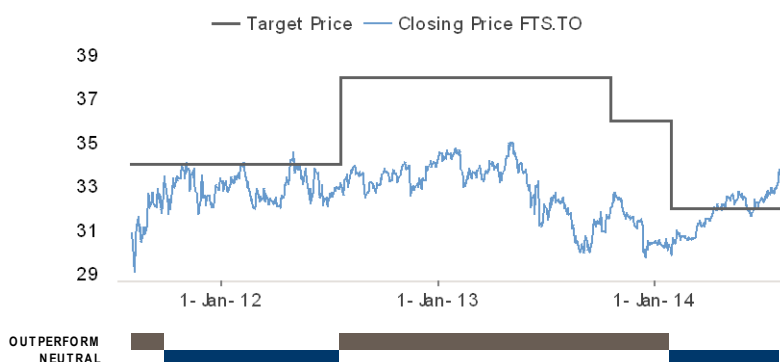
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
03-Aug-11	30.87	34.00	O
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(53% banking clients)
Neutral/Hold*	40%	(50% banking clients)
Underperform/Sell*	13%	(47% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (FTS.TO).

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.



## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (26 Sep 14, C\$)	34.12
Target price (C\$)	32.00 <sup>1</sup>
52-week price range	34.57 - 29.76
Market cap. (C\$ m)	7,347.78
Enterprise value (C\$ m)	20,014.36

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

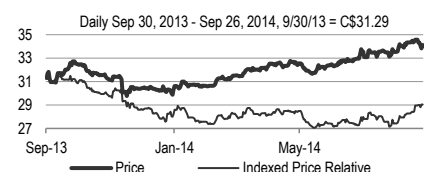
paul.tan@credit-suisse.com

### COMPANY UPDATE

## Realizing on Real Estate

- **Seeking strategy:** Fortis Inc. announced a "review of strategic options for its hotel and commercial real estate businesses" operating as Fortis Properties. We have long advocated for a pure play model with FTS monetizing the real estate and hospitality assets. Simply, the valuation delta between core utility and property assets is wide and shifting management thoughts look to seize attractive capital market asset segmentation. Exhibit 1 presents a wide range of applied multiples for selected comps albeit nothing is truly on point. Basic math points to FTS raising gross proceeds of more than C\$1bn. We believe any such monetization would result in capital being funneled into core utility operations across the existing portfolio rather than near-term potential acquisition activity (that seems much less likely).
- **Capital market segmentation:** As outlined in Exhibit 1, there does not appear to be a perfect comp for the FTS Properties' assets. In addition, the nature of the portfolio may constrain valuation to a certain degree and the manner of a potential monetization (e.g. trade sale, IPO, partial sale, etc.). On FTS data, a C\$1bn valuation would imply 12.5x EBTIDA and equate to a C\$200m gain against the identifiable assets and, among other factors, valuation accretion.
- **Investment thesis:** FTS is turning to life after the UNS acquisition issue that creates some stock market headwinds. In the near-term, we believe the FTS investor day will attempt to re-focus the Street on the internal capital visibility rather than acquisition oriented growth.
- **Valuation:** Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our NEUTRAL rating.

### Share price performance



On 09/26/14 the S&P/TSX Composite closed at 15026.77

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.27	0.24	0.45
2015E	0.67	0.38	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.60	1.92	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.9	21.3	17.8	16.8
P/E rel. (%)	108.1	127.9	121.1	126.0
Revenue (C\$ m)	4,047.0	4,618.0	5,926.7	6,329.1
EBITDA (C\$ m)	1,393.0	1,578.7	1,982.8	2,187.5
OCFPS (C\$)	4.10	3.71	3.71	4.26
P/OCF (x)	7.4	9.2	9.2	8.0
EV/EBITDA (current)	10.8	9.5	7.6	6.9
Net debt (C\$ m)	7,716	12,667	11,439	11,847
ROIC (%)	5.63	4.20	5.61	5.75
Number of shares (m)	215.35	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	22.9	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	7,950.8	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	121.9	Dividend yield (%)		0.94

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Exhibit 1 illustrates a broad range of comparable companies based on EBITDA for the Fortis Properties segment.

**Exhibit 1: Comparable trading multiples (EBITDA)**

Canadian Real Estate	2013	2014	2015
ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST	14.1x	21.0x	18.2x
ARTIS REAL ESTATE INVESTMENT TRUST	17.0x	16.9x	16.3x
American Hotel Income Properties REIT LP	34.8x	12.5x	8.6x
BTB REAL ESTATE INVESTMENT TRUST	14.1x	15.9x	12.9x
Holloway Lodging Corp	10.2x	N/A	N/A
Temple Hotels Inc.	11.6x	9.6x	8.8x
US Hospitality	2013	2014	2015
Choice Hotels International Inc.	17.4x	17.0x	15.5x
Hilton Worldwide Holdings Inc.	18.6x	14.5x	13.1x
Host Hotels & Resorts Inc.	15.9x	14.2x	13.1x
Hyatt Hotels Corp	13.6x	12.9x	11.7x
La Quinta Holdings Inc.	13.2x	11.9x	11.0x
Marriott International Inc.	19.8x	16.0x	14.3x
Starwood Hotels & Resorts Worldwide Inc.	14.3x	13.6x	12.5x
Wyndham Worldwide Corp	14.2x	11.8x	11.0x

Source: ThomsonOne

Obviously, several factors will affect the valuation obtained for these assets. For the sake of clarity, our existing valuation does not include the potential sale (in any manner) of the Fortis Properties segment. We will address this issue in due course as greater information becomes available.



**Companies Mentioned** (Price as of 26-Sep-2014)**Fortis Inc.** (FTS.TO, C\$34.12, NEUTRAL, TP C\$32.0)

## Disclosure Appendix

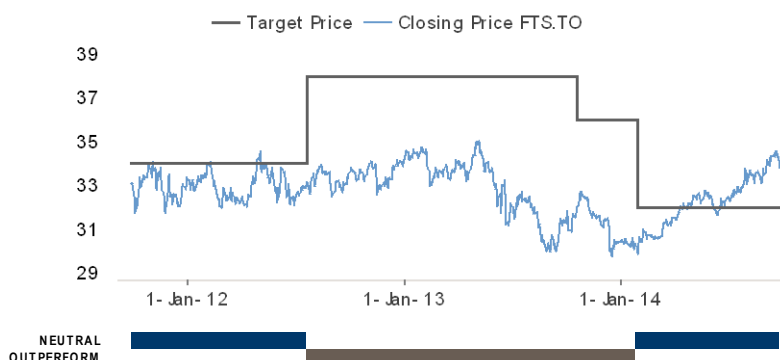
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
28-Sep-11	33.08	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(55% banking clients)
Neutral/Hold*	39%	(50% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (FTS.TO).

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

# FIRST EDITION CANADIAN ALERT

## HIGHLIGHTS FROM CANADA

### Estimate / Target Price Changes

#### Canadian International Oil and Gas Sector

Pressures Escalating Within a Commodity Update and Catalyst Schedule Review; Revising Estimates and Target Prices

D. Phung (Pg. 2)

#### Agnico Eagle Mines Limited (AEM.N, OUTPERFORM)

CM running well, CS seeing upside in 2015/16; Revising Estimates

A. Soni (Pg. 2)

### Company Updates

#### Fortis Inc. (FTS.TO, NEUTRAL)

Investor Day: Outlining an organic approach

A. M. Kuske (Pg. 3)

## HIGHLIGHTS FROM THE UNITED STATES

### Focus List

#### Agrium Inc. (AGU, OUTPERFORM)

3Q Pre-Announcement a Negative; On to '15; Lowering Estimates

C. Parkinson (Pg. 3)

### Estimate / Target Price Changes

#### Yamana Gold (AUY.N, OUTPERFORM)

CM running well, CS seeing upside in 2015/16; Lowering Estimates

A. Soni (Pg. 4)

### DISCLOSURE APPENDIXES (LINKED AND/OR AT THE BACK OF THIS REPORT) CONTAIN IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-U.S. ANALYSTS.

U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

CREDIT SUISSE SECURITIES RESEARCH & ANALYTICS

BEYOND INFORMATION®  
Client-Driven Solutions, Insights, and Access

## HIGHLIGHTS FROM CANADA

## ESTIMATE / TARGET PRICE CHANGES

## Canadian International Oil and Gas Sector

D. Phung

## Pressures Escalating Within a Commodity Update and Catalyst Schedule Review; Revising Estimates and Target Prices

403 476 6023

- Commodity Update - Macro and Brent: Credit Suisse has reduced its Brent forecast for all periods, projecting US\$97/bbl and US\$93/bbl in 2015E and 2016E, respectively. There is a bias toward lower Brent prices as strong non-OPEC supply growth, largely driven by increased US production, has overwhelmed global demand growth. While global oil supply and demand balances remain manageable, we assume in our base case that the Saudis will cut production to stabilize prices. (For a more robust discussion, please see "Brent at a Tipping Point".)
- Sector Review - Cashflow and Target Price Changes: We decrease our average CFPS estimates in our coverage space by ~9% and ~11% for 2014E and 2015E respectively, largely owing to the lower Brent projections. There are no ratings changes concurrent with our price deck update, but we decrease the target prices for most of the names under our coverage.
- Pacific Rubiales (U/P, TP C\$11.50) - Pressures Escalating: Within our coverage space, we believe Pacific Rubiales is the most sensitive to downside risk on oil prices and we lower our target price to C\$11.50 (from C\$16). With July 2014 gross production slipping to 180 kbbls/d at the Rubiales field, continued underperformance here reinforces our concerns regarding the company's booked reserves and further escalates pressure to raise production levels in the near term. Failure to do so renders our valuation generous.
- Latin America - Positive Catalysts Upcoming: We continue to recommend Gran Tierra (O/P, TP US\$8) and Parex Resources (O/P, TP C\$17.50) for exposure to Latin America, given their strong balance sheets and expected positive catalysts. For Gran Tierra, we continue to expect first production in Q4/14 at Bretana in Peru, as well as spudding of Bretana Sur that could move meaningful 3P reserves to 2P. For Parex, we continue to look forward to the company's upcoming reserve report in early 2015 that could continue to the trend of rapid 2P reserves growth.
- Bankers Petroleum (N, TP C\$7.50) - Opportunity Knocks? Among our Neutral-rated names, we favor Bankers Petroleum and recommend investors increase exposure at current prices. We expect near term newsflow to include results from its first dual lateral well. If successful, it could imply lower development costs moving forward and lead to greater capital efficiencies.

## Agnico Eagle Mines Limited (AEM.N)

OUTPERFORM

A. Soni

CP: US\$ 29.26

TP: US\$ 49

CAP: US\$ 6236m

1 416 352 4587

## CM running well, CS seeing upside in 2015/16; Revising Estimates

- Outperform rating and US\$49 maintained, view unchanged: Our NAV is slightly trimmed to US\$24.19/sh from US\$24.36 and FY15/16 OpCFa to \$2.65/sh from \$2.69/sh. AEM remains a top pick for its operational consistency, strong FCF and solid growth over the next two years. In our view AEM's premium valuation is justified due to its favourable geopolitical exposure, flexibility assets and demonstrated ability to optimize operations to add incremental value to the NAV.
- AEM and AUY co-hosted a tour of the Canadian Malartic JV (CMJV) highlighted areas for optimization under evaluation. CMJV noted that the mill is now operating above the 48-50ktpd it was achieving on acquisition, and the next focus will be to ramp the Malartic mill up from 50.7ktpd in Q2 to 52ktpd without additional capital. Our Malartic NAV was trimmed by \$30M to \$1.03B from \$1.06B previously based on a 55ktpd ultimate throughput.
- CS now models 55ktpd (from 60ktpd) as ultimate throughput, maintains prior 55ktpd ramp up trajectory: of 51ktpd in 2015, 53ktpd in 2016 (from 54ktpd) and 55ktpd in 2017. We continue to see an expansion potential at Malartic (to 60ktpd though we are not modelling it at this time).
- CS production estimates for Malartic increased in 2015 on grade: to 572koz from 555koz based on a higher grade est. of 1.07g/t from 1.04g/t. Grade reconciliation has been 4% better than expected on better mining and inherent grade of the crown pillars, which could continue to benefit grades in 2015/2016, CS models 3% better grade vs. prior estimates.
- Cost estimates for Malartic revised slightly higher: We now model LOM unit costs of \$19.28/t, above our prior \$18.49/t estimate.
- EPS revised for 2014-2016 to \$0.97/\$1.14/\$1.37 from \$1.00/\$1.13/\$1.39.



## COMPANY UPDATES

<b>Fortis Inc. (FTS.TO)</b>	<b>NEUTRAL</b>	<b>A. M. Kuske</b>
<b>CP: C\$ 34.57</b>	<b>TP: C\$ 32</b>	<b>416 352 4561</b>

**Investor Day: Outlining an organic approach**

- Investor day highlights: The inaugural Fortis Investor day was very well attended by the Street. In our view, the day provided a reasonable balance of depth and breadth of the Fortis asset base. Perhaps, the major takeaway from the day was the focus on organic growth for the near-term and the downplaying of acquisitions. Given the recent announcement to review strategic options for Fortis Properties, we believe FTS has tremendous capital flexibility in the near-term to easily fund a fairly large organic growth program. Simply, Fortis believes the 4-year CAGR of rate base growth from 2014-2018 will be roughly 7% and could increase to approximately 8.5% with some higher option value projects. Given the size of the Fortis asset base and the nature of the industry, that level of growth is relatively compelling and should be viewed positively.
- An acquisition reprieve: Given some issues associated with UNS financing, we believe FTS will be very focused on organic activities for the foreseeable future. Obviously, acquisitions will remain a part of FTS playbook and game plan, but these areas are not likely to gain significant attention at this time.
- Investment thesis: FTS is turning to life after the UNS acquisition issue that created some stock market headwinds. With the financing well behind FTS and a large slate of organic growth ahead, we believe that FTS is now focused on avoiding deal distractions and delivering high value added organic capital growth.
- Valuation: Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our Neutral rating.

## HIGHLIGHTS FROM THE UNITED STATES

## FOCUS LIST

<b>Agrium Inc. (AGU)</b>	<b>OUTPERFORM</b>	<b>C. Parkinson</b>
<b>CP: US\$ 87.97</b>	<b>TP: US\$ 110</b>	<b>212 538 6286</b>

**3Q Pre-Announcement a Negative; On to '15; Lowering Estimates**

- Magnitude of 3Q Pre-Announcement Somewhat Disappointing: AGU pre-announced after the close that 3Q14 EPS will be in the \$0.45-\$0.55 range, versus current consensus of \$0.67. We believe the miss to our number (and likely consensus) is due to three items, including (i) lower fungicide/insecticide applications (crop in excellent condition coupled w/ low prices resulting in a low incentive to spray), (ii) higher than expected costs due to the planned 45-day turn around at Redwater, and (iii) greater degree of Vanscoy expenses in 3Q; total 2H cost likely to exceed our est. of \$40mm. We are adjusting our 3Q est to \$0.52, 4Q to \$0.90 and 2015 to \$8.00 (from \$8.31). We are lowering our 2014 EPS estimates to \$5.85 from \$6.28.
- '14 a Year NOT to Remember; '15 More Promising Despite Headwinds: While we believe 2014 has thus far been a difficult year for AGU (particularly 1H14), 2015 is poised to be much more promising. We base this comment on some key themes, including (i) less production disruptions and lower costs in nitrogen (meaningful offset to lower prices), (ii) full cost and production pendulum swing in the potash segment (expect ~60% volume increase on easy comp due to downtime), (iii) further cost management and execution within the retail segment. While we remain positive on AGU in the long term, we fully concede that negative ag sentiment will likely continue to keep the stock range bound over the near term.
- Investor Day on November 5th Integral to Long Term Thesis: We believe the upcoming investor day will likely be a positive catalyst for the stock, with management likely reinforcing Vanscoy's projected ramp-up time (on-time, but potentially more expensive), better execution in nitrogen, and further improvements in retail, including incremental opportunities with Viterra.



**ESTIMATE / TARGET PRICE CHANGES**

<b>Yamana Gold (AUY.N)</b>	<b>OUTPERFORM</b>	<b>A. Soni</b>
<b>CP: US\$ 5.91</b>	<b>TP: US\$ 10</b>	<b>1 416 352 4587</b>

**CM running well, CS seeing upside in 2015/16; Lowering Estimates**

- Outperform rating and US\$10 maintained, view unchanged: Our NAV is slightly trimmed to US\$5.02/sh from US\$5.06 and FY15/16 OpCFA to \$0.61/sh from \$0.62/sh. We are Outperform on AUY as we believe the company reached an inflection point in Q2 on operational performance and cash flow. We see AUY's operational performance improving due to H2 loaded production, reduced spending and refocus on the lower cost, higher quality mines given reduced market expectations for the recent start-ups.
- AEM and AUY co-hosted a tour of the Canadian Malartic mine on September 30. The asset is running well and in line with our expectations. The 50/50 Canadian Malartic JV (CMJV) highlighted areas for optimization under evaluation. CMJV noted that the mill is now operating above the 48-50ktpd it was achieving on acquisition, and the next focus will be to ramp the Malartic mill up from 50.7ktpd in Q2 to 52ktpd without additional capital. Our Malartic NAV was trimmed by \$30M to \$1.03B from \$1.06B previously based on a 55ktpd ultimate throughput.
- CS now models 55ktpd (from 60ktpd) as ultimate throughput, maintains prior 55ktpd ramp up trajectory: of 51ktpd in 2015, 53ktpd in 2016 (from 54ktpd) and 55ktpd in 2017. We continue to see an expansion potential at Malartic (to 60ktpd though we are not modelling it at this time).
- CS production estimates for Malartic increased in 2015 on grade: to 572koz from 555koz based on a higher grade est. of 1.07g/t from 1.04g/t. Grade reconciliation has been 4% better than expected on better mining and inherent grade of the crown pillars, which could continue to benefit grades in 2015/2016, CS models 3% better grade vs. prior estimates.
- Cost estimates for Malartic revised slightly higher: We now model LOM unit costs of \$19.28/t, above our prior \$18.49/t estimate.
- EPS revised to \$0.15/\$0.24/\$0.16 from \$0.18/\$0.24/\$0.17.

All headline prices are as of the previous day's close unless otherwise noted.

**Companies Mentioned** (Price as of 01 Oct 14)

Agnico Eagle Mines Limited (AEM.N, US\$29.26, OUTPERFORM, TP US\$49)  
 Agrium Inc. (AGU, US\$87.97, OUTPERFORM, TP US\$110.00)  
 Bankers Petroleum Ltd. (BNK.TO, C\$5.26, NEUTRAL, TP C\$7.5)  
 Fortis Inc. (FTS.TO, C\$34.57, NEUTRAL, TP C\$32)  
 Gran Tierra (GTE.A, US\$5.43, OUTPERFORM, TP US\$8)  
 Pacific Rubiales (PRE.TO, C\$19.07, UNDERPERFORM, TP C\$11.5)  
 Parex Resources Inc. (PXT.TO, C\$12.59, OUTPERFORM, TP C\$17.5)  
 Yamana Gold (AUY.N, US\$5.91, OUTPERFORM, TP US\$10)

## Disclosure Appendix

### Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

**Restricted (R):** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:**

**Overweight:** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight:** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight:** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

<b>Global Rating Distribution*</b>		
<b>Outperform/Buy*</b>	44%	(55% banking clients)
<b>Neutral/Hold*</b>	39%	(50% banking clients)
<b>Underperform/Sell*</b>	14%	(43% banking clients)
<b>Restricted</b>	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

**Important Regional Disclosures**

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

**Taiwanese Disclosures: This research report is for reference only. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. Reports may not be reprinted without permission of CS. Reports written by Taiwan-based analysts on non-Taiwan listed companies are not considered recommendations to buy or sell securities under Taiwan Stock Exchange Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers.**

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.

The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trade Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at [www.credit-suisse.com/ti](http://www.credit-suisse.com/ti).

**To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:**

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- David Phung, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc.
- Anita Soni, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc.
- Andrew M. Kuske, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Canada), Inc.

**Important Credit Suisse HOLT Disclosures**

With respect to the analysis in this report based on the Credit Suisse HOLT methodology, Credit Suisse certifies that (1) the views expressed in this report accurately reflect the Credit Suisse HOLT methodology and (2) no part of the Firm's compensation was, is, or will be directly related to the specific views disclosed in this report.

The Credit Suisse HOLT methodology does not assign ratings to a security. It is an analytical tool that involves use of a set of proprietary quantitative algorithms and warranted value calculations, collectively called the Credit Suisse HOLT valuation model, that are consistently applied to all the companies included in its database. Third-party data (including consensus earnings

estimates) are systematically translated into a number of default variables and incorporated into the algorithms available in the Credit Suisse HOLT valuation model. The source financial statement, pricing, and earnings data provided by outside data vendors are subject to quality control and may also be adjusted to more closely measure the underlying economics of firm performance. These adjustments provide consistency when analyzing a single company across time, or analyzing multiple companies across industries or national borders. The default scenario that is produced by the Credit Suisse HOLT valuation model establishes the baseline valuation for a security, and a user then may adjust the default variables to produce alternative scenarios, any of which could occur. Additional information about the Credit Suisse HOLT methodology is available on request.

The Credit Suisse HOLT methodology does not assign a price target to a security. The default scenario that is produced by the Credit Suisse HOLT valuation model establishes a warranted price for a security, and as the third-party data are updated, the warranted price may also change. The default variables may also be adjusted to produce alternative warranted prices, any of which could occur.

CFROI®, HOLT, HOLTfolio, HOLTSelect, ValueSearch, AggreGator, Signal Flag and “Powered by HOLT” are trademarks or service marks or registered trademarks or registered service marks of Credit Suisse or its affiliates in the United States and other countries. HOLT is a corporate performance and valuation advisory service of Credit Suisse.

Additional information about the Credit Suisse HOLT methodology is available on request.

---

### Important MSCI Disclosures

The MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an “as is” basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Credit Suisse.

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

Disclaimers continue on next page.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: [https://www.credit-suisse.com/who\\_we\\_are/en/](https://www.credit-suisse.com/who_we_are/en/). This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Slom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.



# Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (01 Oct 14, C\$)	34.57
Target price (C\$)	32.00 <sup>1</sup>
52-week price range	34.62 - 29.76
Market cap. (C\$ m)	7,444.68
Enterprise value (C\$ m)	20,111.27

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

### Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

### Paul Tan

416 352 4593

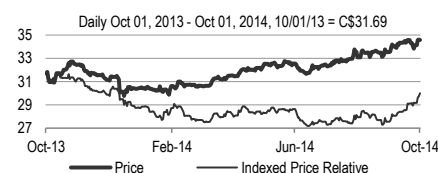
paul.tan@credit-suisse.com

## COMPANY UPDATE

## Investor Day: Outlining an organic approach

- **Investor day highlights:** The inaugural Fortis Investor day was very well attended by the Street. In our view, the day provided a reasonable balance of depth and breadth of the Fortis asset base. Perhaps, the major takeaway from the day was the focus on organic growth for the near-term and the downplaying of acquisitions. Given the recent announcement to review strategic options for Fortis Properties ([link](#)), we believe FTS has tremendous capital flexibility in the near-term to easily fund a fairly large organic growth program. Simply, Fortis believes the 4-year CAGR of rate base growth from 2014-2018 will be roughly 7% and could increase to approximately 8.5% with some higher option value projects. Given the size of the Fortis asset base and the nature of the industry, that level of growth is relatively compelling and should be viewed positively.
- **An acquisition reprieve:** Given some issues associated with UNS financing, we believe FTS will be very focused on organic activities for the foreseeable future. Obviously, acquisitions will remain a part of FTS playbook and game plan, but these areas are not likely to gain significant attention at this time.
- **Investment thesis:** FTS is turning to life after the UNS acquisition issue that created some stock market headwinds. With the financing well behind FTS and a large slate of organic growth ahead, we believe that FTS is now focused on avoiding deal distractions and delivering high value added organic capital growth.
- **Valuation:** Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our Neutral rating.

## Share price performance



On 10/01/14 the S&P/TSX Composite closed at 14805.44

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.27	0.24	0.45
2015E	0.67	0.38	0.35	0.53

## Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.60	1.92	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	21.2	21.6	18.0	17.0
P/E rel. (%)	109.5	129.6	122.7	127.6
Revenue (C\$ m)	4,047.0	4,618.0	5,926.7	6,329.1
EBITDA (C\$ m)	1,393.0	1,578.7	1,982.8	2,187.5
OCFPS (C\$)	4.10	3.71	3.71	4.26
P/OCF (x)	7.4	9.3	9.3	8.1
EV/EBITDA (current)	10.9	9.6	7.7	6.9
Net debt (C\$ m)	7,716	12,667	11,439	11,847
ROIC (%)	5.63	4.20	5.61	5.75
Number of shares (m)	215.35	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	22.9	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	7,950.8	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	121.9	Dividend yield (%)		0.93

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Obviously, we believe minimal value exists in summarizing an entire investor day. We view some of the notable items to highlight include:

- Ongoing organic growth; and,
- Financials.

Each of these areas is address in more detail below.

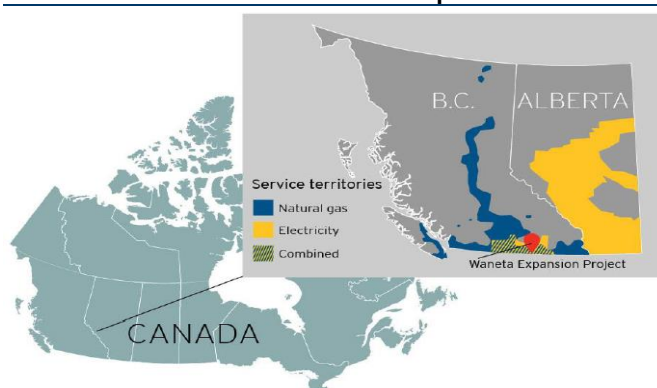
## Ongoing organic growth

In this section, as presented, we address the major Fortis business groups for coherence.

### Western Canada

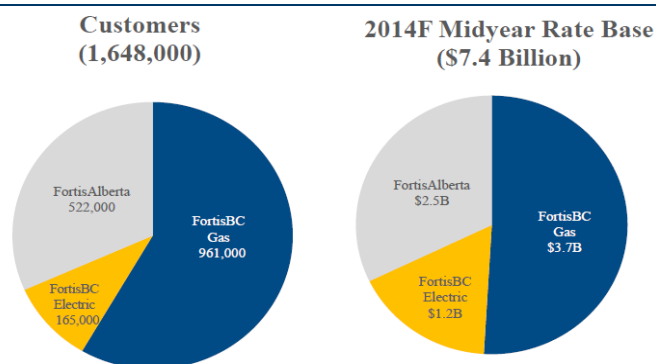
Exhibit 1 and Exhibit 2 provide a perspective of location and the customer breakdown along with the 2014 mid-year rate base by asset group, respectively.

**Exhibit 1: Western Canadian asset map**



Source: Company data

**Exhibit 2: Western Canadian customer and rate base**

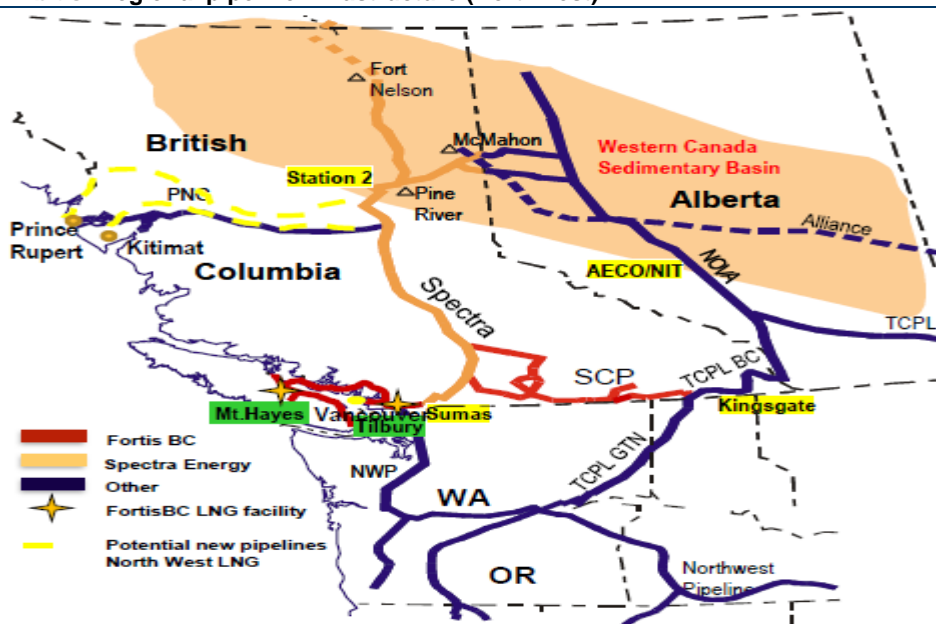


Source: Company data

In our view, there is very interesting potential for the Fortis BC natural gas assets to deliver some outsized growth in the future given the existing asset base and LNG related capital flowing into the Province. Exhibit 3 illustrates some of the regional pipeline infrastructure.

LNG related growth potential in the BC assets

**Exhibit 3: Regional pipeline infrastructure (Northwest)**

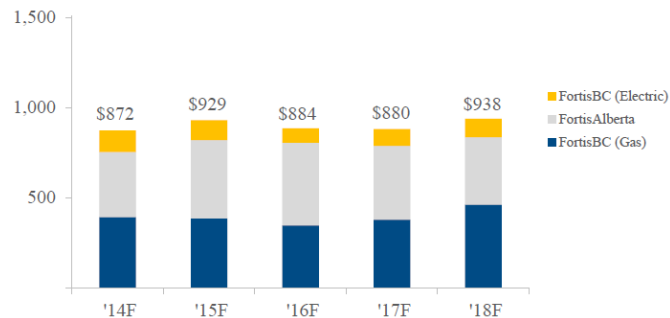


Source: Company data



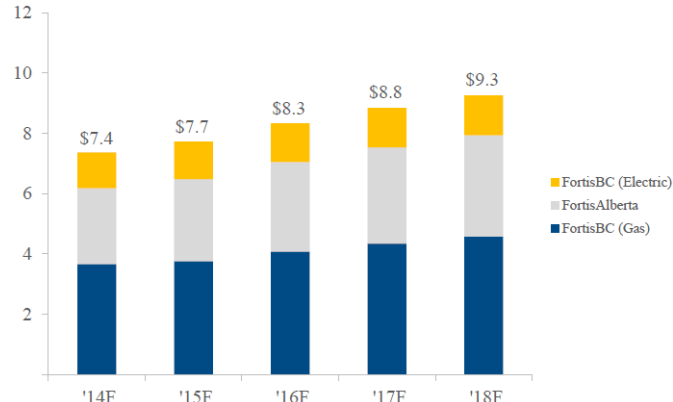
A fairly robust amount of capex and rate base growth is captured in Exhibit 4 and Exhibit 5, respectively.

**Exhibit 4: 5-year capex plan (C\$4.5 billion)**  
in millions, unless otherwise stated



Source: Company data

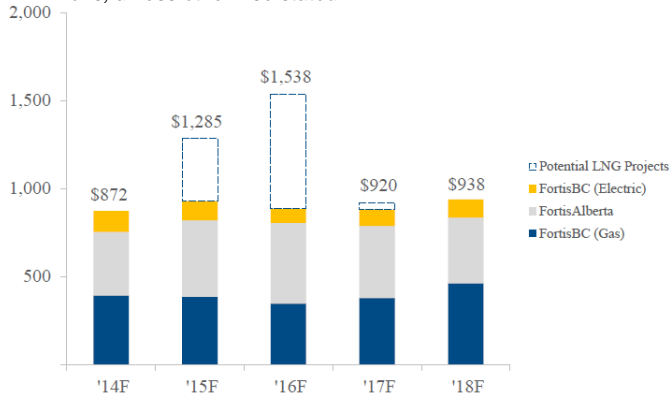
**Exhibit 5: Rate base growth**  
in billions, unless otherwise stated



Source: Company data

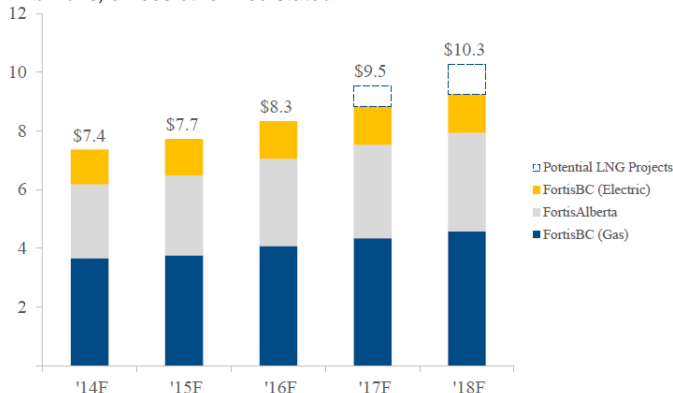
Notably, the Woodfibre LNG pipeline expansion along with the Tilbury LNG projects may meaningfully add to this base capital program as shown in Exhibit 6 and Exhibit 7.

**Exhibit 6: 5-year capex plan w/ LNG (C\$5.6 billion)**  
in millions, unless otherwise stated



Source: Company data

**Exhibit 7: Rate base growth with potential LNG projects**  
in billions, unless otherwise stated



Source: Company data

## UNS Energy

Exhibit 8 highlights the service territory of UNS Energy that helps provide perspective on this potential platform for future growth.

**Exhibit 8: UNS Energy service territory**

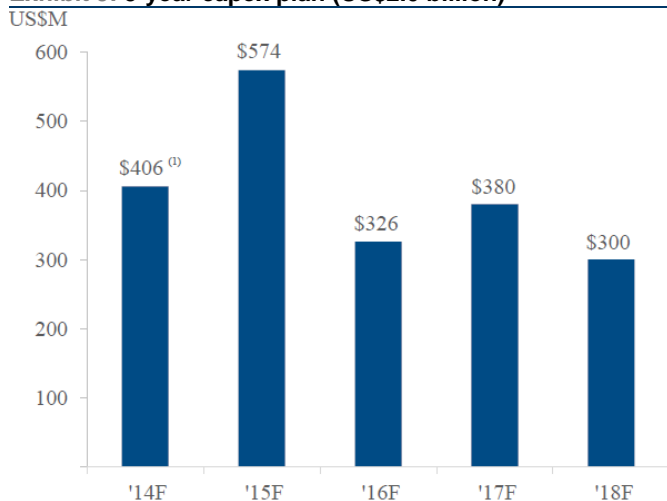


Ample growth opportunities from the US asset base

Source: Company data, Credit Suisse estimates

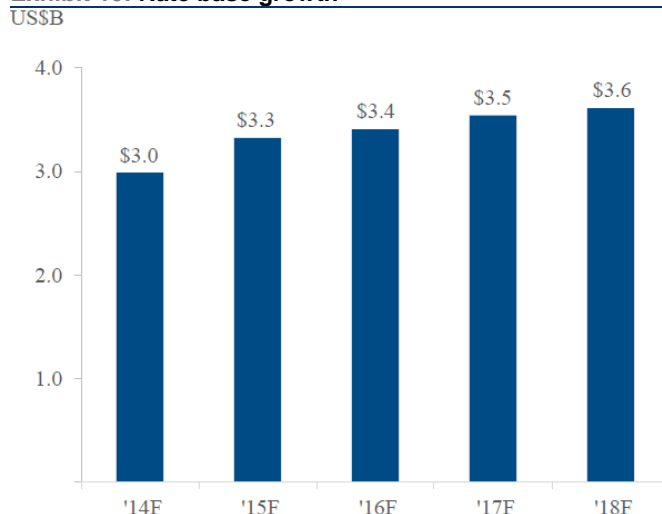
These utility assets face considerable capital spend for more moderate rate base growth as is illustrated in Exhibit 9 and Exhibit 10, respectively.

**Exhibit 9: 5-year capex plan (US\$2.0 billion)**



Note: from the date of acquisition, August 15, 2014. Source: Company data

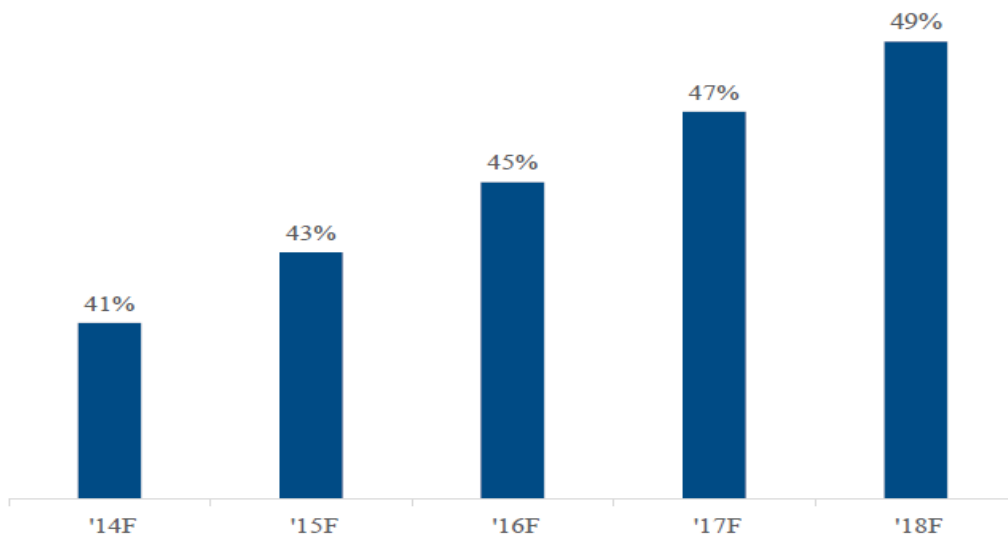
**Exhibit 10: Rate base growth**



Note: includes ACC and FERC jurisdictional rate base. Source: Company data

A future area to watch is the glide path to improved equity capitalization at UNS Energy as illustrated in Exhibit 11. Clearly, a greater level of equity may help with financing costs, total returns and regulatory relationships.

**Exhibit 11: UNS Energy Corp. equity/capitalization**



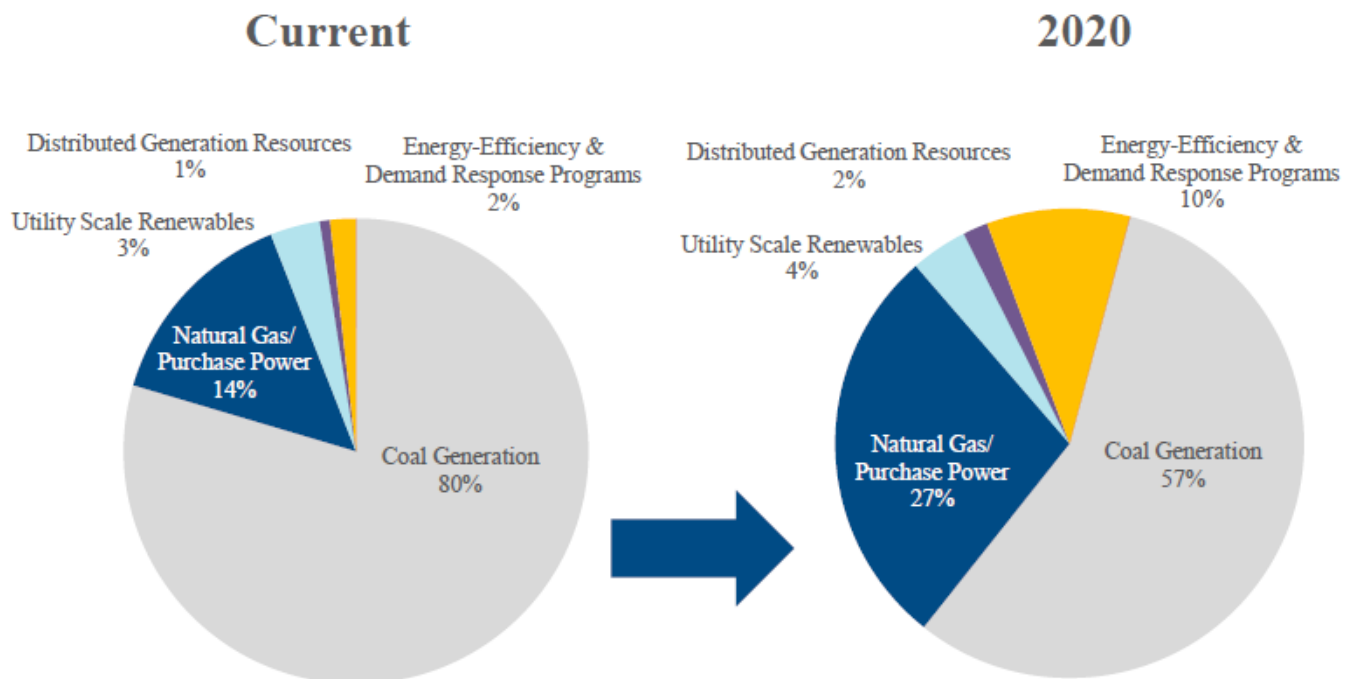
Improved equity capitalization at UNS

Source: Company data

One of the major factors helping drive rate base growth at the UNS business is the change in power generation dynamics in Arizona. The evolution of the power market, in part, is a function of environmental rules along with some other factors. Yet, the transition is very notable as appears in Exhibit 12.

Power generation dynamics a major issue to watch with UNS

**Exhibit 12: Tucson Electric Power (TEP) integrated resource plan**



Source: Company data

We believe a key UNS issue to watch is the actual core utility earnings against the allowed returns after the Gila and Springville purchases.

## Eastern Canada and Caribbean

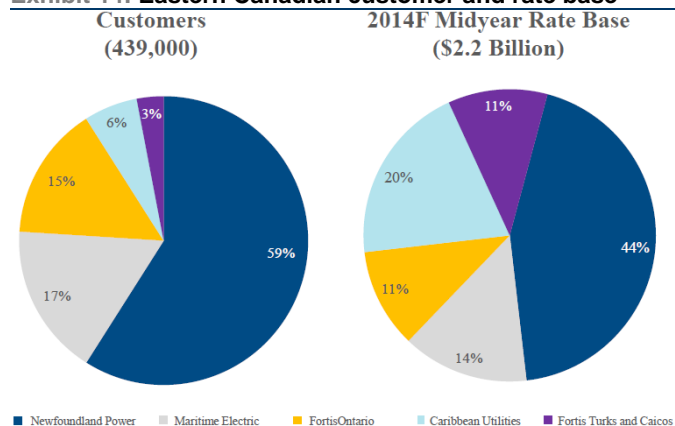
Over the years, Fortis managed to significantly diversify away the core Newfoundland asset based as can be seen by the asset map and the rate base breakdown in Exhibit 13 and Exhibit 14, respectively.

**Exhibit 13: Eastern Canadian asset map**



Source: Company data

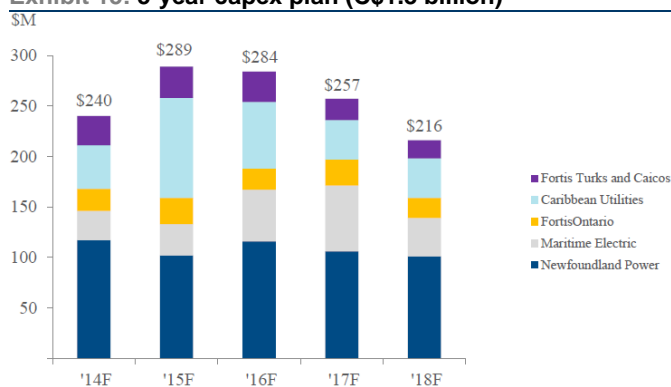
**Exhibit 14: Eastern Canadian customer and rate base**



Source: Company data

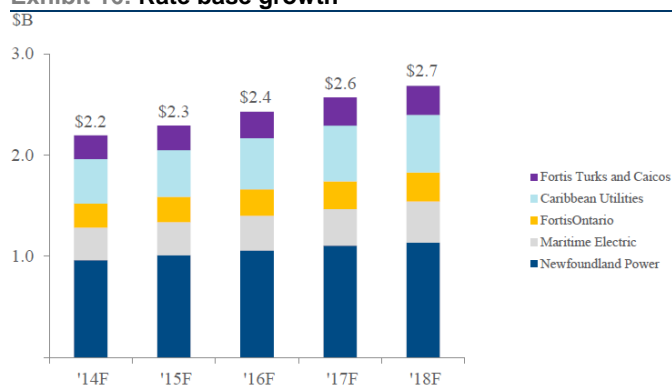
Exhibit 15 and Exhibit 16 illustrate this group's capex plan and rate base growth.

**Exhibit 15: 5-year capex plan (C\$1.3 billion)**



Source: Company data

**Exhibit 16: Rate base growth**

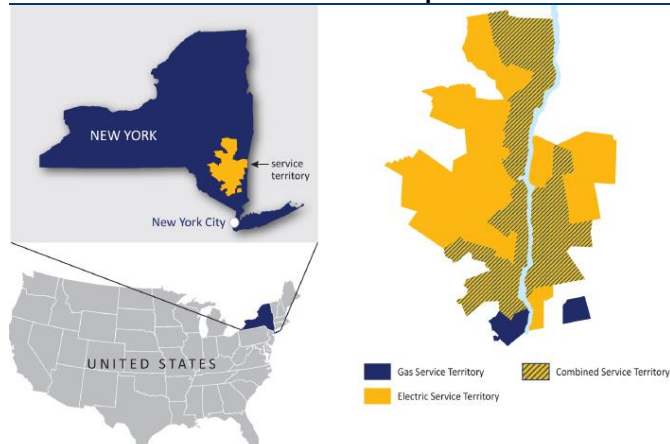


Source: Company data

## Central Hudson Gas and Electric

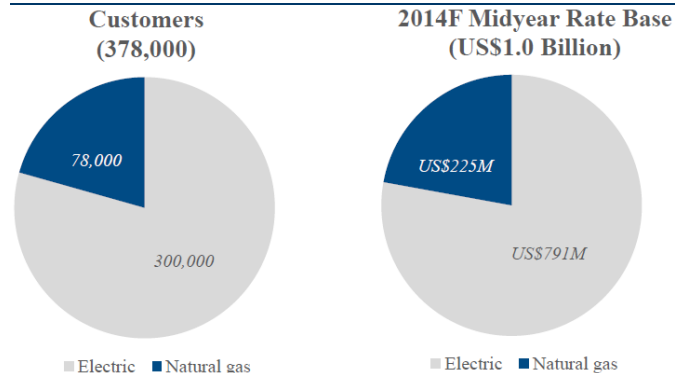
An overview of Central Hudson's geographic location, the customer base and rate base appear in Exhibit 17 and Exhibit 18.

**Exhibit 17: Central Hudson asset map**



Source: Company data

**Exhibit 18: Central Hudson customer and rate base**



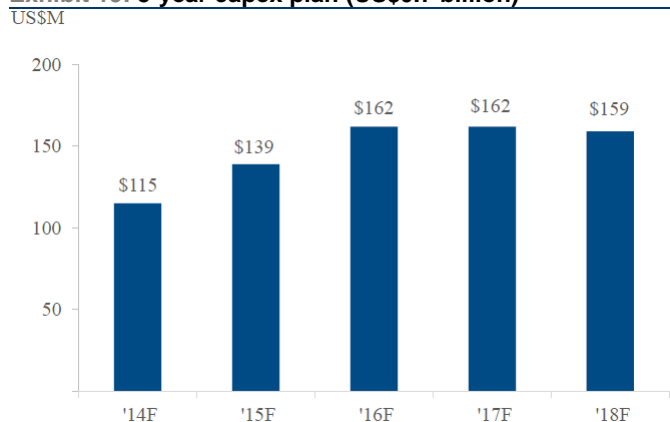
Source: Company data

During the regulatory process associated with CH a number of concessions were made in order to complete the transaction. One of those concessions was a rate freeze that runs until June 30, 2015. Management stated that new rates to be in place after the rate freeze that ends would be a good indication for the run rate earnings of the business. Beyond that dynamic, CH growth opportunities through electric transmission with NY Transco (a utility consortium) and US\$250m-US\$500m of potential gas transmission projects for regional shale production from the Marcellus to southern New York.

Other growth opportunities beyond the core utilities

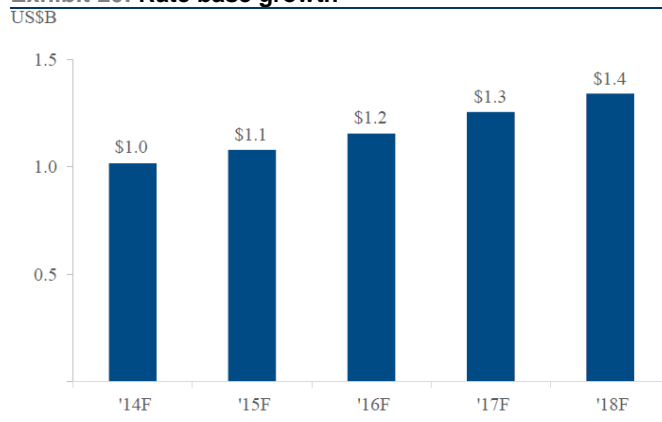
CH's 5-year capex plan and rate base appears in Exhibit 19 and Exhibit 20, respectively.

**Exhibit 19: 5-year capex plan (US\$0.7 billion)**



Source: Company data

**Exhibit 20: Rate base growth**



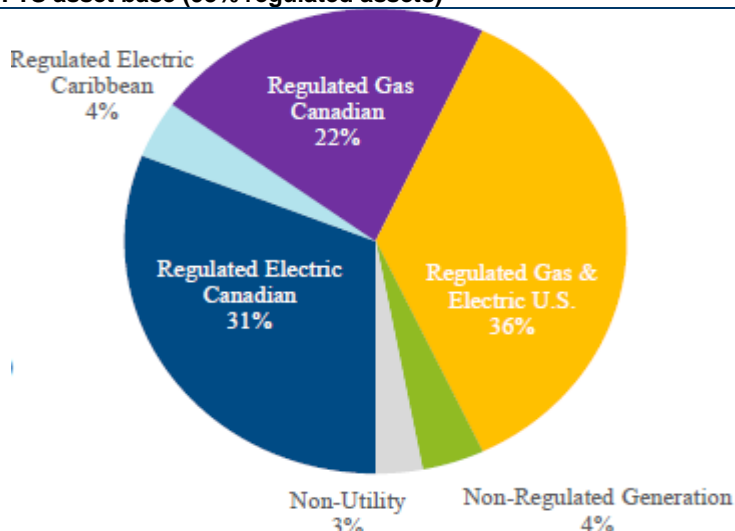
Source: Company data

## Financials

Fortis Inc. asset base consists of the following:

- Regulated Utilities
  - 9 utilities
  - C\$22.6 billion of assets

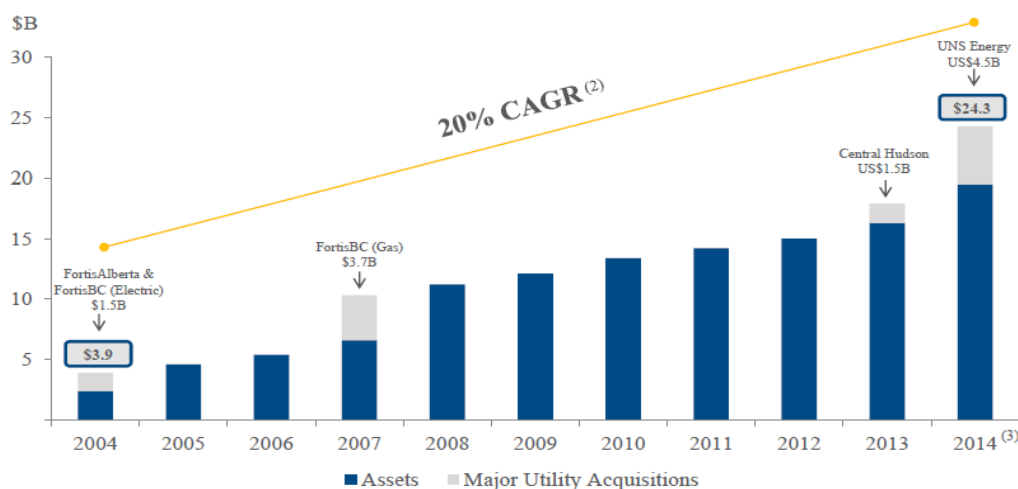
- Servicing 3.1 million customers (1.6m electric, 1.5m gas)
- Non-regulated
  - Hydroelectric generation
  - Non-utility (hotels and real estate)
  - C\$1.7 billion of assets

**Exhibit 21: FTS asset base (93% regulated assets)**

A regulated asset skew

Source: Company data

With the potential divestiture of the Fortis Properties division along with ongoing rate base growth from existing assets, we believe the regulated skew will continue to increase. This growth will come from organic activity rather than acquisitions that tended to have a big impact on the asset base over the years (Exhibit 22).

**Exhibit 22: Asset base growth**

Note: (1) Financial information 2010 through 2013 prepared under US GAAP; prior to 2010 prepared under previous Canadian GAAP (2) Compound annual growth rate (3) As at June 30, 2014, on a pro forma basis, including UNS Energy. Source: Company data

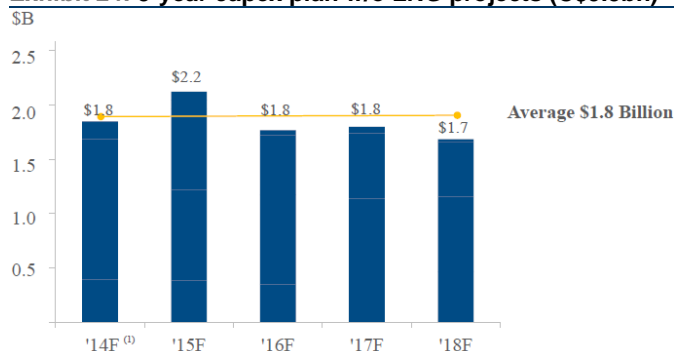
Fortis stated that equity financing is not required for the remaining funding associated with the UNS transaction as highlighted in Exhibit 23 totaling US\$500m. Given the potential for a significant amount of proceeds from the Fortis Properties divestiture, we do not envision any major issues with this funding requirement.

**Exhibit 23: Financing UNS Energy acquisition**

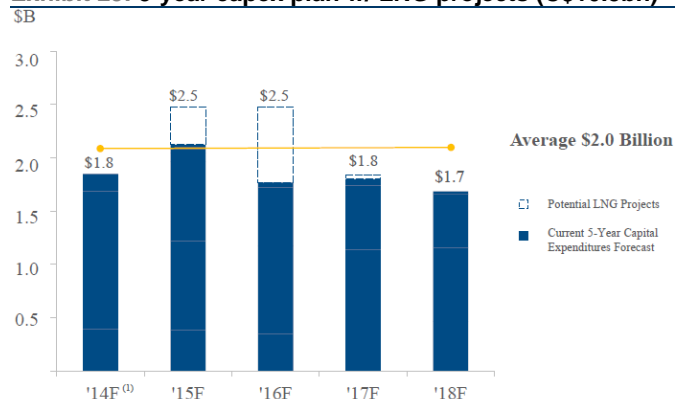
(US\$B)	2014
Cash required to fund UNS Energy Acquisition	2.6
Financing Plan:	
Cash on hand	0.5
Rate-reset preference share issue (Sept 2014)	0.5
Final installment of convertible debentures (Oct 2014)	1.1
	<u>2.1</u>
Balance to permanently finance	<u>0.5</u>

Source: Company data

Additionally, FTS stated that a meaningful amount of equity (beyond the DRIP program) will not be required to fund the 5-year capital program appearing in Exhibit 24. Yet, there may be a need for external common equity in the event the LNG projects proceed as per Exhibit 25.

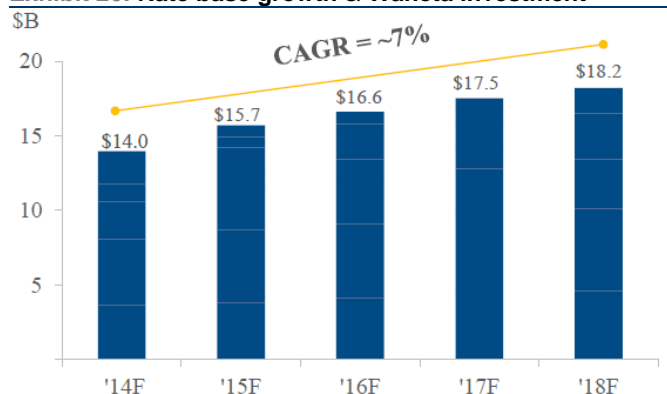
**Exhibit 24: 5-year capex plan w/o LNG projects (C\$9.3bn)**

Note: (1) includes forecast capital expenditures for UNS Energy from the date of acquisition, August 15, 2014 Source: Company data

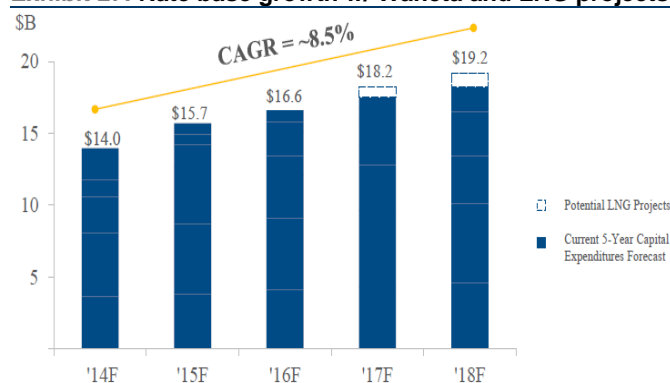
**Exhibit 25: 5-year capex plan w/ LNG projects (C\$10.3bn)**

Note: (1) includes forecast capital expenditures for UNS Energy from the date of acquisition, August 15, 2014 Source: Company data

On a consolidated basis, Exhibit 26 and Exhibit 27 highlight the rate base growth in both the "with" and "without" LNG project scenarios.

**Exhibit 26: Rate base growth & Waneta investment**

Source: Company data

**Exhibit 27: Rate base growth w/ Waneta and LNG projects**

Source: Company data

Positively, Fortis is very well positioned with value creating organic growth for the years to come.



**Companies Mentioned** (Price as of 01-Oct-2014)**Fortis Inc.** (FTS.TO, C\$34.57, NEUTRAL, TP C\$32.0)

## Disclosure Appendix

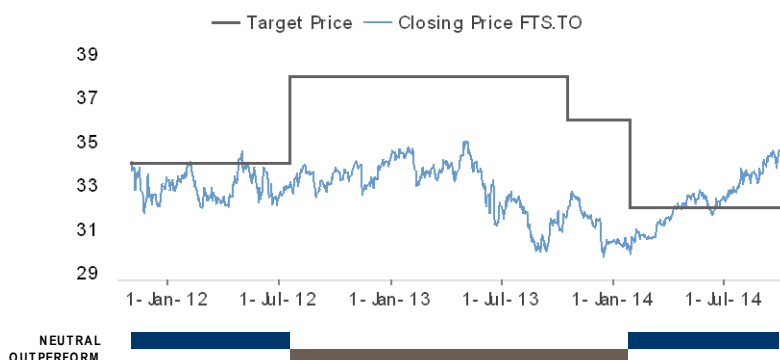
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
03-Nov-11	34.06	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(55% banking clients)
Neutral/Hold*	39%	(50% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (FTS.TO).

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

# Canadian Energy Infrastructure

## Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

## THEME

## Opening up the Ontario opportunities on the horizon; Fortis would be a front-runner

- **A political process:** In an ongoing process, Ed Clark, Chair of the Advisory Council on Government Assets delivered a speech foreshadowing the final report's direction to be released next year. Simply, radical changes for Ontario's electricity system owned by Ontario Power Generation and Hydro One are not in the plan. Yet, we believe some opportunities may exist for the currently exposed investor owned electric utility companies (FTS) along with potential for more partnership activities in the power and transmission realm. Potential opportunities may arise for various others, including: the Brookfield Group (BAM, BIP, BEP); Emera; Enbridge Inc., Fortis; and, TransCanada.
- **Speech highlights:** The title of the speech was "Retain and Gain: Making Ontario assets work better for ratepayers, taxpayers and consumers". That title's tone is clear for the Council's position on three assets: LCBO, H1 and OPG. The Council's mandate aims to provide options for these assets to help "maximizing their value to the people of Ontario". The Council's view is that roughly C\$2-C\$3bn could be freed up and invested in transportation assets without increasing the overall debt or deficit which would help solve the infrastructure issues in the Province. Ultimately, "[t]hese investments would create jobs directly and indirectly through removing impediments to economic growth." Currently, the Council has support in principle from the key management teams along with a Government go-ahead for the next phase. As stated by the Council, moving from framework to implementation and execution is challenging as "[t]he devil is often in the details."
- **Selected stocks:** Clearly, policy statements have wide interpretation at this point; however, issues around Ontario's electric distribution utilities may be most impactful. The consolidation of Ontario's municipal electric utilities is an interesting trend for many companies including: AQN, BIP, CU, EMA, ENB, FTS. Given the existing Ontario electric utility exposure, we view FTS as possibly the best positioned to benefit from a MEU consolidation. Beyond the MEUs, we believe some private sector expertise along with capital may be very beneficial for certain power investments along with new transmission projects. These trends could be helpful for BEP, CU, EMA, ENB, TRP.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

The full text of Mr. Clark's speech is available at:

<http://news.ontario.ca/mof/en/2014/10/remarks-delivered-by-ed-clark-chair-of-the-advisory-council-on-government-assets-at-the-metro-toront.html>

Some of the notable quotes setting the foundational elements include:

"We prefer a more measured approach - each step of which improves what we have and actually gets things done rather than adds to the list of reports never implemented."

"The Council was also guided by the government's desire to find the financial capacity to fund needed transit and transportation infrastructure in the Province."

"But we kept several things in mind."

"First - as mentioned, government's preference is to retain ownership of core assets. The Council also believes you should not rush to sell assets - rushed sales are not in the public interest. Any sale must be a carefully staged and competitive process."

"Second - we asked whether the government is, indeed, the best owner of these assets, and the purpose served by government ownership. Would a company - in private hands - be better able to serve the consumer or ratepayer? Would bringing in the private sector unlock a company which could grow and create jobs?"

"Third - these assets all earn income for the Ontario government - income which is important given its deficit position. But the proceeds of any divestiture aren't likely to be reinvested into new income-generating assets. The new infrastructure assets may add enormous value to the Province, and in turn, create income for the Province in the medium-term. But in the short-term, there is likely to be an income loss. The Council was very mindful of that impact. So, in order to offset any loss of income, it became all the more critical to improve the performance of the assets retained by the government."

"And finally, the Council members agreed that swapping ownership in infrastructure assets can make sense. But it is important that the funds raised are used to invest in assets that deliver high societal or economic returns to the Province. The government has made clear that funds raised in this process will be used to invest in transit and transportation infrastructure. Improved infrastructure will allow the economy to grow faster, create more jobs, and increase both competitiveness and productivity. In addition, of course, there are jobs directly created by undertaking the investments."

In relation to the timeline, the Council intends to provide a final report in the Spring to help inform the Provincial Government's budgeting process.

Specific to the power sector, we believe the following quotes are useful for context:

"We believe that OPG needs to focus on its major project - the Darlington refurbishment - and on improving its operations and lowering its costs. We also believe that Hydro One should concentrate on lowering its costs.... these improvements will reduce pressure on electricity rates"

"In the case of Hydro One, there is an opportunity to address a long-term problem in the electrical distribution system - the excess number of small players."



"...we would keep the core of Hydro One - its transmission business - but we would reduce the government's ownership in two assets forming part of Hydro One - Hydro One Brampton and the distribution business within Hydro One Networks. We suggest doing so in a manner which can spur needed consolidation in the electricity distribution industry. Such consolidation could reduce pressure on rising electricity rates from what they would have been, as well as improve the adaptability of the electricity distribution system."

"However, there are huge challenges related to Ontario's local electricity distribution system. We are locked into a system with too many entities, some of them highly inefficient, that cannot adapt to the changing environment and lack capital to modernize or consolidate....  
...Consolidation will facilitate efficiencies, reducing costs which will reduce electricity rates from what they would have been. It will also improve adaptability of the system and create companies which can grow and create jobs."

"In conjunction with using the distribution companies to encourage consolidation, we will review the current barriers and incentives that have been identified which impede consolidation, and suggest possible changes to them. We will undertake that in our next phase."

On OPG, the Council sees two very different businesses: nuclear and others. On the nuclear side of the business, the "core issue is the refurbishment of Darlington. This is a project which carries enormous risks.... We recommend a laser focus on making sure Darlington comes on line safely, on time, and on budget."

"There are a number of things that OPG management can do to save money and improve performance. They agree in principle with our initial findings and will explore modifying their business plans to incorporate them over time. Any savings will ultimately accrue to the ratepayers. This is a good thing."

In summary, the Council's approach is attempting to secure wins "for the ratepayers, consumers and taxpayers and the citizens of Ontario who need better infrastructure." We believe the Council's plans should be watched, in particular, for the potentially significant changes for Ontario's LDCs.



**Companies Mentioned** (Price as of 18-Oct-2014)

**Brookfield Asset Management** (BAM.N, \$45.38)  
**Brookfield Infrastructure Partners LP** (BIP.N, \$38.21)  
**Brookfield Renewable Energy Partners** (BEP\_u.TO, C\$33.8)  
**Canadian Utilities Limited** (CU.TO, C\$38.88)  
**Emera Inc.** (EMA.TO, C\$35.36)  
**Enbridge Inc.** (ENB.TO, C\$50.98)  
**Fortis Inc.** (FTS.TO, C\$34.85)  
**TransCanada Corp.** (TRP.TO, C\$52.71)

## Disclosure Appendix

### Important Global Disclosures

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

### As of December 10, 2012 Analysts' stock rating are defined as follows:

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	45%	(54% banking clients)
Neutral/Hold*	39%	(50% banking clients)
Underperform/Sell*	13%	(43% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names*

The subject company (ENB.TO, BIP.N, EMA.TO, TRP.TO, FTS.TO, CU.TO, BEP\_u.TO, BAM.N) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (ENB.TO, BIP.N, EMA.TO, TRP.TO, CU.TO, BEP\_u.TO, BAM.N) within the past 12 months.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO, BAM.N) within the past 12 months

Credit Suisse has managed or co-managed a public offering of securities for the subject company (ENB.TO, EMA.TO, TRP.TO, BEP\_u.TO, BAM.N) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (ENB.TO, BIP.N, EMA.TO, TRP.TO, CU.TO, BEP\_u.TO, BAM.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (ENB.TO, BIP.N, EMA.TO, TRP.TO, FTS.TO, CU.TO, BEP\_u.TO, BAM.N) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO, BAM.N) within the past 12 months

As of the date of this report, Credit Suisse makes a market in the following subject companies (BIP.N, BAM.N).

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (FTS.TO).

For other important disclosures concerning companies featured in this report, including price charts, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

## Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (EMA.TO, FTS.TO, CU.TO) within the past 12 months

An analyst involved in the preparation of this report has visited certain material operations of the subject company (ENB.TO, BIP.N, TRP.TO, BEP\_u.TO, BAM.N) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

Credit Suisse has acted as lead manager or syndicate member in a public offering of securities for the subject company (ENB.TO, BIP.N, EMA.TO, TRP.TO, BEP\_u.TO, BAM.N) within the past 3 years.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	<b>NEUTRAL*</b>
Price (06 Nov 14, C\$)	37.42
Target price (C\$)	32.00 <sup>1</sup>
52-week price range	37.75 - 29.76
Market cap. (C\$ m)	10,262.75
Enterprise value (C\$ m)	22,643.11

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

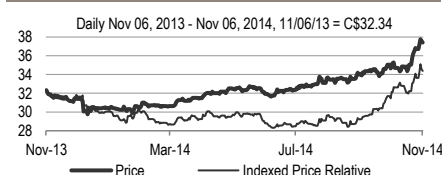
paul.tan@credit-suisse.com

### RESULTS

## At a glance: Adjustments aplenty

- **Earnings review:** Fortis reported Q3 2014 headline EPS (FD) of C\$0.06 and an adjusted C\$0.33. In our view, an adjusted number of roughly C\$0.22 should exclude C\$16m one time acquisition related expenses and customer benefits, but should include C\$23m of convertible interest and make-whole. The approach is best compared to our C\$0.24 view and the Street's C\$0.25 estimate in a range of C\$0.17-C\$0.34, but clearly there is some dispersion and the potential for different methodologies. Rather positively, we believe the FTS focus for the next 12-18 months will be robust organic growth rather than M&A. In addition, the possible Fortis Properties sale should be viewed positively for funding and focus. Given the long-cycle nature of many assets, we do not place undue emphasis on quarterly results.
- **Selected notable items:** Highlights include: (a) FTS continues to provide a robust capital expenditure outlook of C\$1.8bn for 2014 (up from C\$1.4bn due mainly to an additional C\$450m from UNS); (b) the 5-year capex outlook (2014 to 2018) is expected to exceed C\$9bn and this figure is larger than the prior C\$6.5bn (ex-C\$1.5bn from UNS); and, (c) the Fortis Properties review process started in October and "is expected to continue through the balance of 2014 and into 2015".
- **Conference call:** FTS will hold an inaugural quarterly results conference call at 10:00 am (eastern). The call will be accessible via 1-877-223-4471 or at 647-788-4922.
- **Valuation:** Our target price of C\$32.00 is on an implied yield of 4.13% and a yield spread of roughly 138 bps on a 2.75% Canadian 10-year. We maintain our Neutral rating.

### Share price performance



On 11/06/14 the S&P/TSX Composite closed at 14563.38

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.24	0.24	0.45
2015E	0.66	0.38	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.58	1.92	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	23.0	23.7	19.5	18.4
P/E rel. (%)	132.1	157.9	146.9	154.6
Revenue (C\$ m)	4,047.0	4,711.3	5,926.7	6,329.1
EBITDA (C\$ m)	1,393.0	1,568.6	1,982.8	2,187.5
OCFPS (C\$)	4.10	4.30	3.71	4.26
P/OCF (x)	7.4	8.7	10.1	8.8
EV/EBITDA (current)	12.9	11.4	9.0	8.2
Net debt (C\$ m)	7,716	12,380	11,150	11,556
ROIC (%)	5.63	4.22	5.69	5.83
Number of shares (m)	274.26	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	22.6	EV/IC (x)		1.3
Net debt (Next Qtr., C\$ m)	7,898.2	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	121.4	Dividend yield (%)		0.86

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



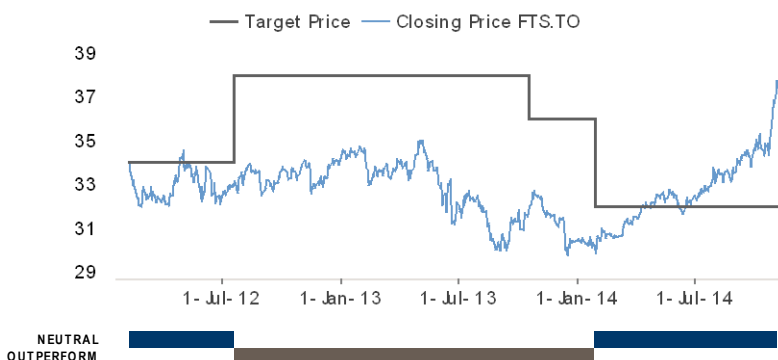
**Companies Mentioned** (Price as of 06-Nov-2014)**Fortis Inc.** (FTS.TO, C\$37.42, NEUTRAL, TP C\$32.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
09-Feb-12	33.89	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	46%	(54% banking clients)
Neutral/Hold*	39%	(51% banking clients)
Underperform/Sell*	13%	(44% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$32.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 4.13% and an imputed 138 bps spread over a 2.75% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$32.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research



analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Canadian Infrastructure

### Research Analysts

**Andrew M. Kuske**  
416 352 4561  
andrew.kuske@credit-suisse.com

**Paul Tan**  
416 352 4593  
paul.tan@credit-suisse.com

### UPGRADE RATING

## DDM delights; BIP, EMA, ENB, FTS, TRP to OP

- **Dividend appeal:** In most developed markets, the majority of market returns comes from dividends over a period of time. This report is a companion note to our *Ideas Engine* report entitled "*Yearning for Yield: Valuing Canada's Dividend-Focused Stocks*." Accordingly, as a companion note, we provide greater focus to some of our core stock views. That report used the dividend discount model to analyze valuations across much of the yield-oriented portions of the Canadian capital market. Based on this analysis and specifically in relation to our infrastructure coverage, we made several stock rating upgrades and a few material target price changes. A summary version of those changes appears in Exhibit 1.

### Exhibit 1: Major rating and target price changes

Company	Rating		Target Price	
	Old	New	Old	New
Brookfield Infrastructure Partners	Neutral	Outperform	US \$ 42.00	US \$ 46.00
Emera Inc.	Outperform	Outperform	C \$ 40.00	C \$ 44.00
Enbridge Inc.	Neutral	Outperform	C \$ 52.00	C \$ 70.00
Fortis Inc.	Neutral	Outperform	C \$ 32.00	C \$ 44.00
TransCanada Corp.	Neutral	Outperform	C \$ 58.00	C \$ 68.00

Source: Company data, Credit Suisse estimates.

- **Methodology:** Our analysis is supported by the dividend discount model in the simple form and covers many Canadian dividend oriented stocks. The use of consensus data helped reduce bias with our calculations of forward data. Essentially, we calculated the "g" along with dividend data to solve for "k" in the DDM formula. We tended to focus on stocks with high discount ("k") rates and stocks having rather lower rates and a lack of dividend growth.
- **Selected stocks:** Based on our analysis, the cheapest stocks on a discount rate basis ("k") were BIP, CU, and ENB. We regard EMA and TRP as re-rating stories given their future growth outlooks along with capital flexibility that is not captured in the historic data. Ultimately, we favour stocks with visible dividend growth that is not appropriately discounted in the stock price today. Such a view compelled upgrades of BIP, ENB, FTS, and TRP. In addition, we had a material target price change for EMA while reiterating our OP rating. Finally, we also note CU (already OP rated) screened well in our work. A major factor in our ratings and target price changes was a modest revision to the underlying expected Canadian 10-year bond yield. Simply, we revised our forward Canada 10-year expectation to 2.50% from 2.75% and that compares to the current 2.02%.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This report is divided into three parts:

- A longer-term view of interest rates;
- Dividend delights; and
- Company-specific commentary.

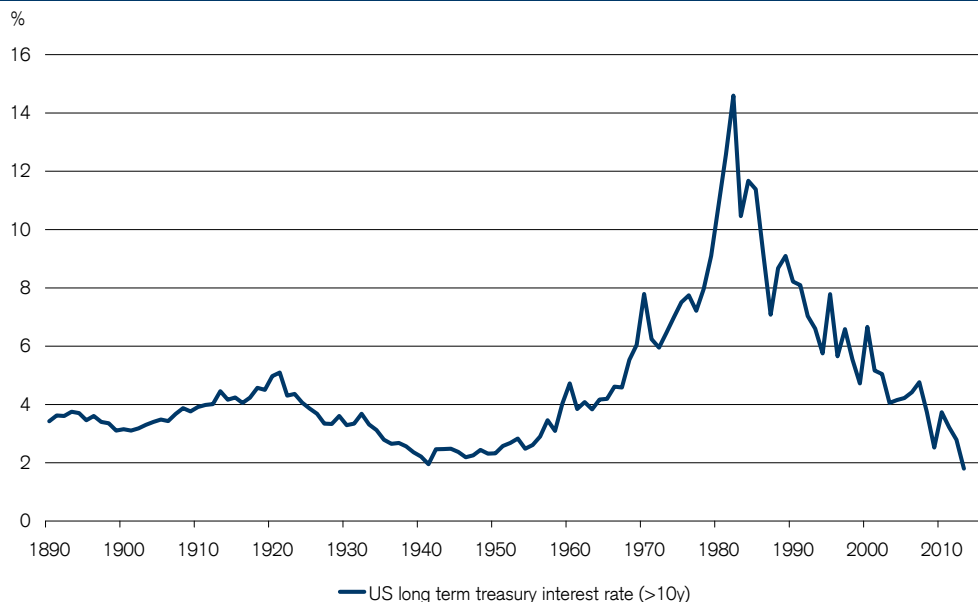
Each of these areas is addressed in greater detail below.

## A longer-term view of interest rates

Clearly, interest rates are a critical part of valuation for infrastructure companies. Therefore, we start with a longer-term perspective of US long-term interest rates in Exhibit 2.

Longer-term interest rates at relatively benign levels

**Exhibit 2: US long-term interest rate (long series)**

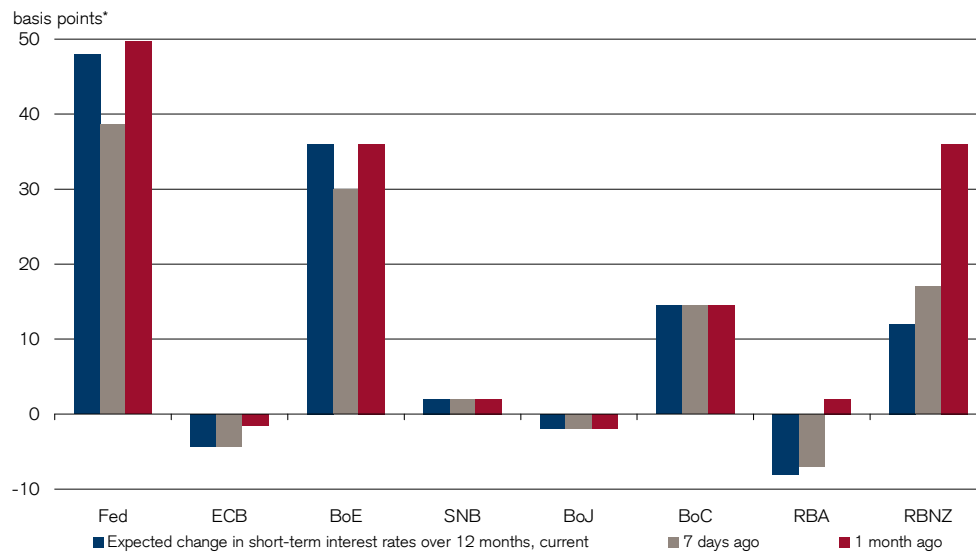


Source: S. Homer, R.J. Shiller, Datastream, Credit Suisse / IDC.

The movements in underlying long-term sovereign rates are critical in our view for many valuation methodologies, including: discounted cash flows; dividend discount models; price-earnings ratios; EV/EBITDA; and, price to book. Relying upon the risk-free rate is a clear link with the capital pricing asset model and opens a debate around the cyclical nature of interest rates and spot valuations. With this backdrop, we believe the historical view of interest rates is extremely important.

Rate movements are critical for valuation impacts

Rates are relatively low at this juncture; however, the existing forward interest rate expectations are critical to appreciate. On a short-term basis, but with a forward view, we consider Exhibit 3 with cumulative interest rate expectations over the next 12-months that look fairly benign.

**Exhibit 3: Cumulative Interest Rate Expectations over Next 12 Months**

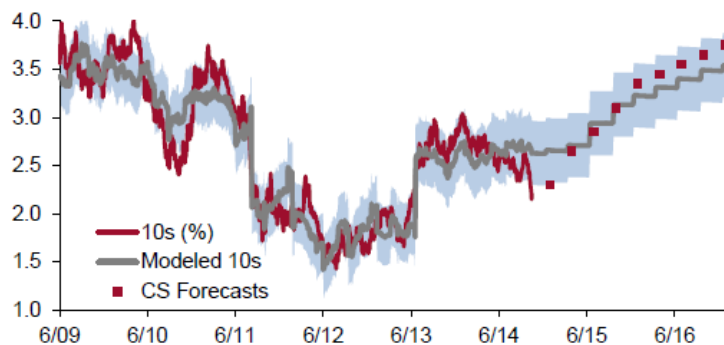
Source: Bloomberg, Credit Suisse / IDC.

Our US interest rate team continues to forecast a modestly rising rate environment across the term structure as appears in Exhibit 4 below.

**Exhibit 4: US Interest Rate Forecasts**

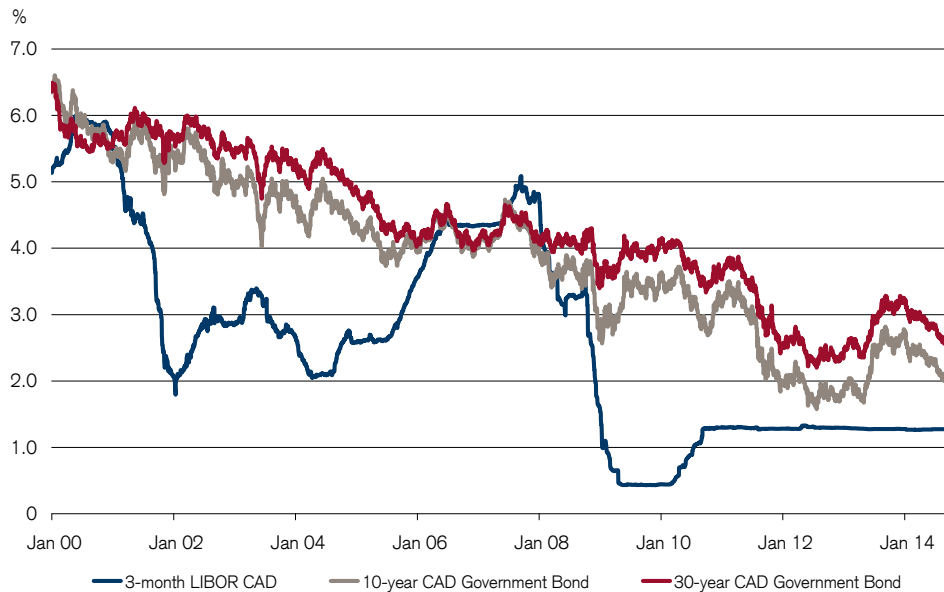
Forecasts	10/16/2014	12/31/14	3/31/15	6/30/15	9/30/15	12/31/15	3/31/16	6/30/16	9/30/16	12/31/16
2s	0.38	0.50	0.65	1.25	1.75	2.00	2.25	2.50	2.75	2.90
5s	1.43	1.55	1.90	2.25	2.65	2.90	3.10	3.25	3.40	3.55
10s	2.21	2.30	2.65	2.85	3.10	3.35	3.45	3.55	3.65	3.75
30s	2.98	3.10	3.45	3.55	3.70	3.90	3.90	3.90	3.90	3.90
2s5s	1.05	1.05	1.25	1.00	0.90	0.90	0.85	0.75	0.65	0.65
2s10s	1.84	1.80	2.00	1.60	1.35	1.35	1.20	1.05	0.90	0.85
5s10s	0.78	0.75	0.75	0.60	0.45	0.45	0.35	0.30	0.25	0.20
5s30s	1.55	1.55	1.55	1.30	1.05	1.00	0.80	0.65	0.50	0.35
10s30	0.77	0.80	0.80	0.70	0.60	0.55	0.45	0.35	0.25	0.15

CS rates team calling for modestly rising US rates



Source: Credit Suisse.

To provide some Canadian perspective, Exhibit 5 illustrates various Canadian yields since 2000.

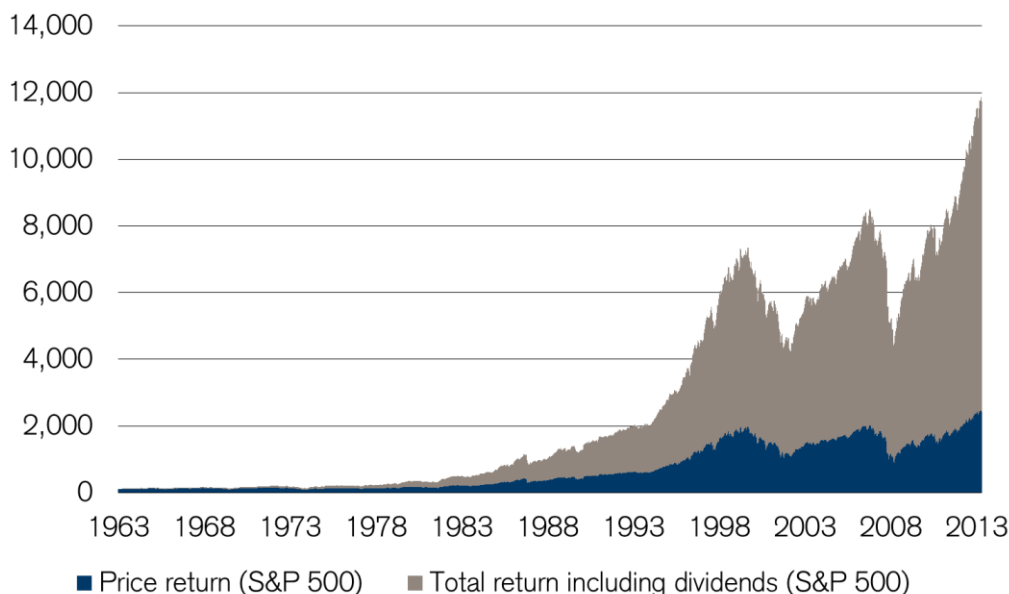
**Exhibit 5: Yields Canada: short and long rates since 2000**

Source: Bloomberg, Credit Suisse / IDC

## Dividend delights

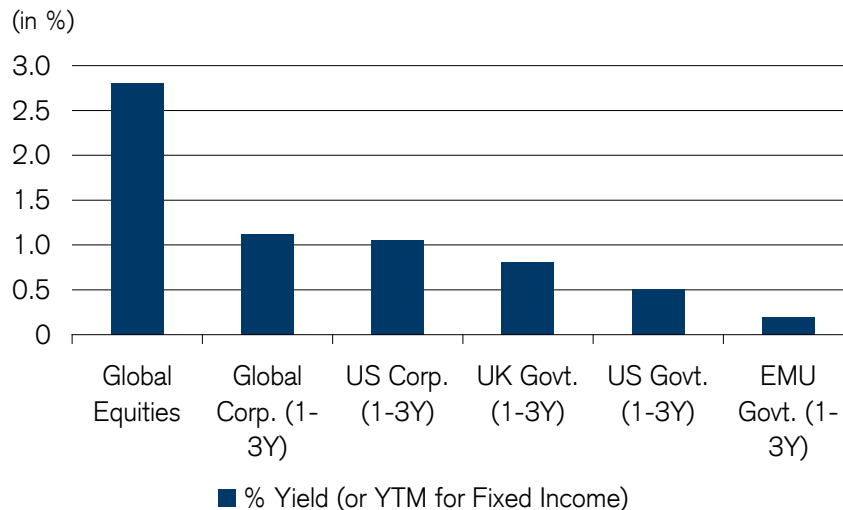
There is considerable academic evidence about the importance of dividends on long-term returns. Depending on the market, the duration and, among other factors, the data set, the role of dividends on total returns ranges from 40-70% of total market returns. Clearly, there is a compounding nature of dividends in a total return analysis over a period. We believe this dynamic is partly captured in Exhibit 6.

Dividends deliver significant returns over time

**Exhibit 6: S&P 500 price vs. dividend returns**

Source: Credit Suisse .

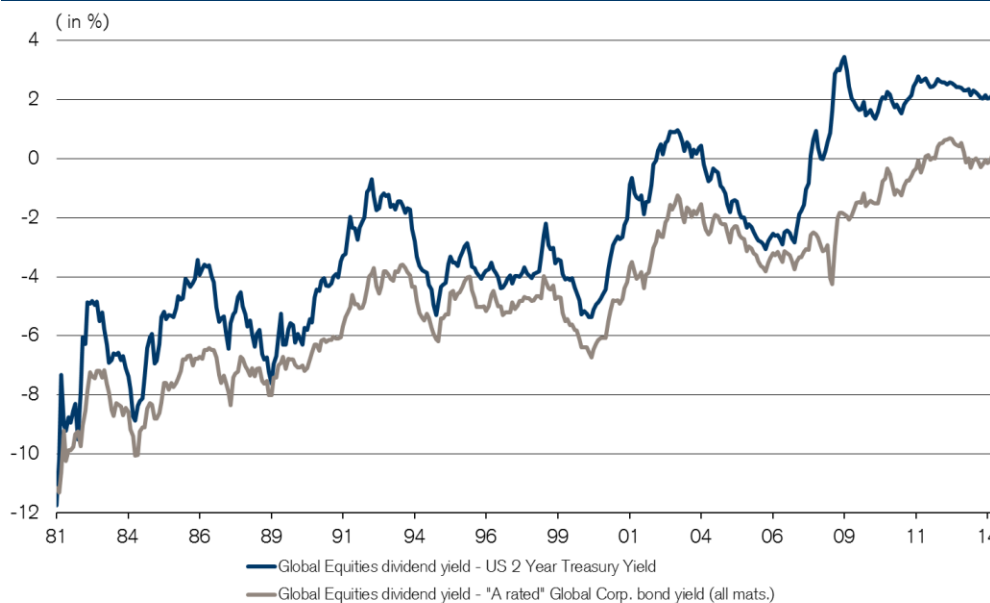
At this time of historically low interest rates, the relative yield between a broad equity MSCI benchmark dividend yield is higher than on many fixed income assets. Exhibit 7 illustrates this dynamic.

**Exhibit 7: Dividend yields are higher than bond yields**

Dividend yields have a relative attraction

Source: Credit Suisse/IDC, Datastream, Credit Suisse / IDC.

Obviously, a spot comparison of various fixed income products against equities may not be a truly fair or sensible comparative. Yet, we believe there is a clear value in considering these dividend yields against bond yield spreads as appears in Exhibit 8.

**Exhibit 8: Yield spreads have increased**

A spread perspective

Source: Credit Suisse/IDC, Datastream, Credit Suisse / IDC.

Notably, the spreads between dividend yield and bond/corporate bond yields have risen significantly in recent years. From our vantage point, this dynamic illustrates both the relative valuation of equities/bonds as well as the historically high yield differential. One of the potential implications of the wider spread is the equity market is discounting the sustainability of the lower interest rate environment. There are clearly other factors to consider with this relationship. Yet, we wish to focus upon the attraction and allure of dividends in the current low interest rate environment.

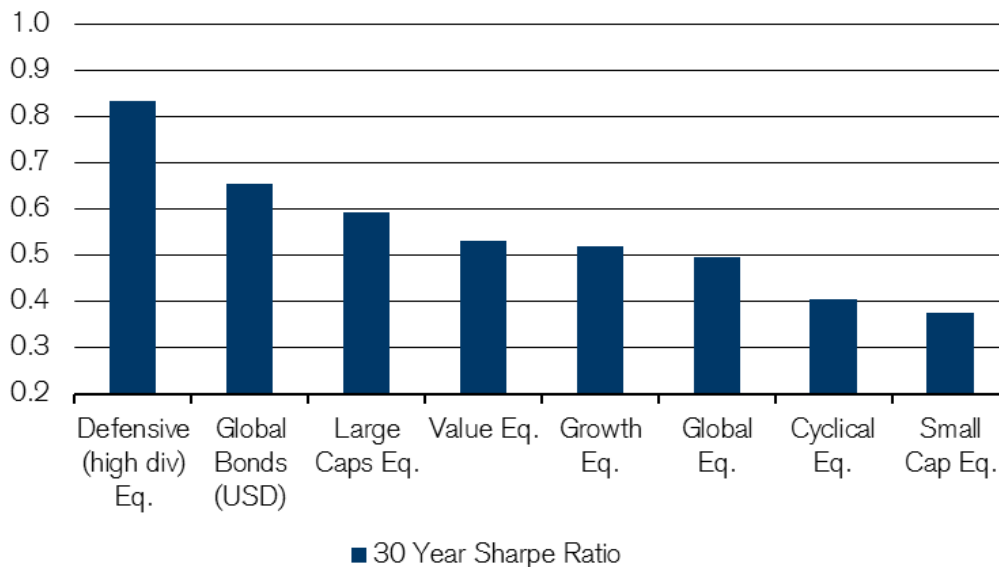
Many factors behind the spread relationship

An interesting observation from the data is the difference between the compounded and average returns. Notably, a larger delta between those factors means the more significant an impact of market corrections on any one strategy. A higher beta strategy has a much lower compound return versus the 'average' return indicating the strategy struggles to



recover from drawdowns. For additional perspective, we put the Sharpe ratio comparison in Exhibit 9 below as a ratio of return to risk for multiple metrics.

**Exhibit 9: Sharpe ratio (ratio of return to risk)**



Yield strategies with leading 30-year Sharpe ratios

Source: Credit Suisse, Datastream

As discussed in our *Ideas Engine* report, over the long term, a dividend focused portfolio strategy has generated: (a) superior performance; (b) lower volatility; and, (c) additional diversification benefits.

## Company specific commentary

For a variety of reasons, the broadly defined infrastructure sector (including pipelines, power generation and, among others, utilities) has a high degree of interest rate sensitivity. We view yield related valuation methodologies as being a significant part of a multi-faceted framework. Ultimately, the question of the longer-term sustainable dividend growth rate is critical for infrastructure assets in our view. The *Ideas Engine* report contains considerable data regarding our DDM approach across a number of companies within and outside our coverage universe. That work should be consulted for more specific dividend discount model analytics. In this portion of the report, we address the following companies in more detail:

Significant rate sensitivity in the infrastructure sector

- Brookfield Infrastructure Partners;
- Emera;
- Enbridge Inc.;
- Enbridge Income Fund;
- Fortis; and,
- TransCanada.

Americas / Canada  
Multi Utilities

# Brookfield Infrastructure Partners LP (BIP)

Rating (from Neutral) **OUTPERFORM\***  
 Price (17 Nov 14, US\$) 40.54  
 Target price (US\$) (from 42.00) 46.00<sup>1</sup>  
 52-week price range 42.65 - 35.72  
 Market cap. (US\$ m) 8,511.15  
 Enterprise value (US\$ m) 14,698.26

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

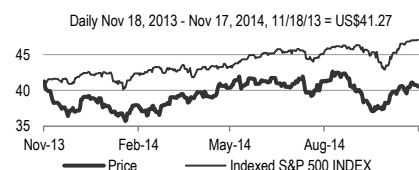
416 352 4593

paul.tan@credit-suisse.com

## Mispriced distribution growth with embedded organic development and M&A potential

- **Upgrading to Outperform:** Based on our analytics, we believe Brookfield Infrastructure Partners has mispriced distribution growth. That growth looks to be supported by ongoing organic development along with M&A potential. As per our Ideas Engine report, on a DDM basis, our calculated historical 5-year "k" is 17.8% for BIP with a 9.8% growth rate (2014-15 on consensus). In our view, that "k" value is undemanding and was clearly skewed upwards in the financial crisis along by a much smaller BIP at the time of the original Brookfield Asset Management spin. We view BIP as uniquely positioned in our coverage universe given a global platform, the BAM relationship, a mild degree of economic sensitivity and, among other things, the capital recycling potential to support an M&A program. Given the valuation comparative and outlook, we upgrade BIP to Outperform from Neutral and increase our target price to US\$46 from US\$42.
- **Positive progress:** BIP's US\$1.2bn self-stated backlog looks poised to grow with an expanding platform in terms of geography and business lines. As a result, we believe the LP is well positioned to deepen and extend the backlog. Clearly, some stocks in our universe have more robust growth plans with greater duration. Yet, we view BIP as uniquely positioned, with some economically sensitive assets that would benefit from global industrial production growth. Excluding the merchant power players, this sensitivity puts BIP in a different position from many others in our coverage universe.
- **Investment thesis:** Broadly, Brookfield's reputation for value investing with a duration bias has tended to create value. That potential value creation should drive DPU growth with a relatively low amount of risk.
- **Valuation:** Our target of US\$46 implies a distribution yield of 4.52% and a spread of 202 bps over an assumed 2.50% Canadian 10-year bond yield.

## Share price performance



On 11/17/14 the S&P 500 INDEX closed at 2042.39

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.27	0.47	0.12	-0.65
2014E	0.33	0.04	0.44	0.47
2015E	0.54	0.56	0.54	0.54

## Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	0.15	1.47	2.19	2.47
Prev. EPS (US\$)	—	—	—	—
P/E (x)	279.2	27.5	18.5	16.4
P/E rel. (%)	NM	172.6	129.4	127.9
Revenue (US\$ m)	1,826.0	2,395.3	3,094.2	3,288.1
EBITDA (US\$ m)	893.0	1,094.2	1,316.0	1,401.9
OCFPS (US\$)	3.36	3.22	4.00	4.30
P/OCF (x)	11.7	12.6	10.1	9.4
EV/EBITDA (current)	16.3	13.3	11.1	10.4
Net debt (US\$ m)	5,629	6,187	5,984	5,677
ROIC (%)	4.19	4.96	7.39	8.17
Number of shares (m)	209.94	IC (current, US\$ m)	12,234.00	
BV/share (Next Qtr., US\$)	17.4	EV/IC (x)	1.1	
Net debt (Next Qtr., US\$ m)	6,224.6	Dividend (current, US\$)	1.9	
Net debt/tot eq (Next Qtr., %)	93.5	Dividend yield (%)	1.2	

Source: Company data, Credit Suisse estimates.

This portion of the BIP note addresses multiple valuation methods which is consistent with our past practice.

### Yield based approaches

Our yield based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

#### Dividend discount model

As per our recent Ideas Engine report, we assessed the current value of income-oriented stocks relative to some historical measures and future forecasts. There are many ways to consider yield-driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of the simplicity of the approach. As a refresher, the simple dividend discount model formula is as follows:

$$P = D/(k-g)$$

Where:

P = price

D = dividend

K = required return

G = growth rate

There are multiple approaches for tackling the DDM analysis and using some values that we calculated in the Ideas Engine report, we consider the following key parameters for BIP:

- D = US\$2.10/share (2015 estimate)
- K = 17.8%
- G = 9.8% (2014/2015)

These figures solve for a theoretical price of US\$26.28/sh.

If one was to use the current share price of US\$40.75 and solve for "K", then that value would be 15.0%.

Another approach to consider is the cost of equity and the potential future dividend growth. The DDM assumptions in this case are:

- Current annual dividend: US\$1.92/share
- Cost of equity: 8.3% (Bloomberg)
- Growth rate: 9.8% (2014/2015)

DDM is hyper sensitive to small changes

A dividend discount model would produce share price value of roughly (US\$128.00). Very simply, these assumptions and approaches highlight the relatively extreme sensitivity of the DDM in practice. Therefore, to best capture the various assumptions, we provide a matrix approach to considering BIP's that appears in Exhibit 10.

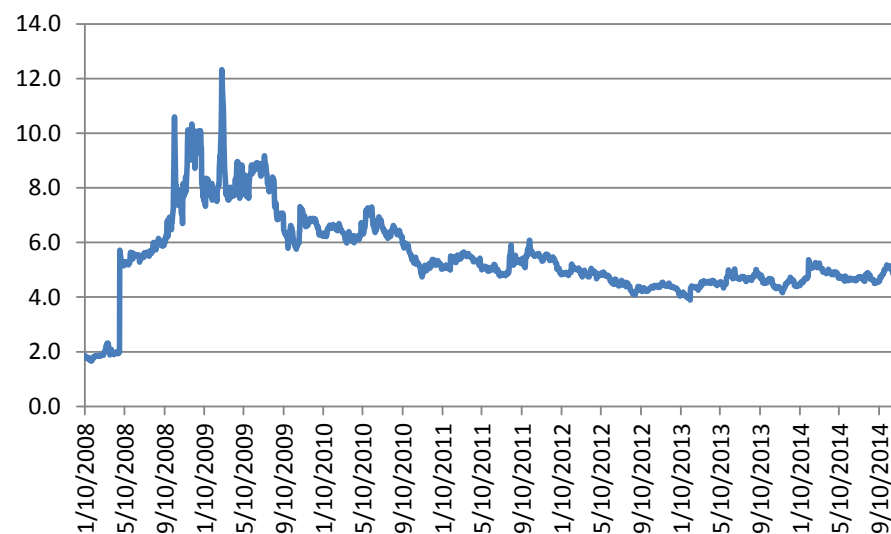
**Exhibit 10: Share Value Under Different Dividend Discount Model Assumptions**

		Cost of equity								
		7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%	11.50%
Distribution growth rate	3.0%	42.67	38.40	34.91	32.00	29.54	27.43	25.60	24.00	22.59
	3.5%	48.00	42.67	38.40	34.91	32.00	29.54	27.43	25.60	24.00
	4.0%	54.86	48.00	42.67	38.40	34.91	32.00	29.54	27.43	25.60
	4.5%	64.00	54.86	48.00	42.67	38.40	34.91	32.00	29.54	27.43
	5.0%	76.80	64.00	54.86	48.00	42.67	38.40	34.91	32.00	29.54
	5.5%	96.00	76.80	64.00	54.86	48.00	42.67	38.40	34.91	32.00
	6.0%	128.00	96.00	76.80	64.00	54.86	48.00	42.67	38.40	34.91
	6.5%	192.00	128.00	96.00	76.80	64.00	54.86	48.00	42.67	38.40
	7.0%	384.00	192.00	128.00	96.00	76.80	64.00	54.86	48.00	42.67
	7.5%	N/A	384.00	192.00	128.00	96.00	76.80	64.00	54.86	48.00
	8.0%		N/A	384.00	192.00	128.00	96.00	76.80	64.00	54.86
	8.5%			N/A	384.00	192.00	128.00	96.00	76.80	64.00
	9.0%				N/A	384.00	192.00	128.00	96.00	76.80
	9.5%					N/A	384.00	192.00	128.00	96.00
	10.0%						N/A	384.00	192.00	128.00

Source: Company data and Credit Suisse estimates.

**Dividend Yield**

According to Bloomberg data, BIP has traded at an average dividend yield of 5.50% over the past 6 years and within a range of 1.67-12.33%. (See Exhibit 11 and Exhibit 12.)

**Exhibit 11: Historical BIP Dividend Yield (%)**

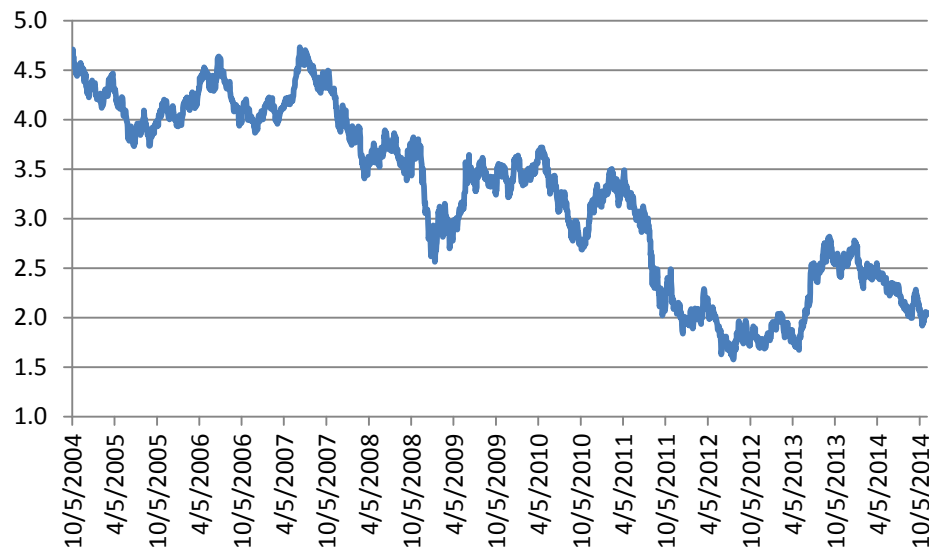
Source: Bloomberg and Credit Suisse.

**Exhibit 12: Historical Dividend Yield (%)**

Mean	5.50
Median	5.12
Min	1.67
Max	12.33

Source: Bloomberg and Credit Suisse.

For several reasons, we believe that these metrics should be compared with movements in the Canadian 10-year bond yield. (See Exhibit 13.)

**Exhibit 13: Canadian 10-Year Bond Yield**

Source: Bloomberg and Credit Suisse.

The sensitivity of dividend yield valuation is clearly evident in Exhibit 14, with various distribution levels at various targeted yields.

**Exhibit 14: Share Value Based on Various Dividends at Various Yields**

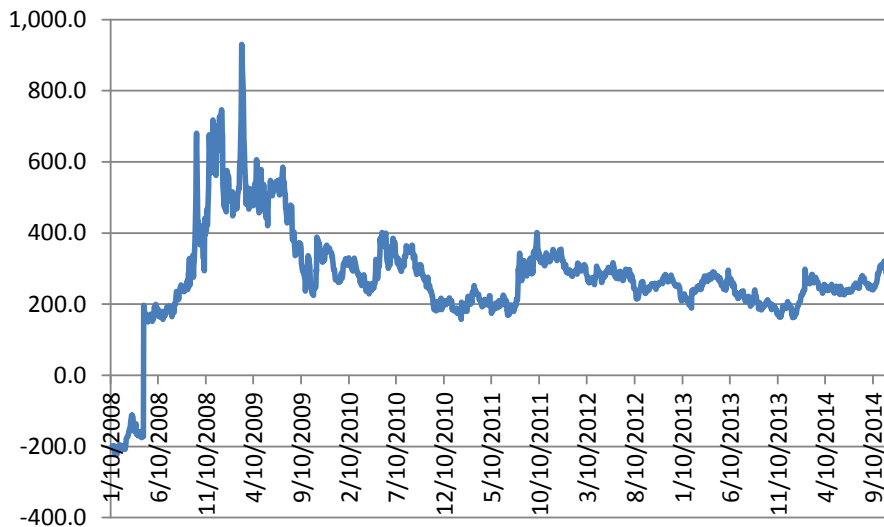
	Distribution								
	1.92	1.96	2.00	2.04	2.08	2.12	2.16	2.20	2.24
3.0%	64.00	65.33	66.67	68.00	69.33	70.67	72.00	73.33	74.67
3.5%	54.86	56.00	57.14	58.29	59.43	60.57	61.71	62.86	64.00
4.0%	48.00	49.00	50.00	51.00	52.00	53.00	54.00	55.00	56.00
4.5%	42.67	43.56	44.44	45.33	46.22	47.11	48.00	48.89	49.78
5.0%	38.40	39.20	40.00	40.80	41.60	42.40	43.20	44.00	44.80
5.5%	34.91	35.64	36.36	37.09	37.82	38.55	39.27	40.00	40.73
6.0%	32.00	32.67	33.33	34.00	34.67	35.33	36.00	36.67	37.33
6.5%	29.54	30.15	30.77	31.38	32.00	32.62	33.23	33.85	34.46
7.0%	27.43	28.00	28.57	29.14	29.71	30.29	30.86	31.43	32.00
7.5%	25.60	26.13	26.67	27.20	27.73	28.27	28.80	29.33	29.87

Source: Credit Suisse estimates.

Our US\$46.00 target price is based upon an approximately 4.52% dividend yield.

### Dividend Yield Spread

We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered BIP's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 15 and Exhibit 16 highlight this relationship.

**Exhibit 15: Historical Dividend Yield Spread versus the Canadian Ten Year (Bps)**

Source: Bloomberg and Credit Suisse.

**Exhibit 16: Historical Yield Spread**

Mean	273
Median	264
Min	-223
Max	931

Source: Bloomberg and Credit Suisse.

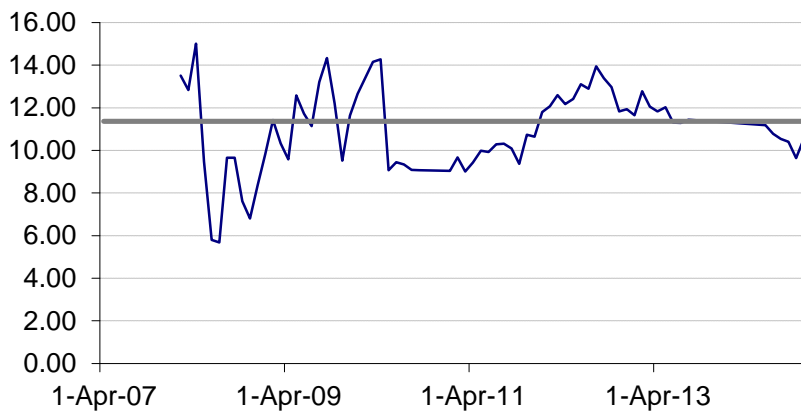
The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like BIP usually do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate-sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins valuations for companies like BIP. We therefore apply 202bps spread to a moderate outlook on 10-year Canadian bond yield (2.50%) to obtain our US\$46 target price.

As discussed in our Ideas Engine report, we conducted a variety of DDM related analytics for BIP. Simply, on a mean or median basis, the spread relationships imply and BIP share prices of US\$40.15 and US\$40.94, respectively, on a forward 2.5% Canadian 10-year. At the current roughly 2.02% Canadian 10-year, those same spread relationships imply BIP unit prices of US\$44.21 and US\$45.16 on the 2015 distribution level. Arguably, BIP's short history along with the impact of the BAM spin and the financial crisis create some data distortions.

Credit Suisse's RAVE valuation summary for P/CF appears in Exhibit 17.

## Exhibit 17: BIP P/CF

Brookfield Infrastructure Partners LP P/CF	Median	11.4
--	--------	------

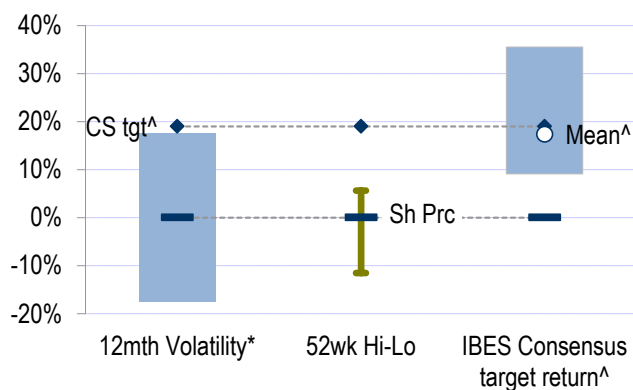


Source: Credit Suisse estimates, IBES

Source: Credit Suisse estimates, IBES.

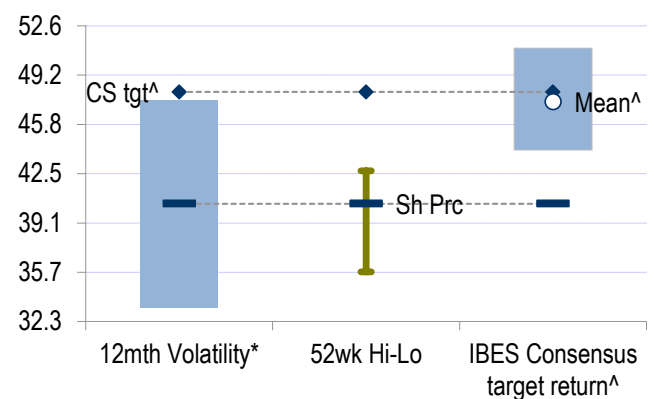
Exhibit 18 and Exhibit 19 puts our BIP rating and target into context.

## Exhibit 18: Total return forecast in perspective



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

## Exhibit 19: Total return forecast in perspective



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .



Rating	<b>OUTPERFORM*</b>
Price (17 Nov 14, C\$)	38.20
Target price (C\$)	(from 40.00) 44.00 <sup>1</sup>
52-week price range	38.20 - 29.18
Market cap. (C\$ m)	5,465.37
Enterprise value (C\$ m)	9,411.37

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

#### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

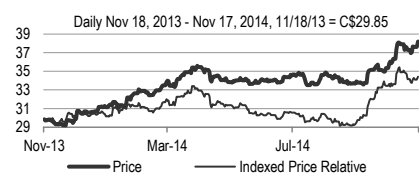
paul.tan@credit-suisse.com

## Emera Inc. (EMA.TO)

### Naturally Nalcor is critical to the re-rating

- **Quickly approaching a tipping point:** We continue to believe that EMA's involvement in the Nalcor related transmission projects are a critical part of the stock's re-rating story. Additionally, in our view, another important area to watch is the potential for contractual uplift in terms of pricing and duration for the Northeast power portfolio ([link](#)). Notably, both of these business lines look to be progressing as planned and should translate into visible cash flow, earnings and dividend growth for the future. Confidence on that dividend growth was preannounced in September with an explicit range along with an out-of-cycle dividend bump ([link](#)). With the reassessment of the implied 10-year Canadian bond yield used in our valuation, we boost our target price to C\$44 from C\$40. We reiterate the Outperform rating.
- **Pricing dividend growth:** In light of historically poor growth, EMA does not necessarily screen as well as some other companies with our DDM analysis. Yet, we regard EMA's future dividend growth largely coming from the Nalcor related projects are clearly not captured in our analysis. In any event, EMA's calculated historical 5-year "k" is 11.3% for EMA with a 4.8% growth rate (2014-15 on consensus) looks to be relatively undemanding in our view. We don't believe that valuation along with capital flexibility coming from future preferred share issuance is fully appreciated by the Street. Recently, another example of EMA's capital flexibility came from the divestiture of the Northeast Wind interest.
- **Investment thesis:** We continue to believe that Emera is undergoing a fairly significant transformation with a substantial amount of future capital being allocated to highly visible transmission projects with a very long duration.
- **Valuation:** We reiterate our Outperform rating and increase our target price to C\$44 from C\$40. That target is obtained from multiple valuation approaches, including a dividend yield and yield spread methodology with 3.52% and a 102 bps yield spread, respectively.

#### Share price performance



On 11/17/14 the S&P/TSX Composite closed at 14933.88

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.68	0.32	0.29	0.47
2014E	1.00	0.31	0.34	0.50
2015E	0.72	0.36	0.45	0.55

#### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.95	2.15	2.08	2.36
Prev. EPS (C\$)	—	—	—	—
P/E (x)	19.6	17.8	18.4	16.2
P/E rel. (%)	112.6	118.3	138.4	136.4
Revenue (C\$ m)	2,230.2	2,879.2	2,879.0	3,202.6
EBITDA (C\$ m)	704.9	951.4	955.4	1,108.3
OCFPS (C\$)	3.40	4.04	3.96	4.39
P/OCF (x)	9.0	9.5	9.7	8.7
EV/EBITDA (current)	13.1	9.7	9.6	8.3
Net debt (C\$ m)	4,130	3,946	4,646	5,196
ROIC (%)	4.95	6.66	5.54	5.85
Number of shares (m)	143.07	IC (current, C\$ m)		7,027.20
BV/share (Next Qtr., C\$)	20.4	EV/IC (x)		1.3
Net debt (Next Qtr., C\$ m)	3,846.0	Dividend (current, C\$)		1.5
Net debt/tot eq (Next Qtr., %)	108.2	Dividend yield (%)		0.95

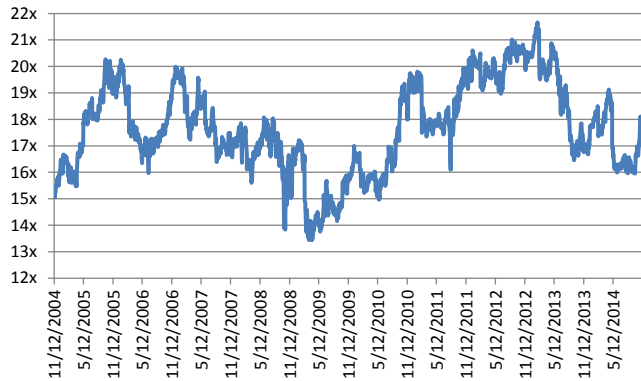
Source: Company data, Credit Suisse estimates.

Consistent with our past practice, we address multiple valuation methods for EMA at this part of the report. Our methods are focused upon: (a) P/E; and, (b) yield based.

### P/E based approach

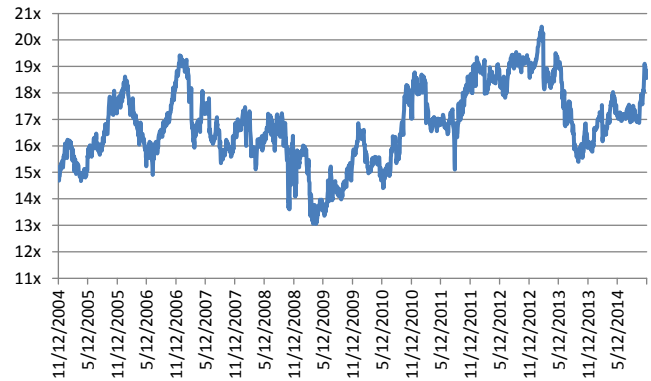
For many industries P/E multiples are somewhat challenging, but they do provide a quick comparative with other sectors and the overall market on a simple basis. Exhibit 20 and Exhibit 21 provide a historical view for EMA's Forward 1-year and 2-Year P/E multiple over the past 10 years.

**Exhibit 20: Historical 1-year forward P/E**



Source: Thomson One.

**Exhibit 21: Historical 2-year forward P/E**



Source: Thomson One.

Descriptive statistics for both EMA's 1-year and 2-year historical forward P/E multiples for are shown in Exhibit 22.

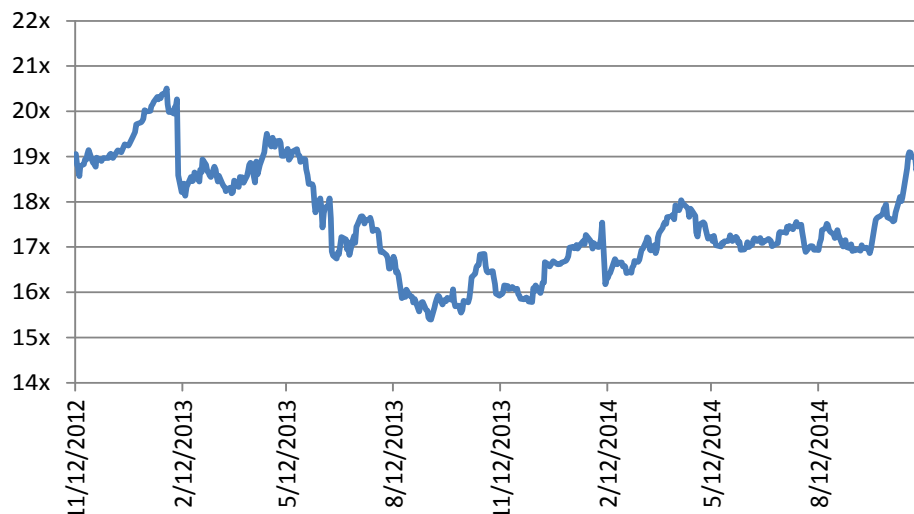
**Exhibit 22: Historical forward P/E descriptive statistics**

	1-Yr Forward	2-Yr Forward
Mean	17.7x	16.8x
Median	17.6x	16.8x
Min	13.4x	13.0x
Max	21.7x	20.5x

Source: Thomson One.

Exhibit 23 shows the past few years' forward 2-year P/E.

**Exhibit 23: Last 2-years of 2-year forward P/E multiples**



Source: Thomson One.

- Mean: 17.5
- Median: 17.3x
- Range: 15.4x to 20.5x

Our C\$44 target price implies a 18.7x multiple on our 2016 estimate which exceeds both the mean and median, but is less than the top end of the range. For additional perspective, a valuation matrix appears in Exhibit 24.

**Exhibit 24: Hypothetical share prices at different EPS and P/E multiples**

		Earnings per share (C\$)									
		1.70	1.80	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60
P/E Multiple	11.0x	18.70	19.80	20.90	22.00	23.10	24.20	25.30	26.40	27.50	28.60
	12.0x	20.40	21.60	22.80	24.00	25.20	26.40	27.60	28.80	30.00	31.20
	13.0x	22.10	23.40	24.70	26.00	27.30	28.60	29.90	31.20	32.50	33.80
	14.0x	23.80	25.20	26.60	28.00	29.40	30.80	32.20	33.60	35.00	36.40
	15.0x	25.50	27.00	28.50	30.00	31.50	33.00	34.50	36.00	37.50	39.00
	16.0x	27.20	28.80	30.40	32.00	33.60	35.20	36.80	38.40	40.00	41.60
	17.0x	28.90	30.60	32.30	34.00	35.70	37.40	39.10	40.80	42.50	44.20
	18.0x	30.60	32.40	34.20	36.00	37.80	39.60	41.40	43.20	45.00	46.80
	19.0x	32.30	34.20	36.10	38.00	39.90	41.80	43.70	45.60	47.50	49.40
	20.0x	34.00	36.00	38.00	40.00	42.00	44.00	46.00	48.00	50.00	52.00
	21.0x	35.70	37.80	39.90	42.00	44.10	46.20	48.30	50.40	52.50	54.60
	22.0x	37.40	39.60	41.80	44.00	46.20	48.40	50.60	52.80	55.00	57.20
	23.0x	39.10	41.40	43.70	46.00	48.30	50.60	52.90	55.20	57.50	59.80

Source: Company data, Credit Suisse estimates.

### Yield based approaches

Our yield based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

### Dividend discount model

As per our recent Ideas Engine report, we assessed the current value of income-oriented stocks relative to some historical measures and future forecasts. There are many ways to consider yield-driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of the simplicity of the approach. As a refresher, the simple dividend discount model formula is as follows:

$$P = D/(k-g)$$

Where:

P = price

D = dividend

K = required return

G = growth rate

One of the main tools in the process will be the dividend discount model and solving for "K" as the other elements are known, have historic reference points or metrics available from a consensus view to avoid more narrow distortions. With these parameters, EMA's valuation variables are:

$$D = \text{C\$}1.55/\text{share}$$

$$K = 11.3\%$$

$$G = 4.8\% (2014/2015)$$

$$P = \text{C\$}23.84$$

If one was to use the current share price of C\$37.60 and solve for "K," then that value would be 8.9%.

Another approach to consider is the cost of equity and the potential growth in dividend in the future. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as EMA. We used the following assumptions in our dividend discount model:

- Current annual dividend: C\$1.55/share
- Cost of equity: 8.1% (Bloomberg)
- Growth rate: 6.80% (2014/2015)

A dividend discount model would produce share price value of roughly C\$119.23.

Given different assumptions, we generated the following range of valuations highlighted in Exhibit 25.

**Exhibit 25: Share Value Under Different Dividend Discount Model Assumptions**

		Cost of Equity									
		6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
Dividend Growth (%)	2.00%	38.75	34.44	31.00	28.18	25.83	23.85	22.14	20.67	19.38	18.24
	2.50%	44.29	38.75	34.44	31.00	28.18	25.83	23.85	22.14	20.67	19.38
	3.00%	51.67	44.29	38.75	34.44	31.00	28.18	25.83	23.85	22.14	20.67
	3.50%	62.00	51.67	44.29	38.75	34.44	31.00	28.18	25.83	23.85	22.14
	4.00%	77.50	62.00	51.67	44.29	38.75	34.44	31.00	28.18	25.83	23.85
	4.50%	103.33	77.50	62.00	51.67	44.29	38.75	34.44	31.00	28.18	25.83
	5.00%	155.00	103.33	77.50	62.00	51.67	44.29	38.75	34.44	31.00	28.18
	5.50%	310.00	155.00	103.33	77.50	62.00	51.67	44.29	38.75	34.44	31.00
	6.00%		310.00	155.00	103.33	77.50	62.00	51.67	44.29	38.75	34.44
	6.50%			310.00	155.00	103.33	77.50	62.00	51.67	44.29	38.75
	7.00%				310.00	155.00	103.33	77.50	62.00	51.67	44.29
	7.50%					310.00	155.00	103.33	77.50	62.00	51.67
8.00%						310.00	155.00	103.33	77.50	62.00	

Source: Company data and Credit Suisse estimates.

### Dividend discount model

To provide some perspective on the valuation sensitivity of the DDM, Exhibit 26 contains a matrix to assess theoretical share values.

**Exhibit 26: Illustrative EMA stock prices at different discount rates and dividend growth rates**

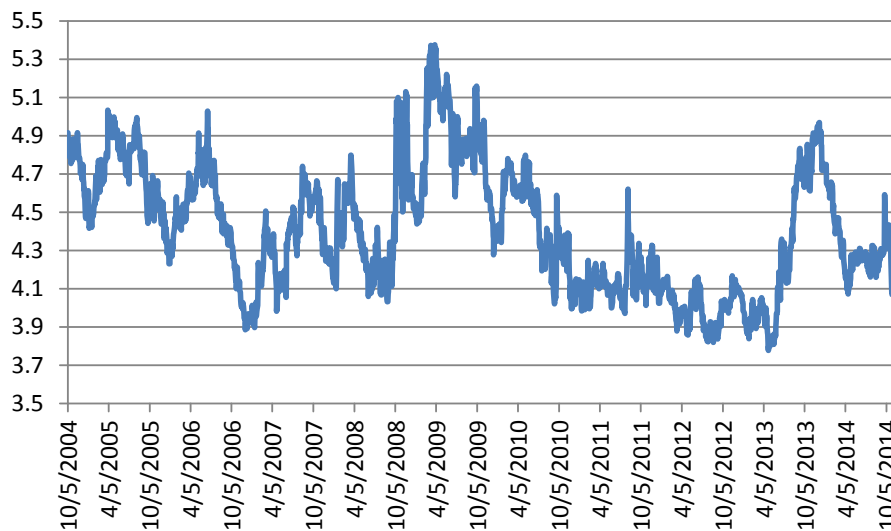
		Discount Rate						
		5.0%	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%
Dividend Growth rate	3.0%		61.28	51.07	43.77	38.30	34.04	30.64
	3.5%		76.60	61.28	51.07	43.77	38.30	34.04
	4.0%			76.60	61.28	51.07	43.77	38.30
	4.5%			102.13	76.60	61.28	51.07	43.77
	5.0%				102.13	76.60	61.28	51.07
	5.5%				153.20	102.13	76.60	61.28
	6.0%					153.20	102.13	76.60
	6.5%					306.40	153.20	102.13

Source: Company data, Credit Suisse estimates

On a mean or median basis, the spread relationships imply and EMA share prices of C\$41.58 and C\$43.10, respectively, on a forward 2.5% Canadian 10-year. At the current roughly 2.02% Canadian 10-year, those same spread relationships imply EMA share prices of C\$47.81 and C\$48.26 on the 2015 distribution level.

### Dividend Yield

According to Bloomberg data, Emera has traded at an average dividend yield of 4.40% over the past 10 years and within a range of 3.78-5.37%. (See Exhibit 27 and Exhibit 28.)

**Exhibit 27: Historical EMA Dividend Yield (%)**

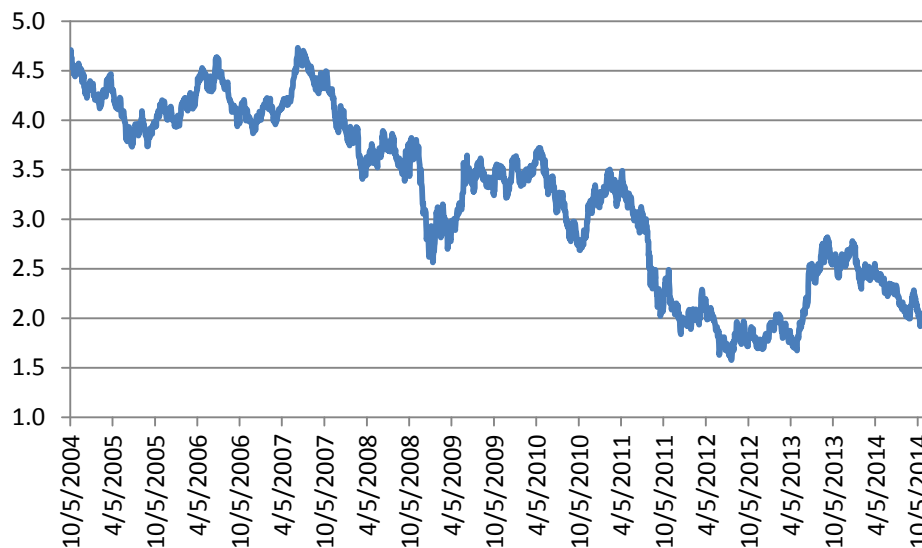
Source: Bloomberg and Credit Suisse.

**Exhibit 28: Historical Dividend Yield (%)**

Mean	4.40
Median	4.36
Min	3.78
Max	5.38

Source: Bloomberg and Credit Suisse.

For several reasons, we believe that these metrics should be compared with movements in the Canadian 10-year bond yield. (See Exhibit 29.)

**Exhibit 29: Canadian 10-Year Bond Yield**

Source: Bloomberg and Credit Suisse.

The sensitivity of dividend yield valuation is clearly evident in Exhibit 30, with various distribution levels at various targeted yields.

**Exhibit 30: Share Value Based on Various Dividends at Various Yields**

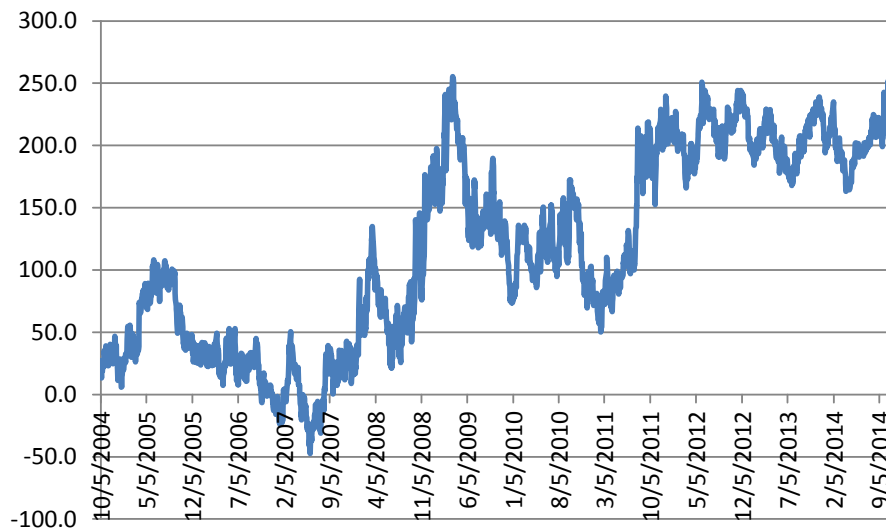
	Dividend per share (C\$)									
	1.51	1.55	1.59	1.63	1.67	1.71	1.75	1.79	1.83	1.87
3.00%	50.33	51.67	53.00	54.33	55.67	57.00	58.33	59.67	61.00	62.33
3.25%	46.46	47.69	48.92	50.15	51.38	52.62	53.85	55.08	56.31	57.54
3.50%	43.14	44.29	45.43	46.57	47.71	48.86	50.00	51.14	52.29	53.43
3.75%	40.27	41.33	42.40	43.47	44.53	45.60	46.67	47.73	48.80	49.87
4.00%	37.75	38.75	39.75	40.75	41.75	42.75	43.75	44.75	45.75	46.75
4.25%	35.53	36.47	37.41	38.35	39.29	40.24	41.18	42.12	43.06	44.00
4.50%	33.56	34.44	35.33	36.22	37.11	38.00	38.89	39.78	40.67	41.56
4.75%	31.79	32.63	33.47	34.32	35.16	36.00	36.84	37.68	38.53	39.37
5.00%	30.20	31.00	31.80	32.60	33.40	34.20	35.00	35.80	36.60	37.40
5.25%	28.76	29.52	30.29	31.05	31.81	32.57	33.33	34.10	34.86	35.62
5.50%	27.45	28.18	28.91	29.64	30.36	31.09	31.82	32.55	33.27	34.00
5.75%	26.26	26.96	27.65	28.35	29.04	29.74	30.43	31.13	31.83	32.52
6.00%	25.17	25.83	26.50	27.17	27.83	28.50	29.17	29.83	30.50	31.17

Source: Credit Suisse estimates.

Our C\$44 target price is based upon an approximately 3.52% dividend yield.

### Dividend Yield Spread

We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered EMA's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 31 and Exhibit 32 highlight this relationship.

**Exhibit 31: Historical Dividend Yield Spread versus the Canadian Ten Year (Bps)**

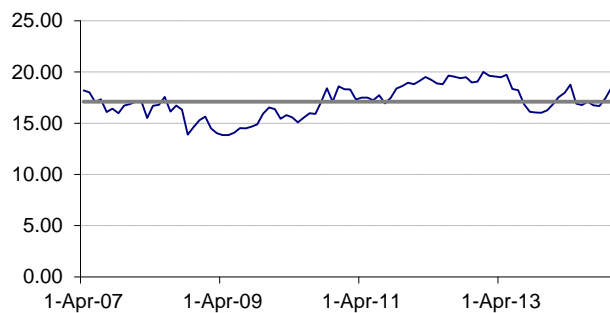
Source: Bloomberg and Credit Suisse.

**Exhibit 32: Historical Yield Spread**

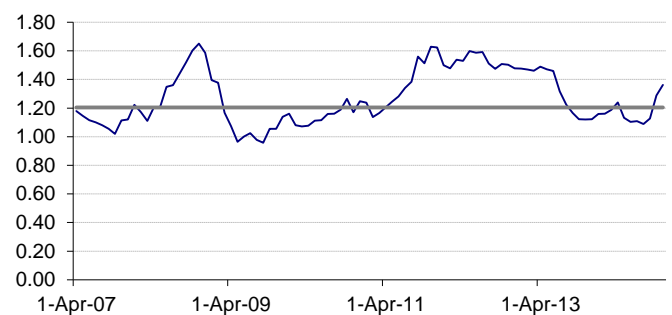
Mean	118
Median	113
Min	-47
Max	255

Source: Bloomberg and Credit Suisse.

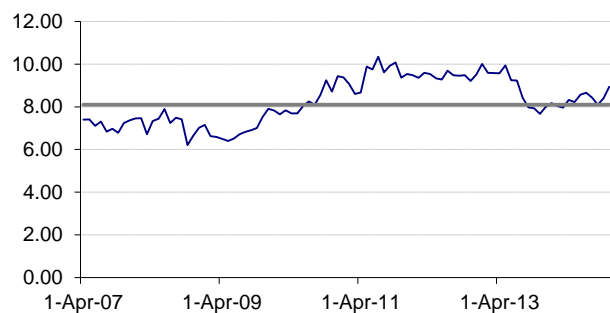
The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like EMA usually do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate-sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins valuations for companies like EMA. We therefore apply 102bps spread to a moderate outlook on 10-year Canadian bond yield (2.50%) to obtain our C\$44 target price.

**Exhibit 33: EMA historical RAVE valuation****Emera Inc. PE** Median **17.1**

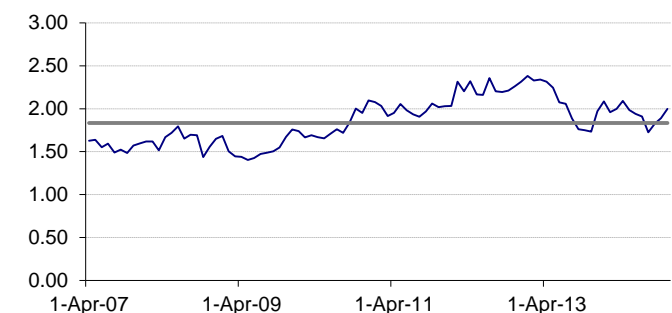
Source: Credit Suisse estimates, IBES

**Emera Inc. PE relative** Median **1.2**

Source: Credit Suisse estimates, IBES

**Emera Inc. P/CF** Median **8.1**

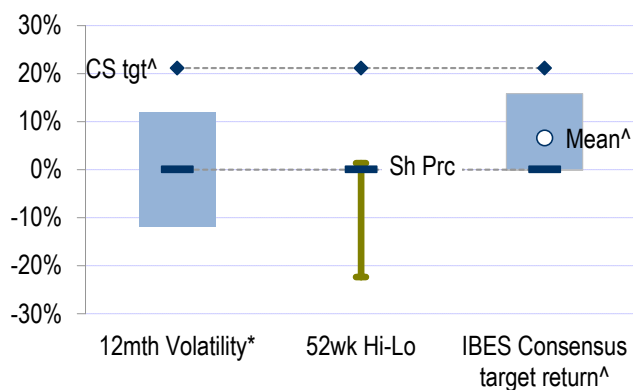
Source: Credit Suisse estimates, IBES

**Emera Inc. P/Book** Median **1.8**

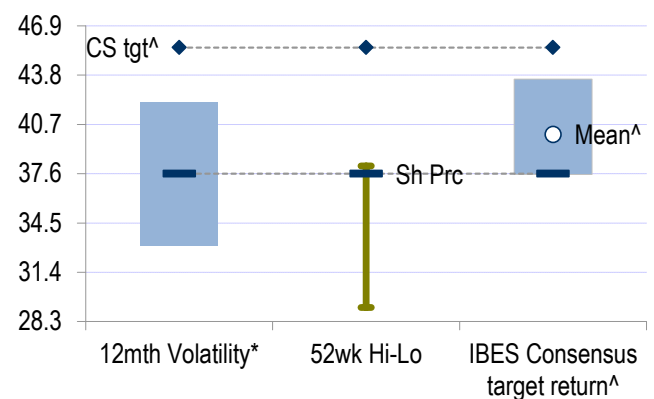
Source: Credit Suisse estimates, IBES

Source: Credit Suisse .

Exhibit 34 and Exhibit 35 puts our EMA rating and target into context.

**Exhibit 34: Total return forecast in perspective**

Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

**Exhibit 35: Total return forecast in perspective**

Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .



## Enbridge Inc. (ENB.TO)

Rating	(from Neutral) <b>OUTPERFORM*</b>
Price (17 Nov 14, C\$)	50.96
Target price (C\$)	(from 52.00) 70.00 <sup>1</sup>
52-week price range	56.48 - 43.26
Market cap. (C\$ m)	43,253.21
Enterprise value (C\$ m)	75,146.49

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

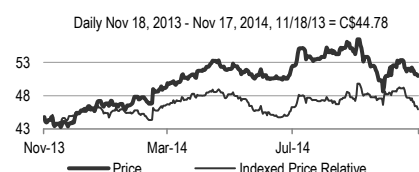
416 352 4593

paul.tan@credit-suisse.com

## Best in class longer-term dividend growth supported by a unique asset network

- **Delightful dividends:** Enbridge Inc. is one of the most impressive dividend and total return stocks over an extended timeframe. In the foreseeable future, we do not see a change in that path of impressive dividend growth. ENB's guidance for dividend growth of 10-12% for 2013-18 likely has an upward bias given the tilting EPS profile on selected assets. Clearly, there are multiple limitations to our dividend discount model analysis. Yet, our calculated historical 5-year "k" is 16.7% for ENB with a growth rate (2014-15 on consensus) of 12%. We do not view that "k" as being demanding from a valuation perspective, in either absolute or relative terms. Accordingly, we upgrade ENB to Outperform from the prior Neutral rating and increase our target to C\$70 from C\$52.
- **Near-term versus longer-term:** Aside from a variety of regulatory delays on selected projects, we do not foresee major issues that look to de-rail ENB's near-term growth strategy. Naturally, the price of certain energy commodities may impact the pace of development. Yet, most of the ENB projects are in a very good relative positioning versus competitors on a near-term basis. Thus, we would regard the near-term impact in a downward moving oil market as less impactful to ENB versus some others. On a longer-term basis, ENB has some visible growth; however, the lack of significant natural gas exposure is an issue that should be rectified in a gradual process.
- **Investment thesis:** We continue to view ENB as a core holding with best-in-class infrastructure assets. Clearly more potential for capital efficiency exists, but we see that process as being evolutionary rather than revolutionary as is occurring with some in the industry).
- **Valuation:** Our revised target price of C\$70 (up from C\$52) is obtained from a variety of valuation approaches, largely a targeted dividend yield of 2.22% and an imputed -28-bps spread over a 2.50% Canadian 10-year bond yield.

### Share price performance



On 11/17/14 the S&P/TSX Composite closed at 14933.88

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.61	0.37	0.34	0.44
2014E	0.59	0.39	0.38	0.55
2015E	0.59	0.46	0.44	0.61

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.76	1.92	2.09	2.87
Prev. EPS (C\$)	—	—	—	—
P/E (x)	29.0	26.6	24.4	17.8
P/E rel. (%)	167.0	176.8	183.5	149.7
Revenue (C\$ m)	32,918.0	38,554.3	41,636.4	49,347.9
EBITDA (C\$ m)	2,735.0	5,171.0	5,766.6	6,908.7
OCFPS (C\$)	3.87	3.28	4.44	5.33
P/OCF (x)	12.0	15.5	11.5	9.6
EV/EBITDA (current)	26.5	14.0	12.6	10.5
Net debt (C\$ m)	25,124	31,893	34,864	36,477
ROIC (%)	2.50	4.94	4.66	5.58
Number of shares (m)	848.77	IC (current, C\$ m)		43,687.00
BV/share (Next Qtr., C\$)	11.4	EV/IC (x)		1.5
Net debt (Next Qtr., C\$ m)	30,600.4	Dividend (current, C\$)		1.4
Net debt/tot eq (Next Qtr., %)	151.5	Dividend yield (%)		0.69

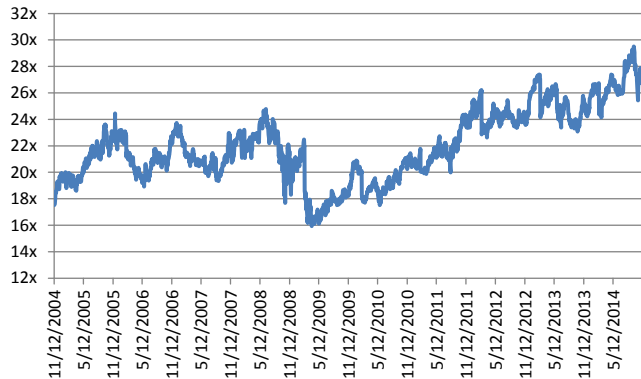
Source: Company data, Credit Suisse estimates.

Consistent with our past practice, we address multiple valuation methods for ENB at this part of the report. Our methods are focused upon: (a) P/E; and, (b) yield based.

### P/E based approach

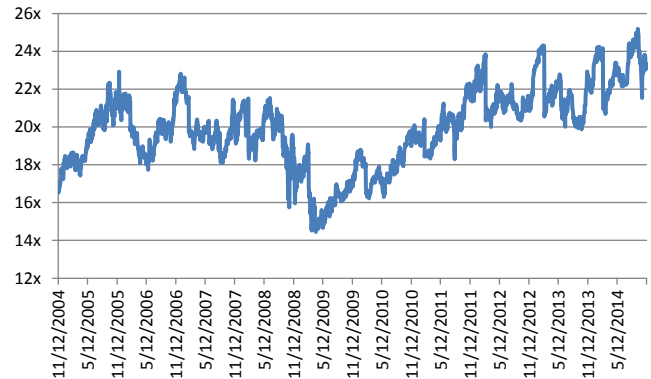
For many industries P/E multiples are somewhat challenging, but they do provide a quick comparative with other sectors and the overall market on a simple basis. Exhibit 36 and Exhibit 37 provide a historical view for ENB's Forward 1-year and 2-Year P/E multiple over the last 10 years.

**Exhibit 36: Historical 1-year forward P/E**



Source: Thomson One.

**Exhibit 37: Historical 2-year forward P/E**



Source: Thomson One.

Descriptive statistics for both ENB's 1-year and 2-year historical forward P/E multiples for are shown in Exhibit 38.

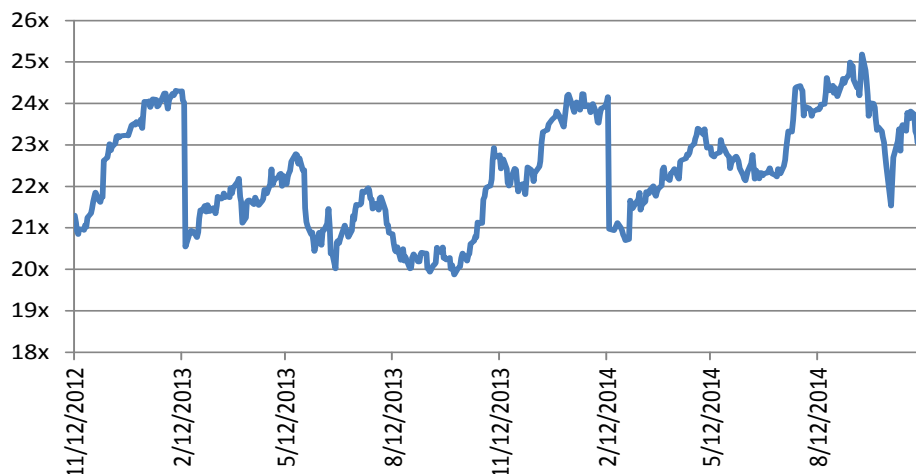
**Exhibit 38: Historical forward P/E descriptive statistics**

	1-Yr Forward	2-Yr Forward
Mean	22.0x	19.9x
Median	21.6x	20.0x
Min	15.9x	14.5x
Max	29.5x	25.2x

Source: Thomson One.

Exhibit 39 shows the past few years' forward 2-year P/E.

**Exhibit 39: Last 2-years of 2-year forward P/E multiples**



Source: Thomson One.

- Mean: 22.3x

- Median: 22.3x
- Range: 19.9x to 25.2x

Our C\$70.00 target price implies a 24.4x multiple on our 2016 estimate—slightly above the mean and median for the stock, but well within the top end of the range. A valuation matrix appears in Exhibit 40.

**Exhibit 40: Hypothetical share prices at different EPS and P/E multiples**

		EPS								
		1.75	1.95	2.15	2.35	2.55	2.75	2.95	3.15	3.35
P/E Multiple	14.0x	24.50	27.30	30.10	32.90	35.70	38.50	41.30	44.10	46.90
	15.0x	26.25	29.25	32.25	35.25	38.25	41.25	44.25	47.25	50.25
	16.0x	28.00	31.20	34.40	37.60	40.80	44.00	47.20	50.40	53.60
	17.0x	29.75	33.15	36.55	39.95	43.35	46.75	50.15	53.55	56.95
	18.0x	31.50	35.10	38.70	42.30	45.90	49.50	53.10	56.70	60.30
	19.0x	33.25	37.05	40.85	44.65	48.45	52.25	56.05	59.85	63.65
	20.0x	35.00	39.00	43.00	47.00	51.00	55.00	59.00	63.00	67.00
	21.0x	36.75	40.95	45.15	49.35	53.55	57.75	61.95	66.15	70.35
	22.0x	38.50	42.90	47.30	51.70	56.10	60.50	64.90	69.30	73.70
	23.0x	40.25	44.85	49.45	54.05	58.65	63.25	67.85	72.45	77.05
	24.0x	42.00	46.80	51.60	56.40	61.20	66.00	70.80	75.60	80.40
	25.0x	43.75	48.75	53.75	58.75	63.75	68.75	73.75	78.75	83.75
	26.0x	45.50	50.70	55.90	61.10	66.30	71.50	76.70	81.90	87.10
	27.0x	47.25	52.65	58.05	63.45	68.85	74.25	79.65	85.05	90.45

Source: Company data, Credit Suisse estimates.

### Yield based approaches

Our yield based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

### Dividend discount model

As per our recent Ideas Engine report, we assessed the current value of income oriented stocks relative to some historical measures and future forecasts. There are many ways to consider yield driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of the simplicity of the approach. As a refresher, the simple dividend discount model formula is as follows:

$$P = D/(k-g)$$

Where:

P = price

D = dividend

K = required return

G = growth rate

One of the main tools in the process will be the dividend discount model and solving for "K" as the other elements are known, have historic reference points or metrics available from a consensus view to avoid more narrow distortions. Using the following data points, ENB's DDM valuation equation includes:

$$D = \text{C\$1.57/share (2015 estimate)}$$

$$K = 16.7\%$$

$$G = 12.0\% \text{ (2014/2015)}$$

$$P = \text{C\$33.30}$$

If one was to use the current share price of C\$51.21 and solve for "K," then that value would be 15.1%.

Another approach to consider is the cost of equity and the potential growth in dividend in the future. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as ENB. We used the following assumptions in our dividend discount model:

- Current annual dividend: C\$1.40/share
- Cost of equity: 10.0% (Bloomberg)
- Growth rate: 12.0% (2014/2015)

A dividend discount model would produce share price value of roughly (C\$70).

Given different assumptions, we generated the following range of valuations highlighted in Exhibit 41.

**Exhibit 41: Share Value Under Different Dividend Discount Model Assumptions**

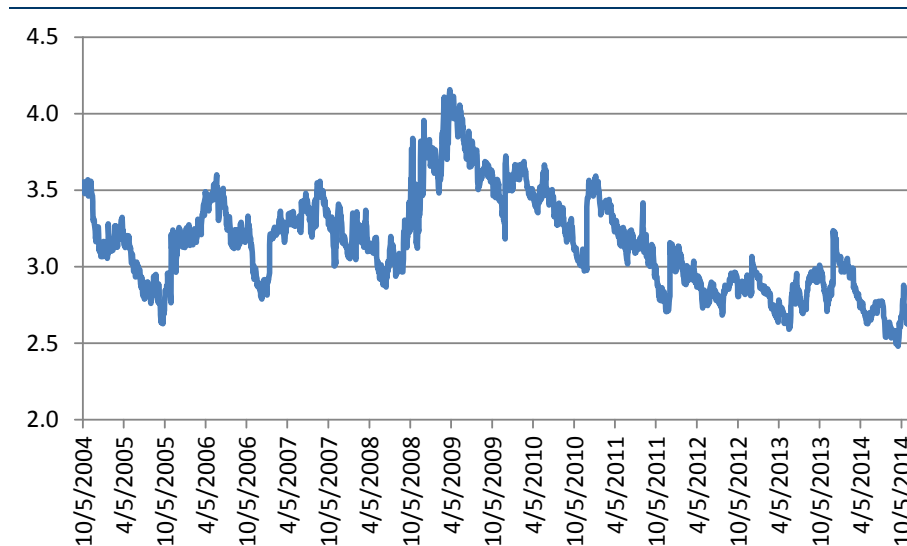
		Cost of Equity									
		6.0%	7.00%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
Dividend Growth (%)	4.5%	93.33	56.00	40.00	31.11	25.45	21.54	18.67	16.47	14.74	13.33
	5.5%	280.00	93.33	56.00	40.00	31.11	25.45	21.54	18.67	16.47	14.74
	6.5%		280.00	93.33	56.00	40.00	31.11	25.45	21.54	18.67	16.47
	7.5%			280.00	93.33	56.00	40.00	31.11	25.45	21.54	18.67
	8.5%				280.00	93.33	56.00	40.00	31.11	25.45	21.54
	9.5%					280.00	93.33	56.00	40.00	31.11	25.45
	10.5%						280.00	93.33	56.00	40.00	31.11
	11.5%							280.00	93.33	56.00	40.00
	12.5%								280.00	93.33	56.00
	13.5%									280.00	93.33

Source: Company data and Credit Suisse estimates.

### Dividend Yield

According to Bloomberg data, Enbridge has traded at an average dividend yield of 3.16% over the past 10 years and within a range of 2.48%-4.16% (see Exhibit 42 and Exhibit 43).

**Exhibit 42: Historical ENB Dividend Yield (%)**



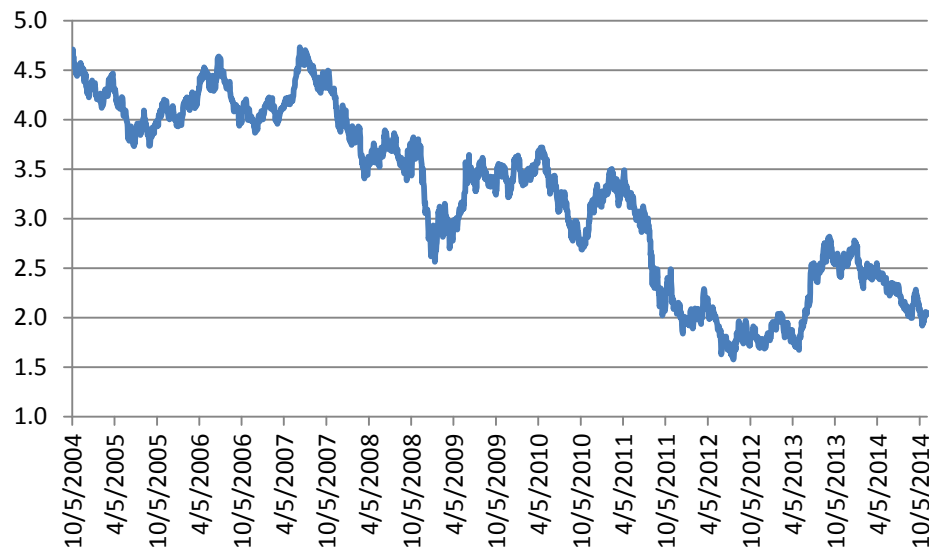
Source: Bloomberg and Credit Suisse.

**Exhibit 43: Historical Dividend Yield (%)**

Mean	3.16
Median	3.15
Min	2.48
Max	4.16

Source: Bloomberg and Credit Suisse.

For several reasons, we believe that these metrics should be compared with movements in the Canadian 10-year bond yield. (See Exhibit 44.)

**Exhibit 44: Canadian 10-Year Bond Yield**

Source: Bloomberg and Credit Suisse.

The sensitivity of dividend yield valuation is clearly evident in Exhibit 45, with various distribution levels at various targeted yields.

**Exhibit 45: Share Value Based on Various Dividends at Various Yields**

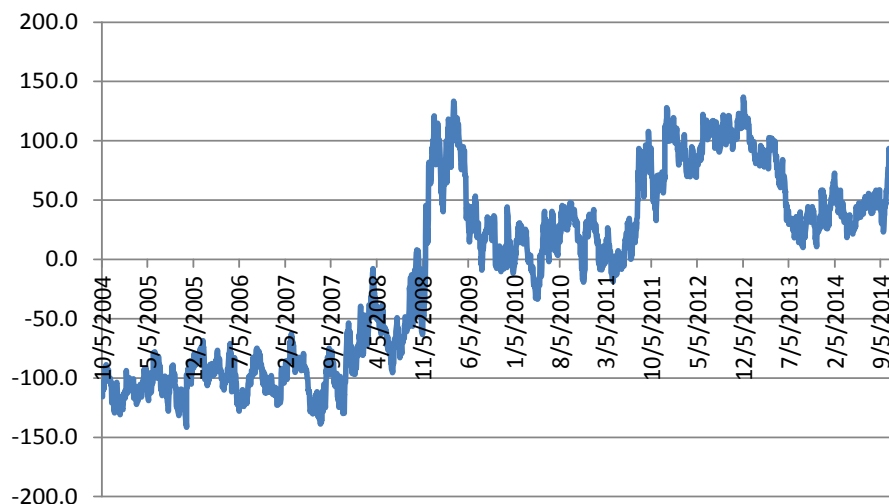
	DPS								
	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.20
2.50%	56.00	60.00	64.00	68.00	72.00	76.00	80.00	84.00	88.00
3.00%	46.67	50.00	53.33	56.67	60.00	63.33	66.67	70.00	73.33
3.50%	40.00	42.86	45.71	48.57	51.43	54.29	57.14	60.00	62.86
4.00%	35.00	37.50	40.00	42.50	45.00	47.50	50.00	52.50	55.00
4.50%	31.11	33.33	35.56	37.78	40.00	42.22	44.44	46.67	48.89
5.00%	28.00	30.00	32.00	34.00	36.00	38.00	40.00	42.00	44.00
5.50%	25.45	27.27	29.09	30.91	32.73	34.55	36.36	38.18	40.00
6.00%	23.33	25.00	26.67	28.33	30.00	31.67	33.33	35.00	36.67
6.50%	21.54	23.08	24.62	26.15	27.69	29.23	30.77	32.31	33.85
7.00%	20.00	21.43	22.86	24.29	25.71	27.14	28.57	30.00	31.43
7.50%	18.67	20.00	21.33	22.67	24.00	25.33	26.67	28.00	29.33
8.00%	17.50	18.75	20.00	21.25	22.50	23.75	25.00	26.25	27.50
8.50%	16.47	17.65	18.82	20.00	21.18	22.35	23.53	24.71	25.88
9.00%	15.56	16.67	17.78	18.89	20.00	21.11	22.22	23.33	24.44

Source: Credit Suisse estimates.

Our C\$70 target price is based upon an approximately 2.22% dividend yield.

### Dividend Yield Spread

We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered ENB's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 46 and Exhibit 47 highlight this relationship.

**Exhibit 46: Historical Dividend Yield Spread versus the Canadian Ten Year (Bps)**

Source: Bloomberg and Credit Suisse.

**Exhibit 47: Historical Yield Spread**

Mean	-7
Median	11
Min	-142
Max	137

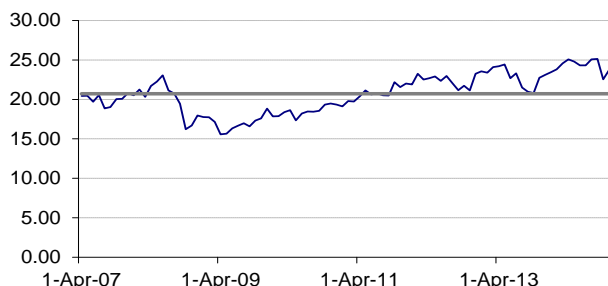
Source: Bloomberg and Credit Suisse.

The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like ENB usually do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate-sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins valuations for companies like ENB. We therefore apply -28bps spread to a moderate outlook on 10-year Canadian bond yield (2.50%) to obtain our C\$70 target price.

Exhibit 48 contains our Credit Suisse RAVE valuation summary.

**Exhibit 48: ENB historical RAVE valuation**

Enbridge Inc. PE	Median	20.7
------------------	--------	------



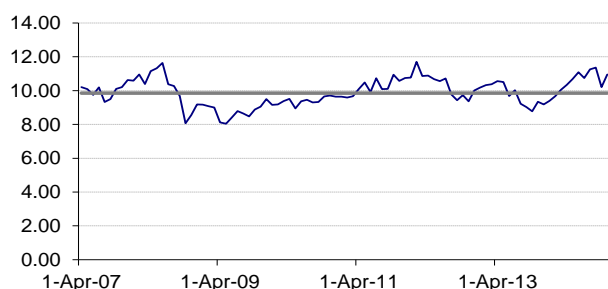
Source: Credit Suisse estimates, IBES

Enbridge Inc. PE relative	Median	1.6
---------------------------	--------	-----



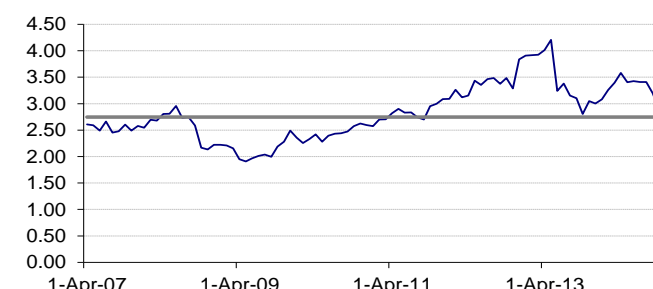
Source: Credit Suisse estimates, IBES

Enbridge Inc. P/CF	Median	9.8
--------------------	--------	-----



Source: Credit Suisse estimates, IBES

Enbridge Inc. P/Book	Median	2.7
----------------------	--------	-----

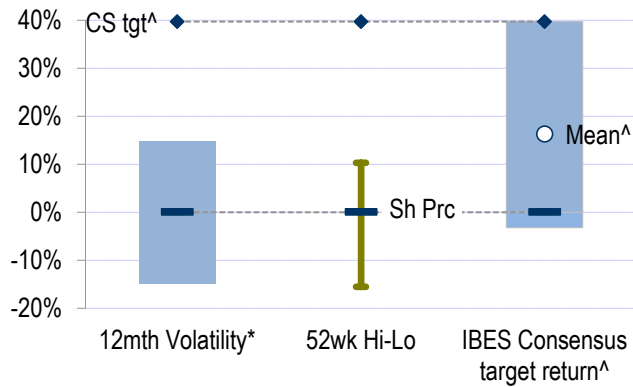


Source: Credit Suisse estimates, IBES

Source: Credit Suisse.

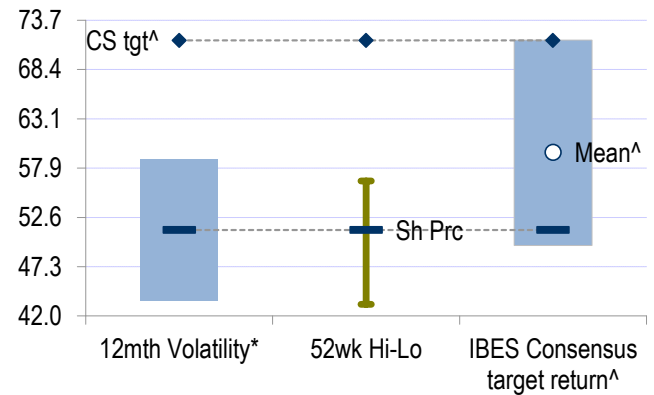
Exhibit 49 and Exhibit 50 puts our ENB rating and target into context.

**Exhibit 49: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

**Exhibit 50: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .



# Enbridge Income (ENF.TO)

Rating	<b>NEUTRAL*</b>
Price (17 Nov 14, C\$)	30.99
Target price (C\$)	(from 26.00) 30.00 <sup>1</sup>
52-week price range	32.79 - 22.51
Market cap. (C\$ m)	2,180.18
Enterprise value (C\$ m)	2,173.02

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

**Andrew M. Kuske**

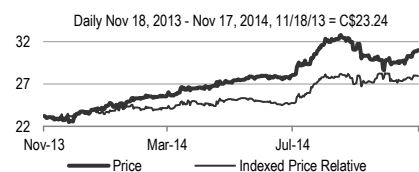
416 352 4561

andrew.kuske@credit-suisse.com

## Taking up target price after close of transaction

- **Target price increase:** We increase our target price for Enbridge Income Fund Holdings Inc. (ENF) to C\$30 from C\$26 after the closing of the transaction to acquire the 50% interest in the U.S. segment of the Alliance Pipeline and the purchase of Class A Units of the Southern Lights Pipeline. For further details on the acquisition see our note "[Enbridge Group – Dropdown double down](#)." With the closing of the transaction the company also increased its annual dividend by roughly 12% to ~C\$1.54/share from ~C\$1.37/share.
- **Investment Thesis:** We believe that ENF provides a stable dividend backed by a strong sponsor in Enbridge Inc. From our view, ENF has organic growth options largely in the Bakken-focused Saskatchewan System. Additionally, we view a number of potential acquisition opportunities from Enbridge Inc. and separate from the sponsor.
- **Valuation:** We maintain our Neutral rating and increase our target price to C\$30 from C\$26, which is based primarily on a yield-driven valuation approach that implies a 5.13% yield and roughly 263-bps yield spread against a forecast 2.50% Cdn 10-year on an annual dividend of ~C\$1.54/share.

## Share price performance



On 11/17/14 the S&P/TSX Composite closed at 14933.88

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.17	0.39	0.38	0.39
2014E	0.38	0.38	0.37	0.37
2015E	0.38	0.38	0.38	0.38

## Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.53	1.51	1.53	1.53
Prev. EPS (C\$)	—	—	—	—
P/E (x)	20.2	20.5	20.3	20.3
P/E rel. (%)	116.3	136.4	152.9	170.6
Revenue (C\$ m)	91.0	92.1	102.1	104.6
EBITDA (C\$ m)	91.0	92.1	102.1	104.6
OCFPS (C\$)	1.63	1.52	1.64	1.68
P/OCF (x)	14.5	20.4	18.9	18.4
EV/EBITDA (current)	23.9	23.7	21.3	20.8
Net debt (C\$ m)	-0	-7	-172	-188
ROIC (%)	6.61	5.63	6.28	6.34
Number of shares (m)	70.35	IC (current, C\$ m)	1,310.13	
BV/share (Next Qtr., C\$)	27.0	EV/IC (x)	1.4	
Net debt (Next Qtr., C\$ m)	-3.7	Dividend (current, C\$)	1.4	
Net debt/tot eq (Next Qtr., %)	-0.24	Dividend yield (%)	1.1	

Source: Company data, Credit Suisse estimates.

## Yield-based approaches

Our yield based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

### Dividend discount model

As per our recent Ideas Engine report, we assessed the current value of income oriented stocks relative to some historic measures and future forecasts. There are many ways to consider yield driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of the simplicity of the approach. As a refresher, the simple dividend discount model formula is as follows:

$$P = D/(k-g)$$

Where:

P = price

D = dividend

K = required return

G = growth rate

One of the main tools in the process will be the dividend discount model and solving for "K" as the other elements are known, have historical reference points or metrics available from a consensus view to avoid more narrow distortions. Using this approach, ENF's valuation now follows:

$$D = \text{C\$1.54/share (2015 guidance)}$$

$$K = 8.7\%$$

$$G = 12.0\% (2014/2015)$$

$$P = (\text{C\$46.67})$$

If one was to use the current share price of C\$30.86 and solve for "K", then that value would be 17.0%.

Another approach to consider is the cost of equity and the potential growth in dividend in the future. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as ENF. We used the following assumptions in our dividend discount model:

- Current annual dividend: C\$1.38/share
- Cost of equity: 8.2% (Bloomberg)
- Growth rate: 12.0% (2014/2015)

A dividend discount model would produce share price value of roughly (C\$36.32).

Given different assumptions, we generated the following range of valuations highlighted in Exhibit 51.

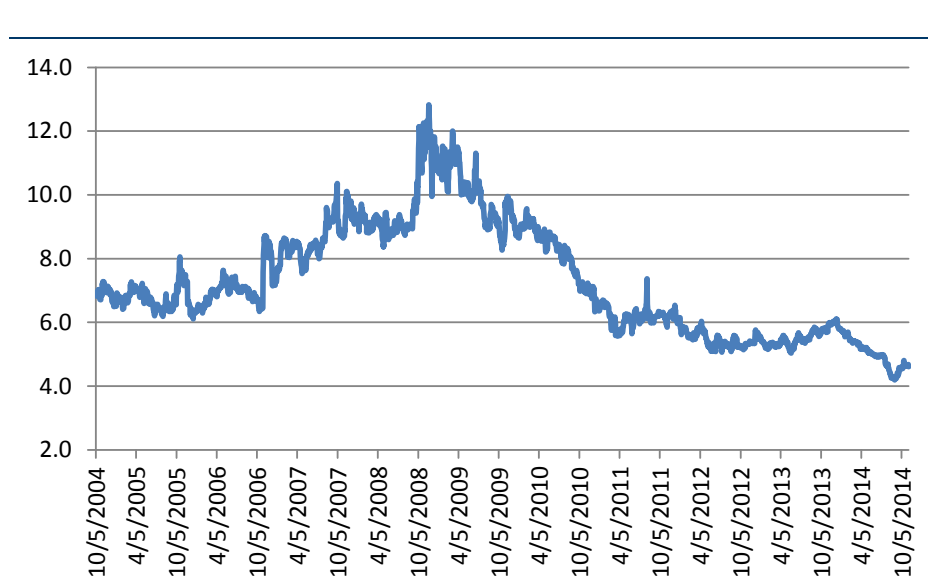
**Exhibit 51: Share Value Under Different Dividend Discount Model Assumptions**

		Cost of equity								
		7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Dividend growth rate (%)	0.5%	23.69	22.00	20.53	19.25	18.12	17.11	16.21	15.40	14.67
	1.0%	25.67	23.69	22.00	20.53	19.25	18.12	17.11	16.21	15.40
	1.5%	28.00	25.67	23.69	22.00	20.53	19.25	18.12	17.11	16.21
	2.0%	30.80	28.00	25.67	23.69	22.00	20.53	19.25	18.12	17.11
	2.5%	34.22	30.80	28.00	25.67	23.69	22.00	20.53	19.25	18.12
	3.0%	38.50	34.22	30.80	28.00	25.67	23.69	22.00	20.53	19.25
	3.5%	44.00	38.50	34.22	30.80	28.00	25.67	23.69	22.00	20.53
	4.0%	51.33	44.00	38.50	34.22	30.80	28.00	25.67	23.69	22.00
	4.5%	61.60	51.33	44.00	38.50	34.22	30.80	28.00	25.67	23.69
	5.0%	77.00	61.60	51.33	44.00	38.50	34.22	30.80	28.00	25.67
	5.5%	102.67	77.00	61.60	51.33	44.00	38.50	34.22	30.80	28.00
	6.0%	154.00	102.67	77.00	61.60	51.33	44.00	38.50	34.22	30.80
	6.5%	308.00	154.00	102.67	77.00	61.60	51.33	44.00	38.50	34.22
7.0%	N/A	308.00	154.00	102.67	77.00	61.60	51.33	44.00	38.50	
7.5%		N/A	308.00	154.00	102.67	77.00	61.60	51.33	44.00	

Source: Company data and Credit Suisse estimates.

### Dividend Yield

According to Bloomberg data, ENF has traded at an average dividend yield of 7.27% over the past 10 years and within a range of 4.19-12.83%. (See Exhibit 52 and Exhibit 53.)

**Exhibit 52: Historical ENF Dividend Yield (%)**

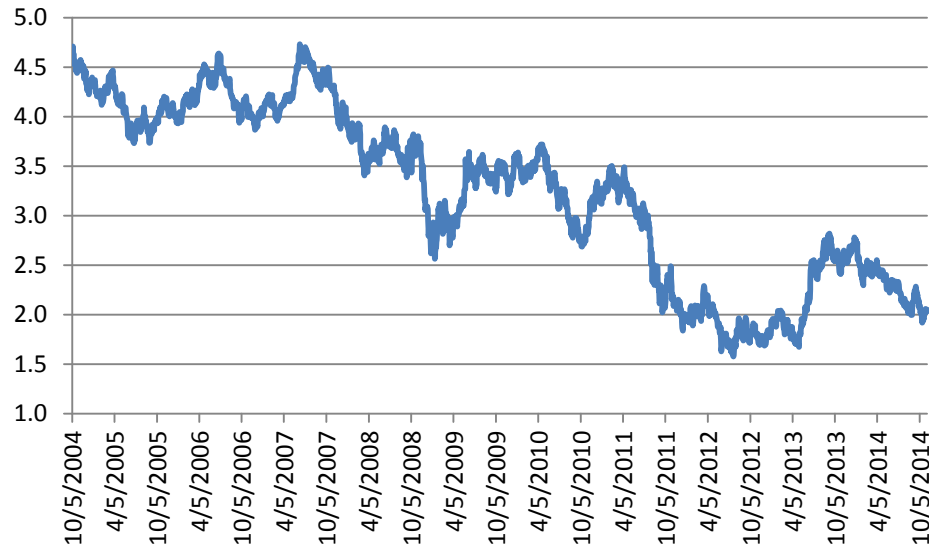
Source: Bloomberg and Credit Suisse.

**Exhibit 53: Historical Dividend Yield (%)**

Mean	7.27
Median	6.89
Min	4.19
Max	12.83

Source: Bloomberg and Credit Suisse.

For several reasons, we believe that these metrics should be compared with movements in the Canadian 10-year bond yield. (See Exhibit 54.)

**Exhibit 54: Canadian 10-Year Bond Yield**

Source: Bloomberg and Credit Suisse.

The sensitivity of dividend yield valuation is clearly evident in Exhibit 55, with various distribution levels at various targeted yields.

**Exhibit 55: Share Value Based on Various Dividends at Various Yields**

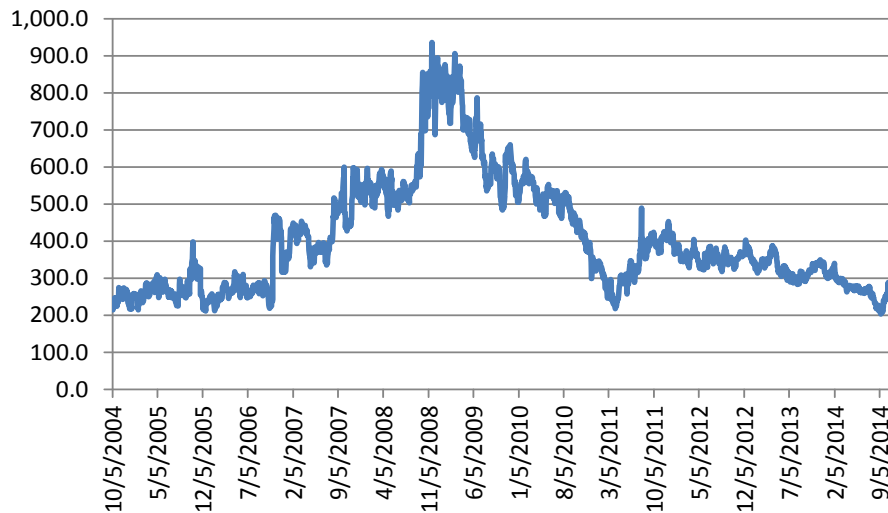
	Dividend per share							
	1.24	1.34	1.44	1.54	1.64	1.74	1.84	1.94
3.0%	41.33	44.67	48.00	51.33	54.67	58.00	61.33	64.67
3.5%	35.43	38.29	41.14	44.00	46.86	49.71	52.57	55.43
4.0%	31.00	33.50	36.00	38.50	41.00	43.50	46.00	48.50
4.5%	27.56	29.78	32.00	34.22	36.44	38.67	40.89	43.11
5.0%	24.80	26.80	28.80	30.80	32.80	34.80	36.80	38.80
5.5%	22.55	24.36	26.18	28.00	29.82	31.64	33.45	35.27
6.0%	20.67	22.33	24.00	25.67	27.33	29.00	30.67	32.33
6.5%	19.08	20.62	22.15	23.69	25.23	26.77	28.31	29.85
7.0%	17.71	19.14	20.57	22.00	23.43	24.86	26.29	27.71
7.5%	16.53	17.87	19.20	20.53	21.87	23.20	24.53	25.87

Source: Credit Suisse estimates.

Our C\$30 target price is based upon an approximately 5.13% dividend yield.

### Dividend Yield Spread

We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered ENF's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 56 and Exhibit 57 highlight this relationship.

**Exhibit 56: Historical Dividend Yield Spread versus the Canadian Ten Year (Bps)**

Source: Bloomberg and Credit Suisse.

**Exhibit 57: Historical Yield Spread**

Mean	404
Median	357
Min	203
Max	936

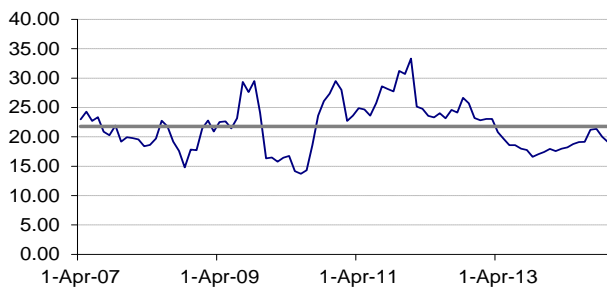
Source: Bloomberg and Credit Suisse.

The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like ENF usually do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate-sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins valuations for companies like ENF. We therefore apply 263bps spread to a moderate outlook on 10-year Canadian bond yield (2.50%) to obtain our C\$30 target price.

The RAVE valuation summary for ENF appears in Exhibit 58.

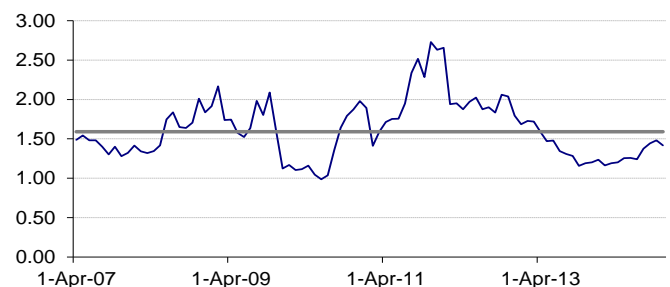
**Exhibit 58: ENF historical RAVE valuation**

Enbridge Income PE	Median	21.8
--------------------	--------	------



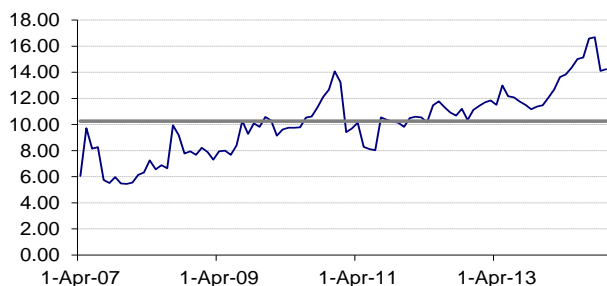
Source: Credit Suisse estimates, IBES

Enbridge Income PE relative	Median	1.6
-----------------------------	--------	-----



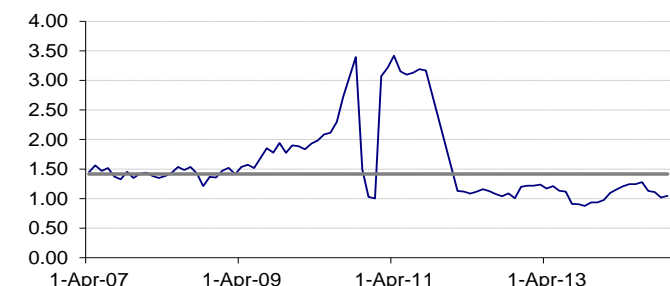
Source: Credit Suisse estimates, IBES

Enbridge Income P/CF	Median	10.3
----------------------	--------	------



Source: Credit Suisse estimates, IBES

Enbridge Income P/Book	Median	1.4
------------------------	--------	-----

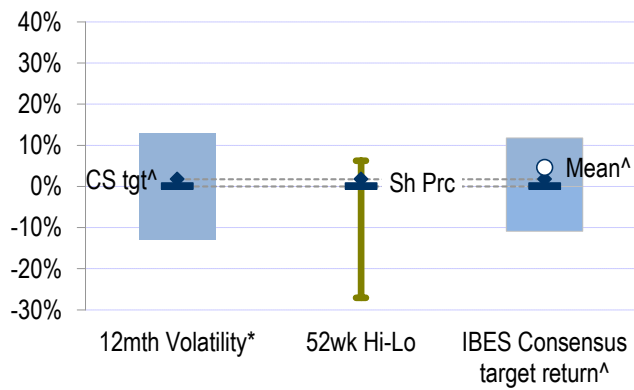


Source: Credit Suisse estimates, IBES

Source: Credit Suisse.

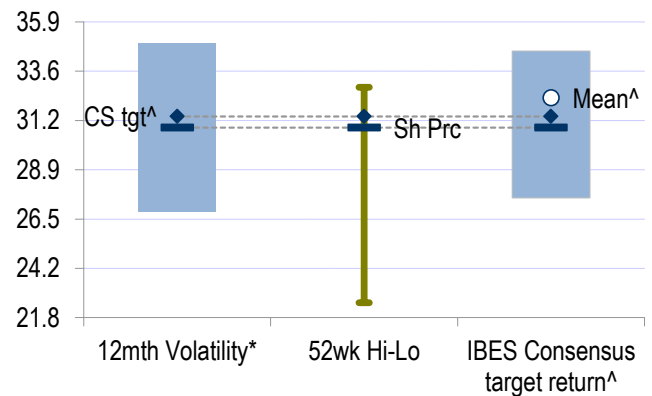
Exhibit 59 and Exhibit 60 puts our ENF rating and target into context.

**Exhibit 59: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

**Exhibit 60: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

Americas / Canada  
Multi Utilities**Fortis Inc.** (FTS.TO)

Rating (from Neutral) **OUTPERFORM\***  
 Price (17 Nov 14, C\$) 37.99  
 Target price (C\$) (from 32.00) 44.00<sup>1</sup>  
 52-week price range 38.10 - 29.76  
 Market cap. (C\$ m) 10,430.75  
 Enterprise value (C\$ m) 22,811.11

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

**Research Analysts****Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

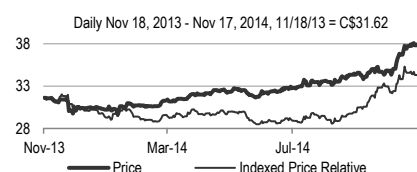
**Paul Tan**

416 352 4593

paul.tan@credit-suisse.com

**Oozing organic growth; real estate review is helpful and M&A on the backburner**

- **Upgrading to Outperform:** With the analysis appearing in our Ideas Engine report titled *Yearning for Yield: Valuing Canada's Dividend Focused Stocks*, we outlined the dividend discount model approach for the Fortis valuation. Our calculated historical 5-year "k" is 7.8% for FTS with a 4.6% growth rate (2014-15 on consensus). With a large capital program of regulated assets having considerable visibility, FTS is well positioned for an improved dividend growth rate. Given the recent announcement to review strategic options for Fortis Properties ([link](#)), we believe FTS has tremendous capital flexibility in the near-term to easily fund a fairly large organic growth program. Simply, Fortis believes the 4-year CAGR of rate base growth from 2014 to 2018 will be roughly 7% and could increase to approximately 8.5% with some higher option value projects. Given the size of the Fortis asset base and the nature of the industry, that level of growth is relatively compelling and should be viewed positively. With this view, we upgrade FTS to Outperform from Neutral and increase the target to C\$44 from C\$32.
- **An acquisition reprieve:** Given some issues associated with UNS financing, we believe FTS will be focused on organic activities for the foreseeable future. Obviously, acquisitions will remain a part of FTS playbook and game plan, but these areas are not likely to gain significant attention at this time.
- **Investment thesis:** FTS is turning to life after the UNS acquisition issue that created some stock market headwinds. With the financing well behind FTS and a large slate of organic growth ahead, we believe that FTS is now focused on avoiding deal distractions and delivering high value added organic capital growth.
- **Valuation:** Our target price of C\$44 is based on an implied yield of 3.00% and a yield spread of roughly 50 bps on a 2.50% Canadian 10-year. We upgrade our rating to Outperform from Neutral.

**Share price performance**

On 11/17/14 the S&P/TSX Composite closed at 14933.88

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.24	0.24	0.45
2015E	0.66	0.38	0.35	0.53

**Financial and valuation metrics**

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.58	1.92	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	23.3	24.1	19.8	18.7
P/E rel. (%)	134.1	160.3	149.1	157.0
Revenue (C\$ m)	4,047.0	4,711.3	5,926.7	6,329.1
EBITDA (C\$ m)	1,393.0	1,568.6	1,982.8	2,187.5
OCFPS (C\$)	4.10	4.30	3.71	4.26
P/OCF (x)	7.4	8.8	10.2	8.9
EV/EBITDA (current)	13.0	11.5	9.1	8.3
Net debt (C\$ m)	7,716	12,380	11,150	11,556
ROIC (%)	5.63	4.22	5.69	5.83
Number of shares (m)	274.57	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	22.6	EV/IC (x)		1.3
Net debt (Next Qtr., C\$ m)	7,898.2	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	121.4	Dividend yield (%)		0.84

Source: Company data, Credit Suisse estimates.

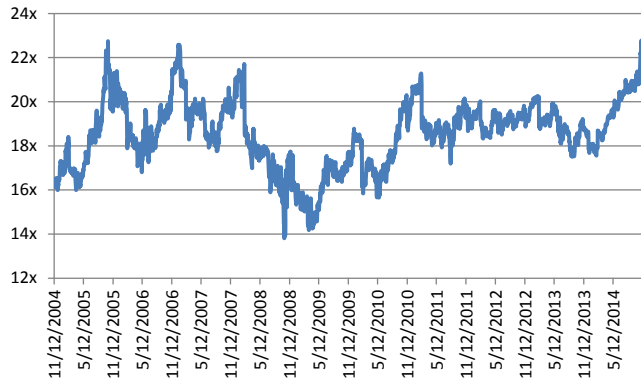


Consistent with our past practice, we address multiple valuation methods for FTS at this part of the report. Our methods are focused upon: (a) P/E; and, (b) yield based.

### P/E based approach

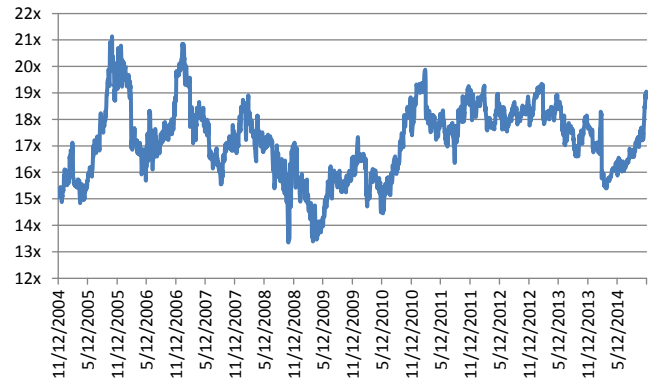
For many industries P/E multiples are somewhat challenging, but they do provide a quick comparative with other sectors and the overall market on a simple basis. Exhibit 61 and Exhibit 62 provide a historical view for FTS's Forward 1-year and 2-Year P/E multiple over the last 10 years.

**Exhibit 61: Historical 1-year forward P/E**



Source: Thomson One

**Exhibit 62: Historical 2-year forward P/E**



Source: Thomson One

Descriptive statistics for both FTS's 1-year and 2-year historical forward P/E multiples for are shown in Exhibit 63.

**Exhibit 63: Historical forward P/E descriptive statistics**

	1-Yr Forward	2-Yr Forward
Mean	18.5x	17.2x
Median	18.7x	17.3x
Min	13.8x	13.3x
Max	22.8x	21.1x

Source: Thomson One.

Exhibit 64 shows the past few years' forward 2-year P/E.

**Exhibit 64: Last 2-years of 2-year forward P/E multiples**



Source: Thomson One.

- Mean: 17.4
- Median: 17.4x
- Range: 15.4x to 19.3x

Our C\$44 target price implies a 21.6x multiple on our 2016 estimate—ahead of both the mean and median along with the top end of the range. A valuation matrix appears in Exhibit 65.

**Exhibit 65: Hypothetical share prices at different EPS and P/E multiples**

	Earnings per share (C\$)									
	1.80	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70
10.0x	18.00	19.00	20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00
11.0x	19.80	20.90	22.00	23.10	24.20	25.30	26.40	27.50	28.60	29.70
12.0x	21.60	22.80	24.00	25.20	26.40	27.60	28.80	30.00	31.20	32.40
13.0x	23.40	24.70	26.00	27.30	28.60	29.90	31.20	32.50	33.80	35.10
14.0x	25.20	26.60	28.00	29.40	30.80	32.20	33.60	35.00	36.40	37.80
15.0x	27.00	28.50	30.00	31.50	33.00	34.50	36.00	37.50	39.00	40.50
16.0x	28.80	30.40	32.00	33.60	35.20	36.80	38.40	40.00	41.60	43.20
17.0x	30.60	32.30	34.00	35.70	37.40	39.10	40.80	42.50	44.20	45.90
18.0x	32.40	34.20	36.00	37.80	39.60	41.40	43.20	45.00	46.80	48.60
19.0x	34.20	36.10	38.00	39.90	41.80	43.70	45.60	47.50	49.40	51.30
20.0x	36.00	38.00	40.00	42.00	44.00	46.00	48.00	50.00	52.00	54.00
21.0x	37.80	39.90	42.00	44.10	46.20	48.30	50.40	52.50	54.60	56.70
22.0x	39.60	41.80	44.00	46.20	48.40	50.60	52.80	55.00	57.20	59.40
23.0x	41.40	43.70	46.00	48.30	50.60	52.90	55.20	57.50	59.80	62.10
24.0x	43.20	45.60	48.00	50.40	52.80	55.20	57.60	60.00	62.40	64.80
25.0x	45.00	47.50	50.00	52.50	55.00	57.50	60.00	62.50	65.00	67.50

Source: Company data, Credit Suisse estimates.

### Yield based approaches

Our yield based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

### Dividend discount model

As per our recent Ideas Engine report, we assessed the current value of income oriented stocks relative to some historical measures and future forecasts. There are many ways to consider yield driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of the simplicity of the approach. As a refresher, the simple dividend discount model formula is as follows:

$$P = D / (k - g)$$

Where:

P = price

D = dividend

K = required return

G = growth rate

One of the main tools in the process will be the dividend discount model and solving for "K" as the other elements are known, have historical reference points or metrics available from a consensus view to avoid more narrow distortions. The Fortis valuation under these criteria includes:

$$D = \text{C\$1.34/share (2015 consensus estimate)}$$

$$K = 7.8\%$$

$$G = 4.6\% (2014/2015)$$

$$P = \text{C\$41.68}$$

If one was to use the current share price of C\$37.83 and solve for "K," then that value would be 8.1%.

Another approach to consider is the cost of equity and the potential growth in dividend in the future. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as EMA. We used the following assumptions in our dividend discount model:

- Current annual dividend: C\$1.28/share
- Cost of equity: 7.0% (Bloomberg)
- Growth rate: 4.6% (2014/2015)

A dividend discount model would produce share price value of roughly C\$53.33.

Given different assumptions, we generated the following range of valuations highlighted in Exhibit 66.

**Exhibit 66: Share Value Under Different Dividend Discount Model Assumptions**

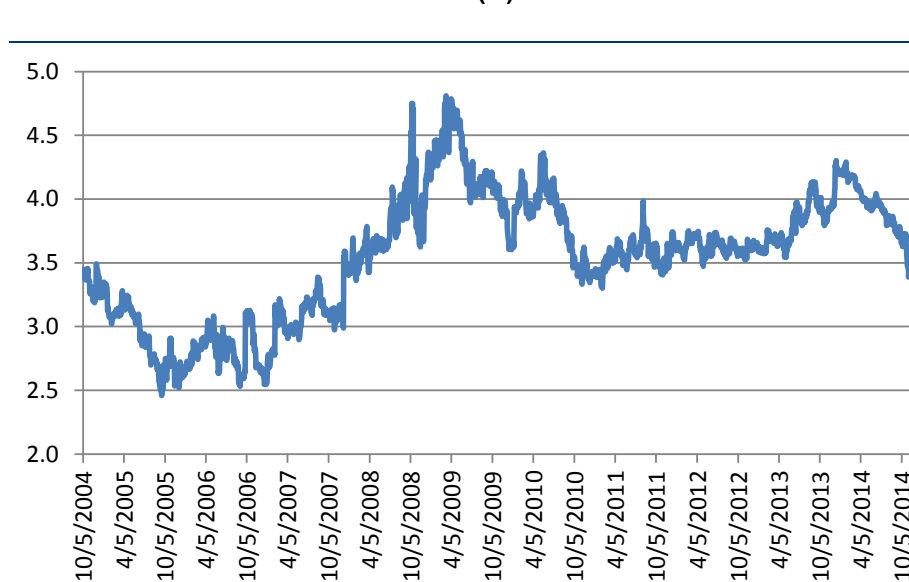
	Cost of Equity (%)									
	5.5%	6.00%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
1.0%	28.44	25.60	23.27	21.33	19.69	18.29	17.07	16.00	15.06	14.22
1.5%	32.00	28.44	25.60	23.27	21.33	19.69	18.29	17.07	16.00	15.06
2.0%	36.57	32.00	28.44	25.60	23.27	21.33	19.69	18.29	17.07	16.00
2.5%	42.67	36.57	32.00	28.44	25.60	23.27	21.33	19.69	18.29	17.07
3.0%	51.20	42.67	36.57	32.00	28.44	25.60	23.27	21.33	19.69	18.29
3.5%	64.00	51.20	42.67	36.57	32.00	28.44	25.60	23.27	21.33	19.69
4.0%	85.33	64.00	51.20	42.67	36.57	32.00	28.44	25.60	23.27	21.33
4.5%	128.00	85.33	64.00	51.20	42.67	36.57	32.00	28.44	25.60	23.27
5.0%	256.00	128.00	85.33	64.00	51.20	42.67	36.57	32.00	28.44	25.60
5.5%		256.00	128.00	85.33	64.00	51.20	42.67	36.57	32.00	28.44
6.0%			256.00	128.00	85.33	64.00	51.20	42.67	36.57	32.00
6.5%				256.00	128.00	85.33	64.00	51.20	42.67	36.57
7.0%					256.00	128.00	85.33	64.00	51.20	42.67
7.5%						256.00	128.00	85.33	64.00	51.20
8.0%							256.00	128.00	85.33	64.00

Source: Company data and Credit Suisse estimates.

### Dividend Yield

According to Bloomberg data, Fortis has traded at an average dividend yield of 3.55% over the past 10 years and within a range of 2.46-4.81%. (See Exhibit 67 and Exhibit 68.)

**Exhibit 67: Historical FTS Dividend Yield (%)**



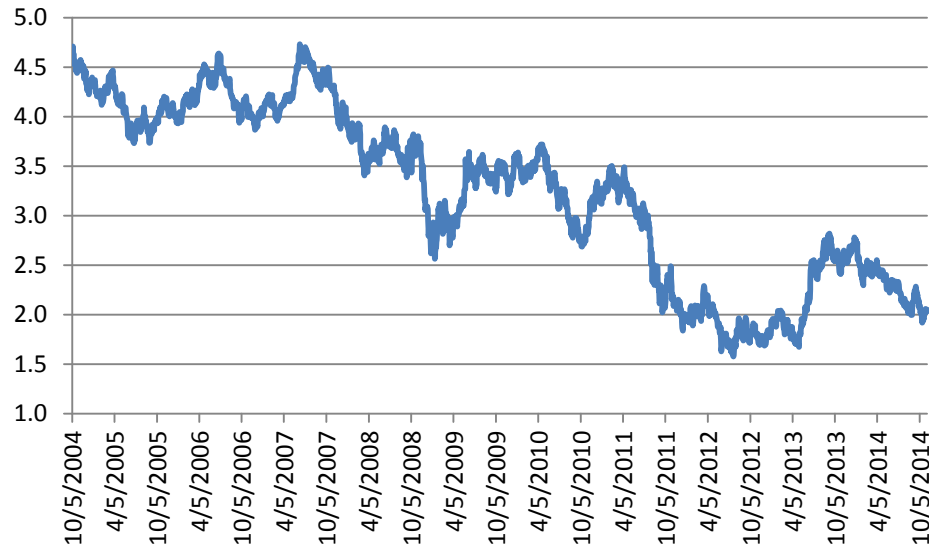
Source: Bloomberg and Credit Suisse.

**Exhibit 68: Historical Dividend Yield (%)**

Mean	3.55
Median	3.61
Min	2.46
Max	4.81

Source: Bloomberg and Credit Suisse.

For several reasons, we believe that these metrics should be compared with movements in the Canadian 10-year bond yield. (See Exhibit 69.)

**Exhibit 69: Canadian 10-Year Bond Yield**

Source: Bloomberg and Credit Suisse.

The sensitivity of dividend yield valuation is clearly evident in Exhibit 70, with various distribution levels at various targeted yields.

**Exhibit 70: Share Value Based on Various Dividends at Various Yields**

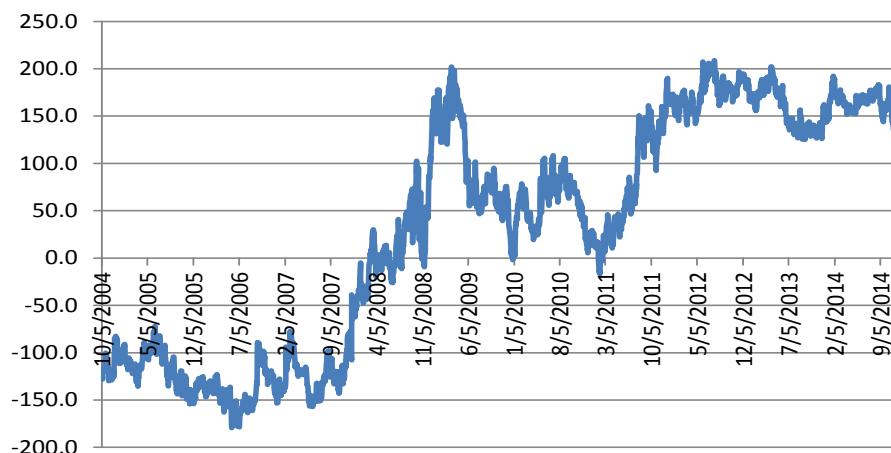
	Dividend per share (C\$)									
	1.15	1.20	1.25	1.30	1.35	1.40	1.45	1.50	1.55	1.60
2.00%	57.50	60.00	62.50	65.00	67.50	70.00	72.50	75.00	77.50	80.00
2.25%	51.11	53.33	55.56	57.78	60.00	62.22	64.44	66.67	68.89	71.11
2.50%	46.00	48.00	50.00	52.00	54.00	56.00	58.00	60.00	62.00	64.00
2.75%	41.82	43.64	45.45	47.27	49.09	50.91	52.73	54.55	56.36	58.18
3.00%	38.33	40.00	41.67	43.33	45.00	46.67	48.33	50.00	51.67	53.33
3.25%	35.38	36.92	38.46	40.00	41.54	43.08	44.62	46.15	47.69	49.23
3.50%	32.86	34.29	35.71	37.14	38.57	40.00	41.43	42.86	44.29	45.71
3.75%	30.67	32.00	33.33	34.67	36.00	37.33	38.67	40.00	41.33	42.67
4.00%	28.75	30.00	31.25	32.50	33.75	35.00	36.25	37.50	38.75	40.00
4.25%	27.06	28.24	29.41	30.59	31.76	32.94	34.12	35.29	36.47	37.65
4.50%	25.56	26.67	27.78	28.89	30.00	31.11	32.22	33.33	34.44	35.56
4.75%	24.21	25.26	26.32	27.37	28.42	29.47	30.53	31.58	32.63	33.68
5.00%	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00	31.00	32.00
5.25%	21.90	22.86	23.81	24.76	25.71	26.67	27.62	28.57	29.52	30.48
5.50%	20.91	21.82	22.73	23.64	24.55	25.45	26.36	27.27	28.18	29.09

Source: Credit Suisse estimates.

Our C\$44 target price is based upon an approximately 3.0% dividend yield.

### Dividend Yield Spread

We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered FTS's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 71 and Exhibit 72 highlight this relationship.

**Exhibit 71: Historical Dividend Yield Spread versus the Canadian Ten Year (Bps)**

Source: Bloomberg and Credit Suisse.

**Exhibit 72: Historical Yield Spread**

Mean	32
Median	53
Min	-179
Max	209

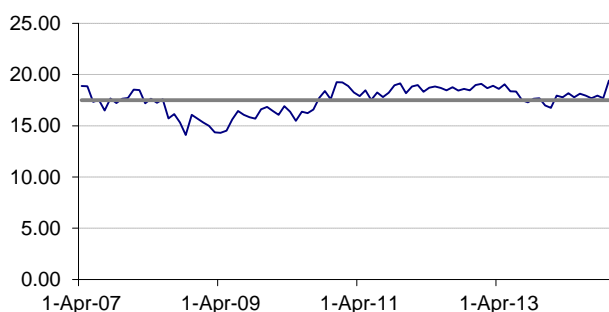
Source: Bloomberg and Credit Suisse.

The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like FTS usually do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate-sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins valuations for companies like FTS. We therefore apply 50bps spread to a moderate outlook on 10-year Canadian bond yield (2.50%) to obtain our C\$44 target price.

The RAVE valuation summary for FTS appears in Exhibit 73.

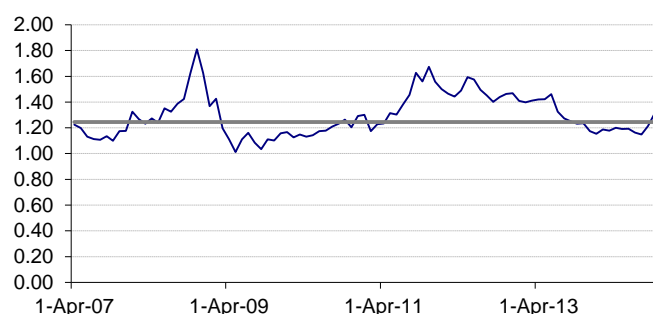
**Exhibit 73: FTS historical RAVE valuation**

Fortis Inc. PE	Median	17.5
----------------	--------	------



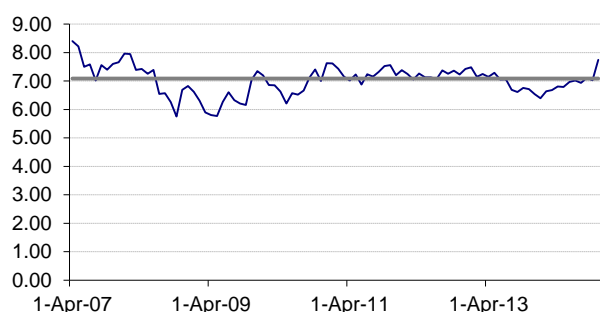
Source: Credit Suisse estimates, IBES

Fortis Inc. PE relative	Median	1.2
-------------------------	--------	-----



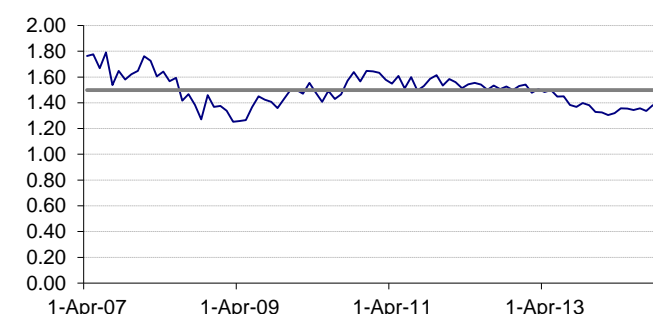
Source: Credit Suisse estimates, IBES

Fortis Inc. P/CF	Median	7.1
------------------	--------	-----



Source: Credit Suisse estimates, IBES

Fortis Inc. P/Book	Median	1.5
--------------------	--------	-----

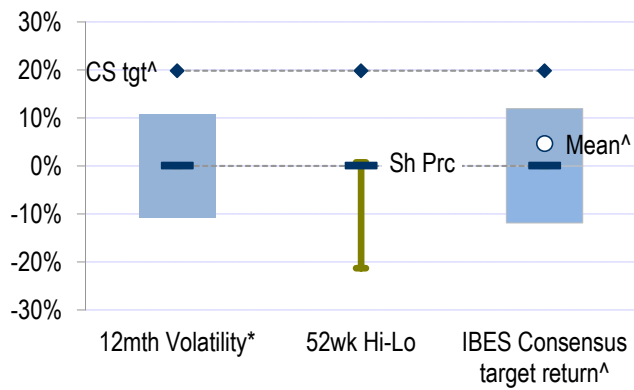


Source: Credit Suisse estimates, IBES

Source: Credit Suisse.

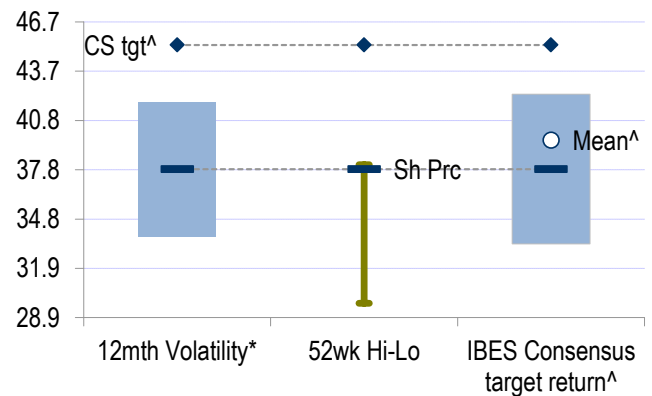
Exhibit 74 and Exhibit 75 puts our FTS rating and target into context.

**Exhibit 74: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

**Exhibit 75: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

# TransCanada Corp. (TRP.TO)

Rating (from Neutral) **OUTPERFORM\***  
 Price (17 Nov 14, C\$) 56.57  
 Target price (C\$) (from 58.00) 68.00<sup>1</sup>  
 52-week price range 61.38 - 46.27  
 Market cap. (C\$ m) 40,083.41  
 Enterprise value (C\$ m) 65,346.83

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

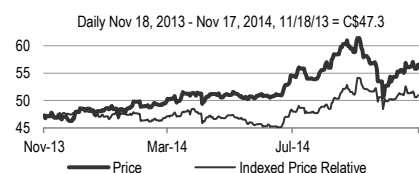
416 352 4593

paul.tan@credit-suisse.com

## A plentiful pipeline of potential

- **Upgrading to Outperform:** With the analysis appearing in our Ideas Engine report, we outlined a dividend discount model approach for TRP's valuation. Our calculated historical 5-year "k" is 8.4% for TRP with a 6.3% growth rate (2014-15 on consensus). With our outlook for TRP's improving capital efficiency initiatives and ongoing organic growth, we believe TRP is well positioned for future dividend growth. In simple terms, TRP's self-stated capital program is C\$45.6bn until the end of the decade. A considerable part of that program involves mega projects with a lot of potential variability on approvals and timeline. In any event, we believe the core TRP growth will help re-rate the shares largely driven by higher future dividend expectations. Accordingly, we upgrade TRP to Outperform from Neutral and increase our target price to C\$68 from C\$58.
- **Steady progress:** In recent months, TRP has made clear progress with the improved use of TC Pipelines with announced drops totaling US\$215m of value. In light of the TCP's re-rating (year-to-date stock market performance of +50.9% versus the Alerian of 9.2%), that stock's currency makes the drops much more palatable for TRP. We continue to believe TRP's journey to a more capital efficient model will be evolutionary rather than revolutionary. In our view, the large-cap Canadian pipes approach to certain industry issues as being akin to Aesop's Tortoise and the Hare fable as discussed in past note ([link](#)). Beyond these actions, we continue to witness TRP making positive progress on a large capital program that is growing positively (i.e., incremental projects rather than project cost escalation outside of the understandable KXL).
- **Investment themes:** We believe the TRP's asset base is well positioned for several investment themes, including: Alberta's oil sands; west coast LNG; and, low cost generation exposure in structurally tight power markets.
- **Valuation:** Our C\$68 target price is primarily obtained from a yield-driven valuation approach that implies a 3.06% dividend yield with an 56 bps yield spread on a 2.50% Canadian 10-year. We upgrade our rating to Outperform.

## Share price performance



On 11/17/14 the S&P/TSX Composite closed at 14933.88

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.52	0.50	0.63	0.58
2014E	0.60	0.47	0.63	0.68
2015E	0.69	0.67	0.64	0.61

## Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	2.24	2.38	2.61	2.68
Prev. EPS (C\$)	—	—	—	—
P/E (x)	25.3	23.8	21.6	21.1
P/E rel. (%)	145.4	158.3	162.9	177.8
Revenue (C\$ m)	8,797.0	10,739.5	11,154.4	11,790.9
EBITDA (C\$ m)	4,361.0	5,031.9	5,458.6	5,769.8
OCFPS (C\$)	5.08	5.43	5.11	5.26
P/OCF (x)	9.5	10.4	11.1	10.7
EV/EBITDA (current)	15.0	13.0	11.9	11.3
Net debt (C\$ m)	24,843	25,263	29,691	34,083
ROIC (%)	4.85	5.47	5.67	5.52
Number of shares (m)	708.56	IC (current, C\$ m)	44,979.00	
BV/share (Next Qtr., C\$)	23.4	EV/IC (x)	1.4	
Net debt (Next Qtr., C\$ m)	25,166.6	Dividend (current, C\$)	1.9	
Net debt/tot eq (Next Qtr., %)	122.0	Dividend yield (%)	0.85	

Source: Company data, Credit Suisse estimates.

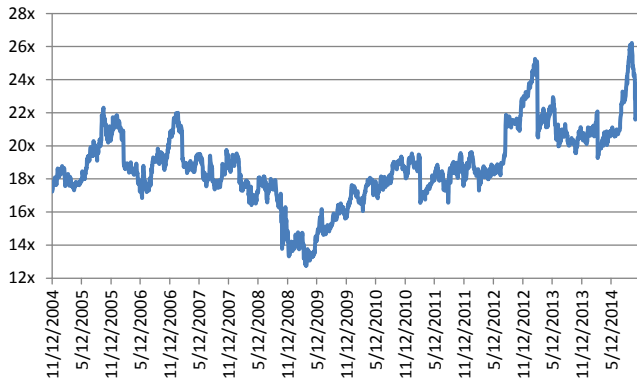


Consistent with our past practice, we address multiple valuation methods for TRP at this part of the report. Our methods are focused upon: (a) P/E; and, (b) yield based.

### P/E based approach

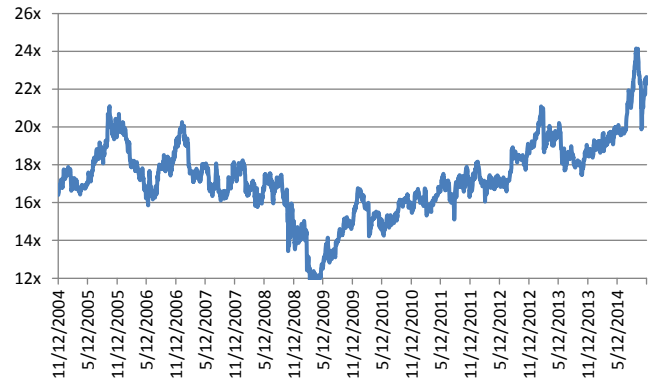
For many industries P/E multiples are somewhat challenging, but they do provide a quick comparative with other sectors and the overall market on a simple basis. Exhibit 76 and Exhibit 77 provide a historical view for TRP's Forward 1-year and 2-Year P/E multiple over the last 10 years.

**Exhibit 76: Historical 1-year forward P/E**



Source: Thomson One

**Exhibit 77: Historical 2-year forward P/E**



Source: Thomson One

Descriptive statistics for both TRP's 1-year and 2-year historical forward P/E multiples for are shown in Exhibit 78.

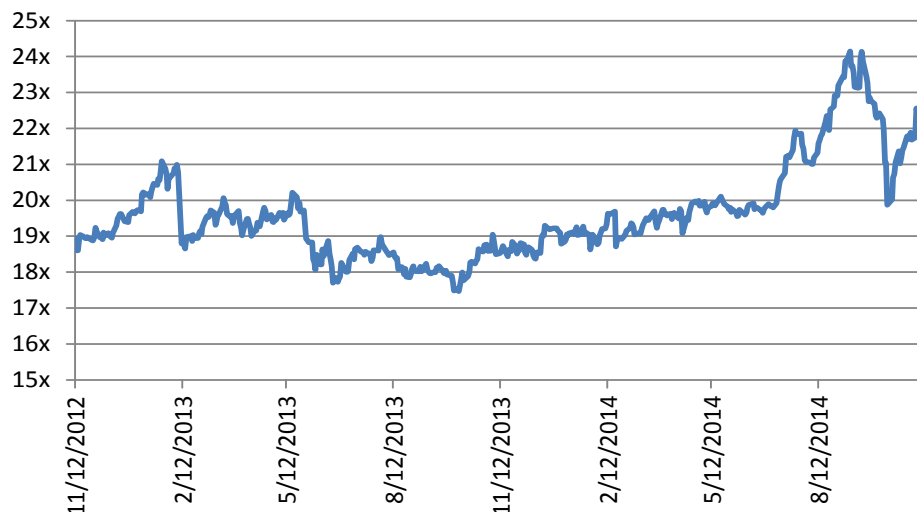
**Exhibit 78: Historical forward P/E descriptive statistics**

	1-Yr Forward	2-Yr Forward
Mean	18.8x	17.3x
Median	18.6x	17.2x
Min	12.8x	11.5x
Max	26.2x	24.1x

Source: Thomson One.

Exhibit 79 shows the past few years' forward 2-year P/E.

**Exhibit 79: Last 2-years of 2-year forward P/E multiples**



Source: Thomson One.

- Mean: 19.6x
- Median: 19.4x
- Range: 17.5x to 24.2x

Our C\$68 target price implies a 25.4x multiple on our 2016 estimate which is above the mean and median historical values. Additionally, that value exceeds the top of the range. In our view, several justifications exist for this multiple. A valuation matrix appears in Exhibit 80.

**Exhibit 80: Hypothetical share prices at different EPS and P/E multiples**

	EPS									
	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75	4.00	4.25
15.0x	30.00	33.75	37.50	41.25	45.00	48.75	52.50	56.25	60.00	63.75
16.0x	32.00	36.00	40.00	44.00	48.00	52.00	56.00	60.00	64.00	68.00
17.0x	34.00	38.25	42.50	46.75	51.00	55.25	59.50	63.75	68.00	72.25
18.0x	36.00	40.50	45.00	49.50	54.00	58.50	63.00	67.50	72.00	76.50
19.0x	38.00	42.75	47.50	52.25	57.00	61.75	66.50	71.25	76.00	80.75
20.0x	40.00	45.00	50.00	55.00	60.00	65.00	70.00	75.00	80.00	85.00
21.0x	42.00	47.25	52.50	57.75	63.00	68.25	73.50	78.75	84.00	89.25
22.0x	44.00	49.50	55.00	60.50	66.00	71.50	77.00	82.50	88.00	93.50
23.0x	46.00	51.75	57.50	63.25	69.00	74.75	80.50	86.25	92.00	97.75
24.0x	48.00	54.00	60.00	66.00	72.00	78.00	84.00	90.00	96.00	102.00
25.0x	50.00	56.25	62.50	68.75	75.00	81.25	87.50	93.75	100.00	106.25
26.0x	52.00	58.50	65.00	71.50	78.00	84.50	91.00	97.50	104.00	110.50
27.0x	54.00	60.75	67.50	74.25	81.00	87.75	94.50	101.25	108.00	114.75

Source: Company data, Credit Suisse estimates.

### Yield based approaches

Our yield-based approaches focus on three related areas: (a) dividend discount model; (b) the dividend yield; and, (c) a dividend yield spread.

### Dividend discount model

As per our recent Ideas Engine report, we assessed the current value of income oriented stocks relative to some historical measures and future forecasts. There are many ways to consider yield driven valuation, but we believe the dividend discount model is one of the preferred methodologies, in part, because of the simplicity of the approach. As a refresher, the simple dividend discount model formula is as follows:

$$P = D / (k - g)$$

Where:

P = price

D = dividend

K = required return

G = growth rate

One of the main tools in the process will be the dividend discount model and solving for "K" as the other elements are known, have historical reference points or metrics available from a consensus view to avoid more narrow distortions. Using this approach, the figures for TRP's valuation appear below and include:

$$D = \text{C\$2.04/share (2015 consensus estimate)}$$

$$K = 8.4\%$$

$$G = 6.3\% \text{ (2014/2015)}$$

$$P = \text{C\$96.49}$$

If one was to use the current share price of C\$55.80 and solve for "K," then that value would be 10.0%.

Another approach to consider is the cost of equity and the potential growth in dividend in the future. A dividend discount model would be a useful valuation tool for yield-oriented vehicles such as TRP. We used the following assumptions in our dividend discount model:

- Current annual dividend: C\$1.92/share
- Cost of equity: 9.5% (Bloomberg)
- Growth rate: 6.3% (2014/2015)

A dividend discount model would produce share price value of roughly C\$60.

Given different assumptions, we generated the following range of valuations highlighted in Exhibit 81.

**Exhibit 81: Share Value Under Different Dividend Discount Model Assumptions**

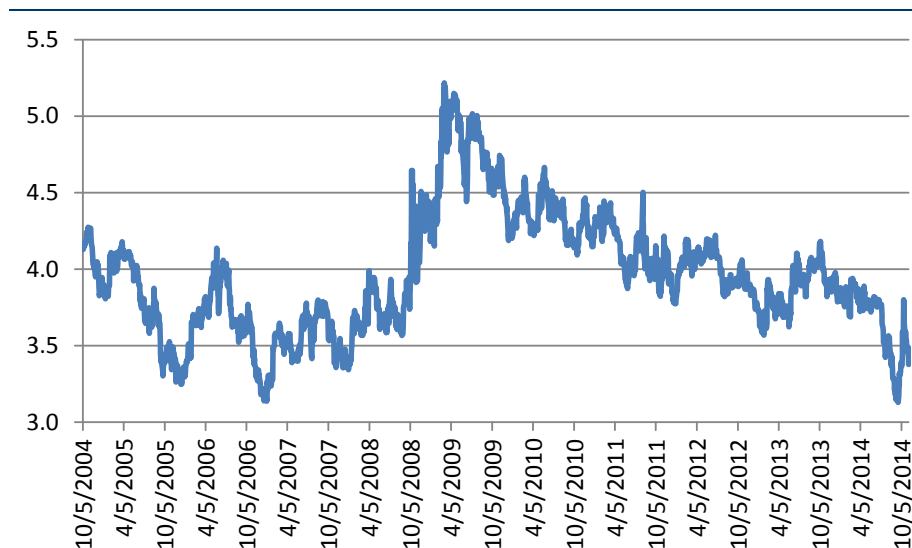
		Discount Rate									
		3.0%	4.00%	5.0%	6.00%	7.0%	8.00%	9.0%	10.0%	11.0%	12.0%
Dividend Growth rate	0.5%	76.80	54.86	42.67	34.91	29.54	25.60	22.59	20.21	18.29	16.70
	1.5%	128.00	76.80	54.86	42.67	34.91	29.54	25.60	22.59	20.21	18.29
	2.5%	384.00	128.00	76.80	54.86	42.67	34.91	29.54	25.60	22.59	20.21
	3.5%		384.00	128.00	76.80	54.86	42.67	34.91	29.54	25.60	22.59
	4.5%			384.00	128.00	76.80	54.86	42.67	34.91	29.54	25.60
	5.5%				384.00	128.00	76.80	54.86	42.67	34.91	29.54
	6.5%					384.00	128.00	76.80	54.86	42.67	34.91
	7.5%						384.00	128.00	76.80	54.86	42.67
	8.5%							384.00	128.00	76.80	54.86
	9.5%								384.00	128.00	76.80
	10.5%									384.00	128.00
	11.5%										384.00

Source: Company data and Credit Suisse estimates.

### Dividend Yield

According to Bloomberg data, Fortis has traded at an average dividend yield of 3.95% over the past 10 years and within a range of 3.13-5.22%. (See Exhibit 82 and Exhibit 83.)

**Exhibit 82: Historical TRP Dividend Yield (%)**



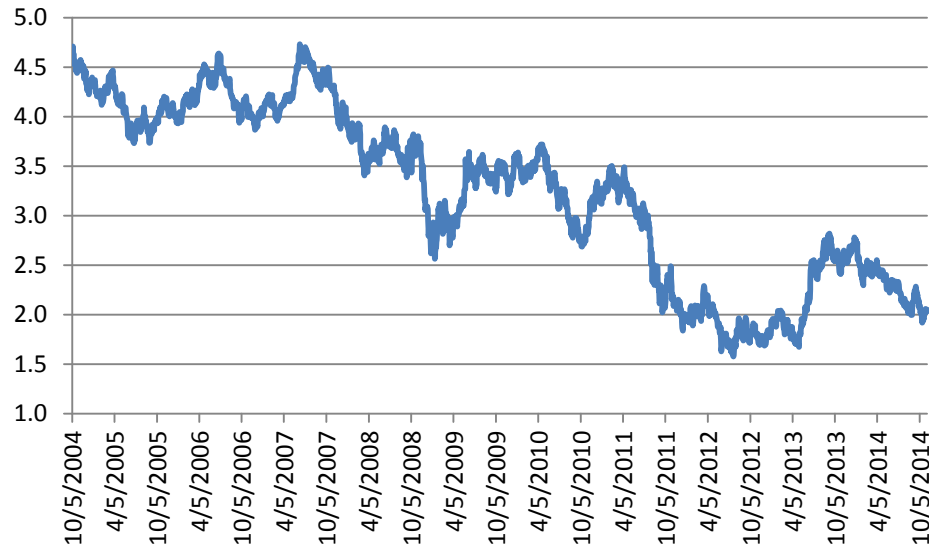
Source: Bloomberg and Credit Suisse.

**Exhibit 83: Historical Dividend Yield (%)**

Mean	3.95
Median	3.92
Min	3.13
Max	5.22

Source: Bloomberg and Credit Suisse.

For several reasons, we believe that these metrics should be compared with movements in the Canadian 10-year bond yield. (See Exhibit 84.)

**Exhibit 84: Canadian 10-Year Bond Yield**

Source: Bloomberg and Credit Suisse.

The sensitivity of dividend yield valuation is clearly evident in Exhibit 85, with various distribution levels at various targeted yields.

**Exhibit 85: Share Value Based on Various Dividends at Various Yields**

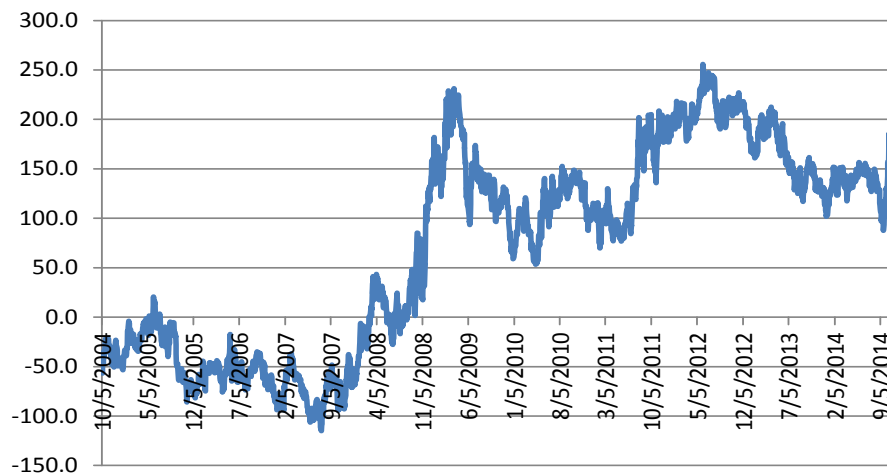
	Dividend									
	1.76	1.86	1.96	2.06	2.16	2.26	2.36	2.46	2.56	2.66
2.50%	70.40	74.40	78.40	82.40	86.40	90.40	94.40	98.40	102.40	106.40
2.75%	64.00	67.64	71.27	74.91	78.55	82.18	85.82	89.45	93.09	96.73
3.00%	58.67	62.00	65.33	68.67	72.00	75.33	78.67	82.00	85.33	88.67
3.25%	54.15	57.23	60.31	63.38	66.46	69.54	72.62	75.69	78.77	81.85
3.50%	50.29	53.14	56.00	58.86	61.71	64.57	67.43	70.29	73.14	76.00
3.75%	46.93	49.60	52.27	54.93	57.60	60.27	62.93	65.60	68.27	70.93
4.00%	44.00	46.50	49.00	51.50	54.00	56.50	59.00	61.50	64.00	66.50
4.25%	41.41	43.76	46.12	48.47	50.82	53.18	55.53	57.88	60.24	62.59
4.50%	39.11	41.33	43.56	45.78	48.00	50.22	52.44	54.67	56.89	59.11
4.75%	37.05	39.16	41.26	43.37	45.47	47.58	49.68	51.79	53.89	56.00
5.00%	35.20	37.20	39.20	41.20	43.20	45.20	47.20	49.20	51.20	53.20

Source: Credit Suisse estimates.

Our C\$68 target price is based upon an approximately 3.06% dividend yield.

### Dividend Yield Spread

We believe that one should not solely rely upon distribution yield-based metrics. In our view, many yield-based metrics should be considered in the context of comparable nominal interest rates available in the marketplace. For a number of reasons, we have considered TRP's historical dividend yield against the Government of Canada 10-year bond yield on a spread basis. Exhibit 86 and Exhibit 87 highlight this relationship.

**Exhibit 86: Historical Dividend Yield Spread versus the Canadian Ten-Year (Bps)**

Source: Bloomberg and Credit Suisse.

**Exhibit 87: Historical Yield Spread**

Mean	73
Median	104
Min	-115
Max	256

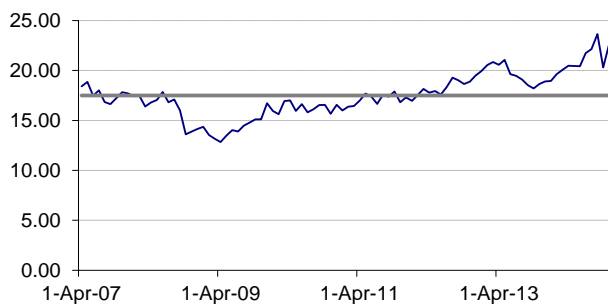
Source: Bloomberg and Credit Suisse.

The yield spread relationship highlights the potential for meaningful sensitivity to interest rate movements. Many fundamental reasons exist for this relationship; however, we must note that interest rate-sensitive investments like TRP usually do not exhibit perfect correlations. Some near-term uncertainty has affected the valuation of many interest rate-sensitive investment vehicles. Yet, in historical terms, the interest rate environment remains accommodative, which underpins valuations for companies like TRP. We therefore apply 56bps spread to a moderate outlook on 10-year Canadian bond yield (2.50%) to obtain our C\$68 target price.

TRP's RAVE valuation appears in Exhibit 88.

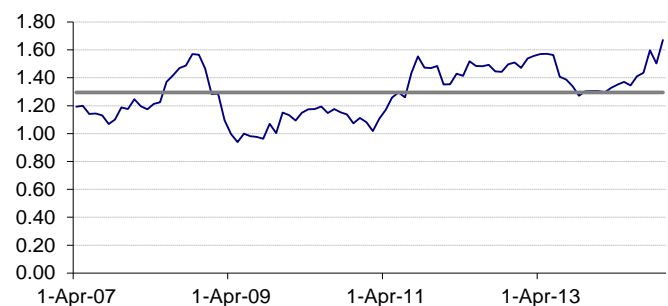
**Exhibit 88: TRP historical RAVE valuation**

TransCanada Corp. PE	Median	17.5
----------------------	--------	------



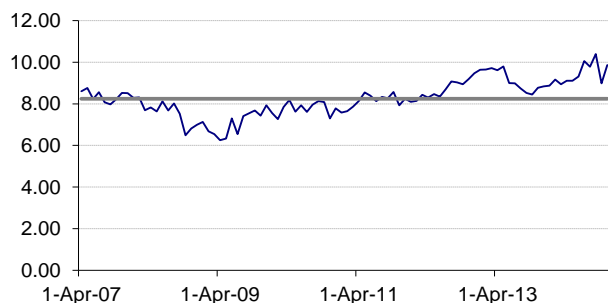
Source: Credit Suisse estimates, IBES

TransCanada Corp. PE relative	Median	1.3
-------------------------------	--------	-----



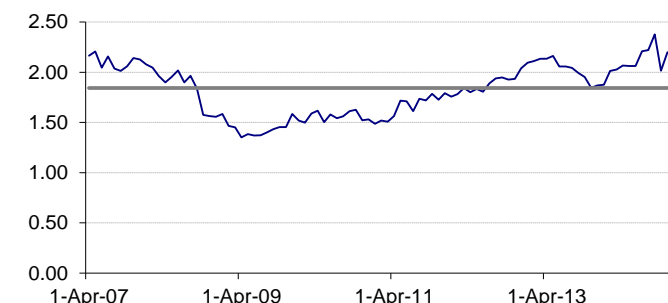
Source: Credit Suisse estimates, IBES

TransCanada Corp. P/CF	Median	8.2
------------------------	--------	-----



Source: Credit Suisse estimates, IBES

TransCanada Corp. P/Book	Median	1.8
--------------------------	--------	-----

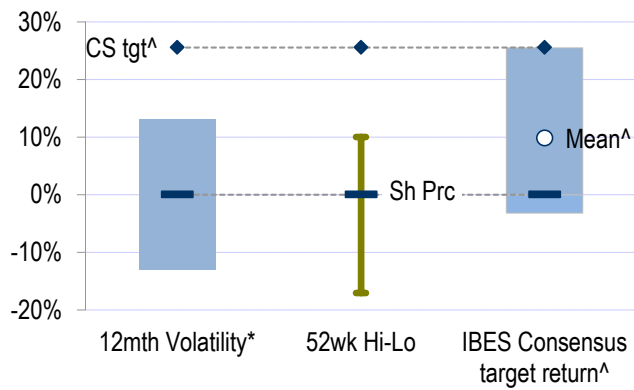


Source: Credit Suisse estimates, IBES

Source: Credit Suisse.

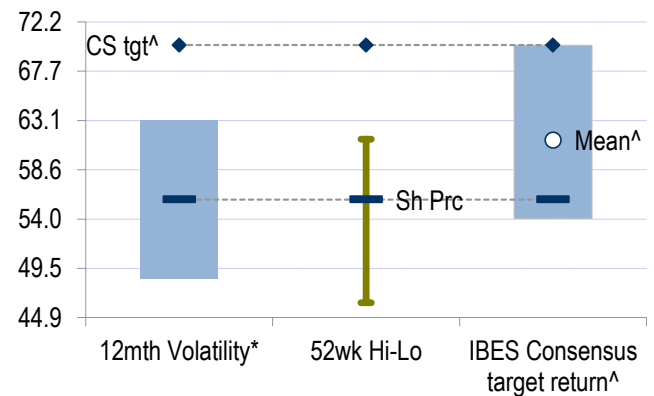
Exhibit 89 and Exhibit 90 puts our TRP rating and target into context.

**Exhibit 89: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

**Exhibit 90: Total return forecast in perspective**



Source: I/B/E/S, Credit Suisse; \* = Annualized stdev of weekly total return over 12 months; ^ = Capital gain/loss + forecast dividend yield; Bands denote  $\pm 1\sigma$ .

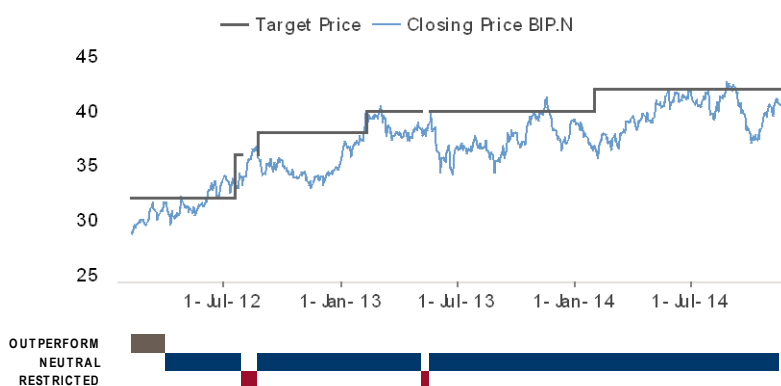
**Companies Mentioned** (Price as of 17-Nov-2014)**Brookfield Infrastructure Partners LP** (BIP.N, \$40.54, OUTPERFORM, TP \$46.0)**Emera Inc.** (EMA.TO, C\$38.2, OUTPERFORM, TP C\$44.0)**Enbridge Inc.** (ENB.TO, C\$50.96, OUTPERFORM, TP C\$70.0)**Enbridge Income** (ENF.TO, C\$30.99, NEUTRAL, TP C\$30.0)**Fortis Inc.** (FTS.TO, C\$37.99, OUTPERFORM, TP C\$44.0)**TransCanada Corp.** (TRP.TO, C\$56.57, OUTPERFORM, TP C\$68.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Brookfield Infrastructure Partners LP (BIP.N)**

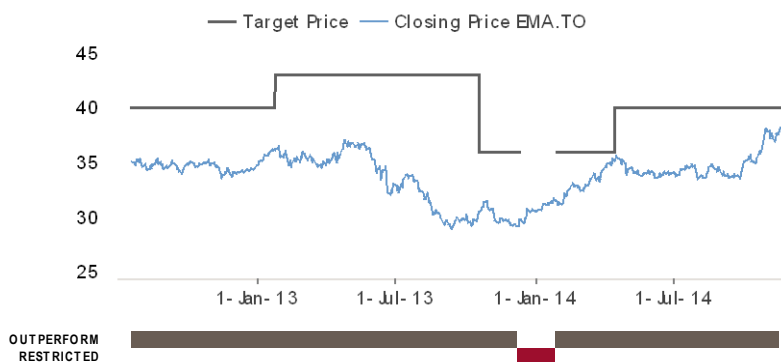
BIP.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
09-Feb-12	28.89	32.00	O
02-Apr-12	31.61	32.00	N
20-Jul-12	33.22	36.00	
30-Jul-12	33.97		R
24-Aug-12	35.80	38.00	N
10-Feb-13	39.70	40.00	
07-May-13	38.36		R
20-May-13	39.12	40.00	N
31-Jan-14	36.79	42.00	

\* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Emera Inc. (EMA.TO)**

EMA.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
20-Jul-12	35.08	40.00	O
24-Jan-13	36.16	43.00	
18-Oct-13	30.49	36.00	
10-Dec-13	29.76		R
28-Jan-14	31.46	36.00	O
14-Apr-14	35.15	40.00	

\* Asterisk signifies initiation or assumption of coverage.

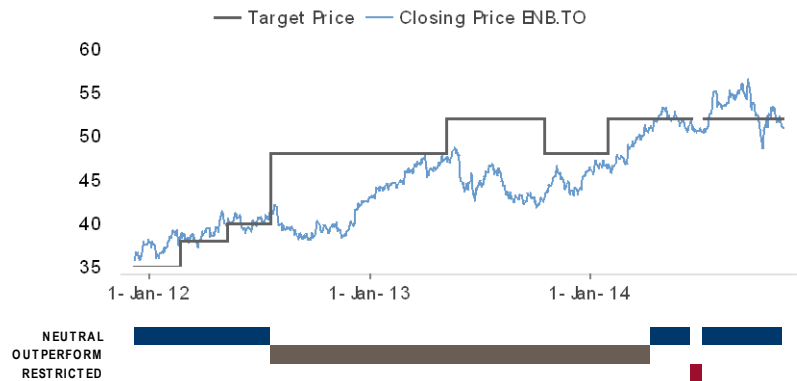




## 3-Year Price and Rating History for Enbridge Inc. (ENB.TO)

ENB.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
07-Dec-11	35.80	35.00	N
21-Feb-12	38.52	38.00	
09-May-12	39.77	40.00	
20-Jul-12	41.08	48.00	O
08-May-13	47.60	52.00	
18-Oct-13	43.43	48.00	
31-Jan-14	46.76	52.00	
14-Apr-14	50.76	52.00	N
18-Jun-14	51.38		R
09-Jul-14	50.81	52.00	N

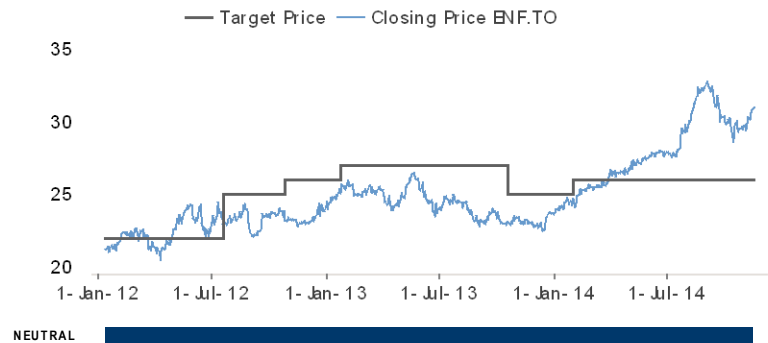
\* Asterisk signifies initiation or assumption of coverage.



## 3-Year Price and Rating History for Enbridge Income (ENF.TO)

ENF.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
13-Jan-12	21.22	22.00	N *
20-Jul-12	22.97	25.00	
26-Oct-12	23.18	26.00	
24-Jan-13	25.21	27.00	
18-Oct-13	23.10	25.00	
31-Jan-14	24.71	26.00	

\* Asterisk signifies initiation or assumption of coverage.



## 3-Year Price and Rating History for Fortis Inc. (FTS.TO)

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
09-Feb-12	33.89	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N

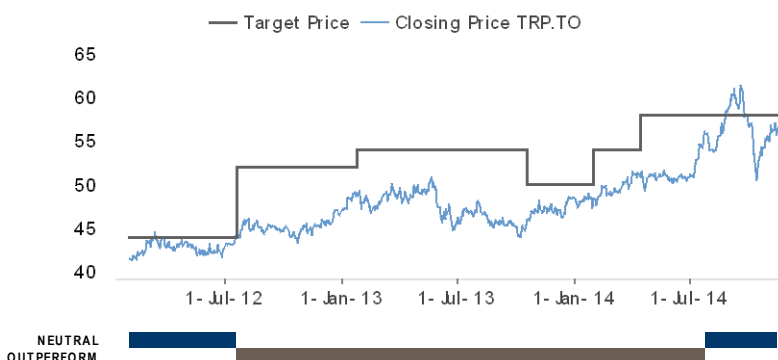
\* Asterisk signifies initiation or assumption of coverage.



## 3-Year Price and Rating History for TransCanada Corp. (TRP.TO)

TRP.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
02-Feb-12	41.58	44.00	N
20-Jul-12	44.31	52.00	O
24-Jan-13	48.93	54.00	
18-Oct-13	46.02	50.00	
31-Jan-14	48.42	54.00	
14-Apr-14	51.12	58.00	
28-Jul-14	55.82	58.00	N

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

## As of December 10, 2012 Analysts' stock rating are defined as follows:

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

## Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	45%	(54% banking clients)
Neutral/Hold*	38%	(50% banking clients)
Underperform/Sell*	14%	(44% banking clients)
Restricted	2%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

---

#### Price Target: (12 months) for Enbridge Inc. (ENB.TO)

**Method:** We obtain our C\$70 target price for Enbridge by using multiple valuation methodologies, primarily from a targetted dividend yield of 2.22% and an imputed -28 bps spread over a 2.50% Canadian 10-year bond yield. In terms of a few multiples, on P/E, that target reflects a nearly 24.4x multiple on 2016 earnings and a 13.7x EV/EBITDA multiple.

**Risk:** There are a number of risks to Enbridge's achievement of our C\$70 target price: an extensive capital program that requires access to capital markets; global and North American crude market dynamics may have a significant impact on underlying asset valuations; regulatory; commodity prices; and interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

#### Price Target: (12 months) for Emera Inc. (EMA.TO)

**Method:** We obtain our C\$44 target price for Emera Inc. by using multiple valuation methodologies, but primarily relies upon a dividend yield and yield spread methodology. The implied dividend yield to our target is 3.52% and a roughly 102 bps yield spread on a 2.50% Canadian 10-year baseline assumption.

**Risk:** There are a number of risks to Emera's achievement of our C\$44.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

#### Price Target: (12 months) for TransCanada Corp. (TRP.TO)

**Method:** We obtain our C\$68.00 target price for TransCanada by using multiple valuation methodologies, but primarily rely upon targeted dividend yield of 3.06% and a roughly 56 bps yield spread on a 2.50% Canadian 10-year.

**Risk:** Our C\$68.00 target price for TransCanada is subject to a number of risks: interest rates; commodity prices; operating rates; electricity market volatility; and, pipeline volumes. In any regulated business, one should never underestimate the power of the regulator.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$44.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.00% and an imputed 50 bps spread over a 2.50% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$44.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

#### Price Target: (12 months) for Brookfield Infrastructure Partners LP (BIP.N)

**Method:** We obtain our 12-month US\$46.00 target price for Brookfield Infrastructure Partners LP by using multiple valuation methods, primarily: a targeted cash-on-cash distribution yield of 4.52% and a 202 bps spread.

**Risk:** There are a number of risk to Brookfield Infrastructure Partners LP's achievement of our US\$46.00 target price: increasing competitive environment for infrastructure assets; BAM dependency; interest rate movements; access to capital markets; regulatory; taxation; credit and counterparty risk; commodity prices; energy market dynamics; environmental legislation; foreign exchange; infestations and disease; weather; and, labour shortage/strikes.

#### Price Target: (12 months) for Enbridge Income (ENF.TO)

**Method:** Our C\$30.00 target price for Enbridge Income Fund Holdings Inc. is base on multiple yield valuation methodologies such as yield, yield spread and a dividend discount model. The target implies a 5.13% yield and roughly 263 yield spread against a 2.50% Canadian 10-year.

**Risk:** There are a number of risks to Enbridge Income Fund Holdings Inc.'s target price of C\$30.00: organic and acquisition growth strategy that requires access to capital markets; global and North American energy commodity market dynamics may have a significant impact on underlying asset valuations; regulatory; commodity prices; and interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (ENB.TO, EMA.TO, TRP.TO, FTS.TO, BIP.N) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (ENB.TO, EMA.TO, TRP.TO, BIP.N) within the past 12 months.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse has managed or co-managed a public offering of securities for the subject company (ENB.TO, EMA.TO, TRP.TO) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (ENB.TO, EMA.TO, TRP.TO, BIP.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (ENB.TO, EMA.TO, TRP.TO, FTS.TO, BIP.N) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

As of the date of this report, Credit Suisse makes a market in the following subject companies (BIP.N).

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (EMA.TO, FTS.TO) within the past 12 months

An analyst involved in the preparation of this report has visited certain material operations of the subject company (ENB.TO, TRP.TO, BIP.N, ENF.TO) within the past 12 months

The travel expenses of the analyst in connection with such visits were not paid or reimbursed by the subject company, other than de minimus local travel expenses.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal/terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal/terms/canada_research_policy.shtml).

Credit Suisse has acted as lead manager or syndicate member in a public offering of securities for the subject company (ENB.TO, EMA.TO, TRP.TO, BIP.N) within the past 3 years.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG, Dubai Branch, duly licensed and regulated by the Dubai Financial Services Authority (DFSA), and is directed at Professional Clients or Market Counterparties only, as defined by the DFSA. The financial products or financial services to which the information relates will only be made available to a client who meets the regulatory criteria to be a Professional Client or Market Counterparty only, as defined by the DFSA, and is not intended for any other person. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.



## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (18 Feb 15, C\$)	39.30
Target price (C\$)	44.00 <sup>1</sup>
52-week price range	41.91 - 30.56
Market cap. (C\$ m)	10,851.68
Enterprise value (C\$ m)	22,807.67

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

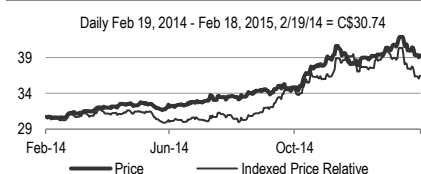
paul.tan@credit-suisse.com

### RESULTS

## At a glance: Favouring FX

- **Earnings at a glance:** Fortis reported Q4 2014 headline EPS of C\$0.44 and an adjusted C\$0.46. The adjusted compares to our C\$0.47 and the Street's C\$0.48 estimate (range of C\$0.45-C\$0.53). Rather positively, we believe the FTS focus for the next 12-18 months will be robust organic growth rather than M&A. In addition, the possible Fortis Properties sale should be viewed positively for funding and focus. With the completion of the UNS acquisition, FTS has 38% of assets in the US and they estimate a 5 cent change in USD/CAD exchange rate would impact EPS by roughly C\$0.04. All in all, the results are rather "utility like" and unlikely to be market moving. We view the focus should be on the real estate monetization potential, FX benefit, capex outlook and the M&A backburner. In our view, the Alberta exposure is not a major issue to the overall asset base. Given the long-cycle nature of many assets, we do not place undue emphasis on quarterly results.
- **Selected notable items:** Highlights include: (a) FTS continues to provide a robust capital expenditure outlook of over C\$2.0bn for 2015; (b) the 5-year capex outlook (2015 to 2019) is expected to approach C\$9bn; (c) the Fortis Properties review process started in October and "we expect to make a decision on the future of this business in the second quarter of 2015,"; and, (d) Waneta Expansion project is on time and on budget with completion expected to be in spring 2015.
- **Conference call:** The FTS results call will be at 10:00 am (eastern). The call will be accessible via 1-877-223-4471 or at 647-788-4922.
- **Valuation:** Our target price of C\$44.00 is on an implied yield of 3.09% and a yield spread of roughly 59 bps on a 2.50% Canadian 10-year. We maintain our Outperform rating.

### Share price performance



On 02/18/15 the S&P/TSX Composite closed at 15212.75

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.24	0.22	0.47
2015E	0.66	0.38	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.58	1.92	2.04
Prev. EPS (C\$)	—	—	—	—
P/E (x)	24.1	24.9	20.5	19.3
P/E rel. (%)	138.3	159.8	133.8	144.8
Revenue (C\$ m)	4,047.0	5,229.9	6,021.6	6,329.1
EBITDA (C\$ m)	1,393.0	1,686.2	2,077.6	2,187.5
OCFPS (C\$)	4.10	3.65	4.00	4.23
P/OCF (x)	7.4	10.8	9.8	9.3
EV/EBITDA (current)	17.6	14.5	11.8	11.2
Net debt (C\$ m)	7,716	11,956	12,453	12,881
ROIC (%)	5.63	4.34	5.17	5.31
Number of shares (m)	276.12	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	26.8	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	11,956.0	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr.. %)	132.1	Dividend yield (%)		0.81

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

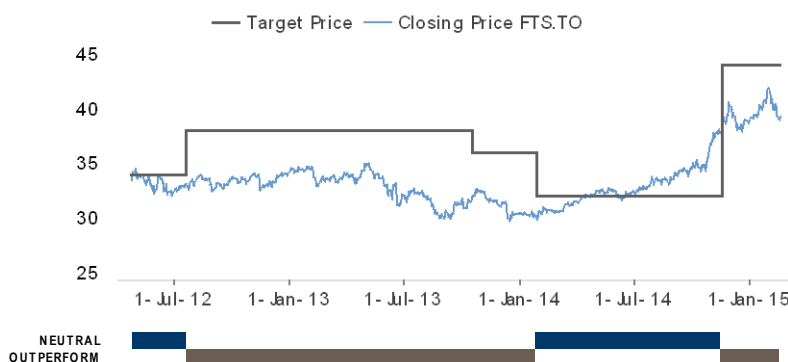
**Companies Mentioned** (Price as of 18-Feb-2015)**Fortis Inc.** (FTS.TO, C\$39.3, OUTPERFORM, TP C\$44.0)**Disclosure Appendix****Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
25-Apr-12	33.46	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N
18-Nov-14	38.17	44.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.



Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	45%	(54% banking clients)
Neutral/Hold*	38%	(49% banking clients)
Underperform/Sell*	15%	(45% banking clients)
Restricted	2%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$44.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.09% and an imputed 59 bps spread over a 2.50% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$44.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research

analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Securities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG, Dubai Branch, duly licensed and regulated by the Dubai Financial Services Authority (DFSA), and is directed at Professional Clients or Market Counterparties only, as defined by the DFSA. The financial products or financial services to which the information relates will only be made available to a client who meets the regulatory criteria to be a Professional Client or Market Counterparty only, as defined by the DFSA, and is not intended for any other person. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2015 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (22 Apr 15, C\$)	39.39
Target price (C\$)	44.00 <sup>1</sup>
52-week price range	41.91 - 31.65
Market cap. (C\$ m)	10,929.92
Enterprise value (C\$ m)	22,233.92

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

**Andrew M. Kuske**

416 352 4561

andrew.kuske@credit-suisse.com

**Paul Tan**

416 352 4593

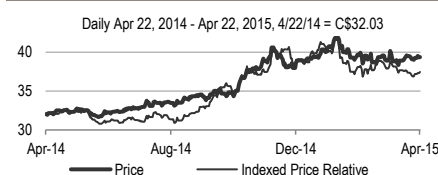
paul.tan@credit-suisse.com

### FORECAST REDUCTION

## Q1 earnings preview

- **Earnings revisions:** For several reasons, we made a number of revisions to our Fortis Inc. financial model. Our changes focused on several areas ahead of the forthcoming Q1 2015 results. Our 2015 and 2017 estimate changes to C\$1.56 and C\$2.07 from the previous C\$1.58 and C\$2.04, respectively. For greater details, please refer to our Canadian Infrastructure Q1 2015 earnings preview "A rough start for some year-over-year comps" (23 April 2015)

### Share price performance



On 04/22/15 the S&P/TSX Composite closed at 15304.77

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.24	0.22	0.45
2015E	0.65	0.39	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.56	1.92	2.07
Prev. EPS (C\$)	—	1.58	—	2.04
P/E (x)	24.2	25.3	20.5	19.0
P/E rel. (%)	139.5	133.0	128.9	141.0
Revenue (C\$ m)	4,047.0	5,401.0	5,991.3	6,324.2
EBITDA (C\$ m)	1,393.0	1,711.0	2,071.8	2,185.3
OCFPS (C\$)	4.10	3.95	4.07	4.31
P/OCF (x)	7.4	10.0	9.7	9.1
EV/EBITDA (current)	17.6	14.3	11.8	11.2
Net debt (C\$ m)	7,716	11,304	12,092	12,873
ROIC (%)	5.63	4.32	5.20	5.26
Number of shares (m)	277.48	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	27.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	11,304.0	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	124.1	Dividend yield (%)		0.81

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 22-Apr-2015)

Fortis Inc. (FTS.TO, C\$39.39, OUTPERFORM, TP C\$44.0)

## Disclosure Appendix

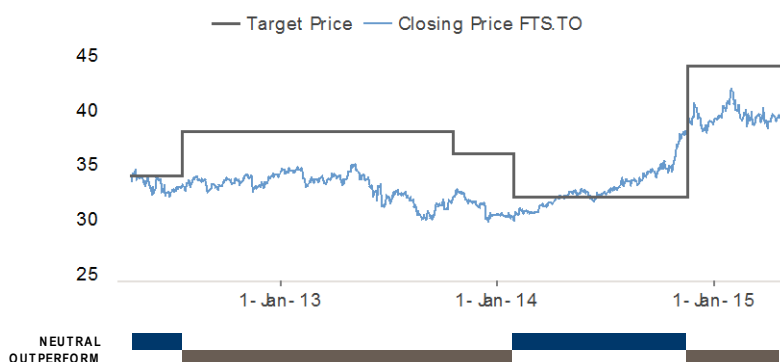
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
25-Apr-12	33.46	34.00	N
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N
18-Nov-14	38.17	44.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R) :** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V] :** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight :** The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(53% banking clients)
Neutral/Hold*	38%	(50% banking clients)
Underperform/Sell*	16%	(44% banking clients)
Restricted	3%	

\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$44.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.09% and an imputed 59 bps spread over a 2.50% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$44.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research



analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---



References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG, Dubai Branch, duly licensed and regulated by the Dubai Financial Services Authority (DFSA), and is directed at Professional Clients or Market Counterparties only, as defined by the DFSA. The financial products or financial services to which the information relates will only be made available to a client who meets the regulatory criteria to be a Professional Client or Market Counterparty only, as defined by the DFSA, and is not intended for any other person. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2015 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

## Fortis Inc. (FTS.TO)

Rating	OUTPERFORM*
Price (04 May 15, C\$)	39.18
Target price (C\$)	44.00 <sup>1</sup>
52-week price range	41.91 - 31.65
Market cap. (C\$ m)	10,871.65
Enterprise value (C\$ m)	22,175.65

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

### Research Analysts

#### Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

#### Paul Tan

416 352 4593

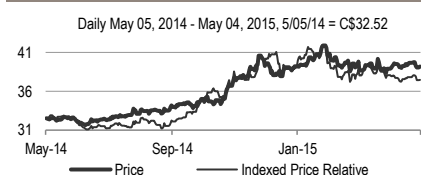
paul.tan@credit-suisse.com

### RESULTS

## At a glance: Waneta Waterflows

- **Earnings at a glance:** Fortis reported Q1 2015 headline EPS of C\$0.72 and an adjusted C\$0.65. The adjusted compares to our C\$0.65 and the Street's C\$0.61 estimate (range of C\$0.57-C\$0.65). Positively, Fortis is focused on a "period of significant organic growth" tilting the bias away from acquisitions. The capex program until 2019 is projected to have an asset base CAGR of roughly 6.5% excluding Tilbury 1B and Woodfibre. With those two additional projects, the rate base CAGR could rise to 7.5%. From our perspective, the results are rather "utility like" and unlikely to be market moving. There may be some disappointment given the lack of a final determination of actions for FTS Properties. We view that timing as minor and the focus should be on FX benefits, capex outlook and the M&A backburner. In our view, the Alberta exposure is not a major issue to the overall asset base. Given the long-cycle nature of many assets, we do not place undue emphasis on quarterly results.
- **Selected notable items:** Highlights include: (a) FTS provided a capital view of C\$2.2bn for 2015; (b) the 5-year capex outlook (2015 to 2019) is expected to approach C\$9bn; (c) the Fortis Properties process continues and FTS "expects to make an announcement regarding the outcome of the strategic review... ..in the second quarter"; and, (d) the Waneta Expansion came online six weeks ahead of schedule and on budget.
- **Conference call:** The FTS results call will be at 10:00 am (eastern). The call will be accessible via 1-877-223-4471 or at 647-788-4922.
- **Valuation:** Our target price of C\$44.00 is on an implied yield of 3.09% and a yield spread of roughly 59 bps on a 2.50% Canadian 10-year. We maintain our Outperform rating.

### Share price performance



On 05/04/15 the S&P/TSX Composite closed at 15367.47

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.66	0.28	0.23	0.47
2014E	0.64	0.24	0.22	0.45
2015E	0.65	0.39	0.35	0.53

### Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (C\$)	1.63	1.56	1.92	2.07
Prev. EPS (C\$)	—	—	—	—
P/E (x)	24.0	25.2	20.4	18.9
P/E rel. (%)	138.7	132.2	128.2	140.3
Revenue (C\$ m)	4,047.0	5,401.0	5,991.3	6,324.2
EBITDA (C\$ m)	1,393.0	1,711.0	2,071.8	2,185.3
OCFPS (C\$)	4.10	3.95	4.07	4.31
P/OCF (x)	7.4	9.9	9.6	9.1
EV/EBITDA (current)	17.6	14.3	11.8	11.2
Net debt (C\$ m)	7,716	11,304	12,092	12,873
ROIC (%)	5.63	4.32	5.20	5.26
Number of shares (m)	277.48	IC (current, C\$ m)		14,092.00
BV/share (Next Qtr., C\$)	27.0	EV/IC (x)		1.1
Net debt (Next Qtr., C\$ m)	11,304.0	Dividend (current, C\$)		1.3
Net debt/tot eq (Next Qtr., %)	124.1	Dividend yield (%)		0.82

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 04-May-2015)

Fortis Inc. (FTS.TO, C\$39.18, OUTPERFORM, TP C\$44.0)

## Disclosure Appendix

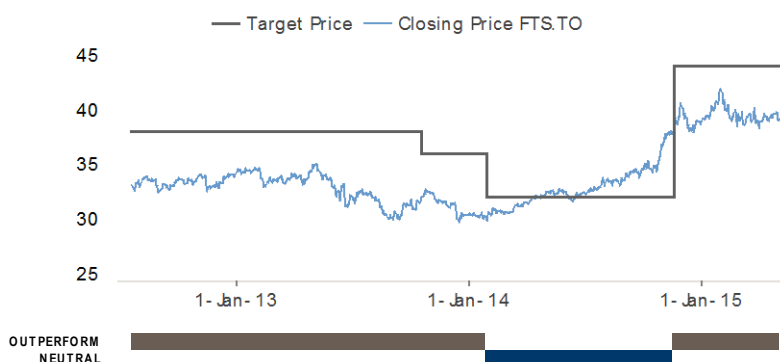
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
20-Jul-12	33.14	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N
18-Nov-14	38.17	44.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(53% banking clients)
Neutral/Hold*	38%	(50% banking clients)
Underperform/Sell*	16%	(43% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$44.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.09% and an imputed 59 bps spread over a 2.50% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$44.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research

analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---



References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG, Dubai Branch, duly licensed and regulated by the Dubai Financial Services Authority (DFSA), and is directed at Professional Clients or Market Counterparties only, as defined by the DFSA. The financial products or financial services to which the information relates will only be made available to a client who meets the regulatory criteria to be a Professional Client or Market Counterparty only, as defined by the DFSA, and is not intended for any other person. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2015 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

# Fortis Inc. (FTS.TO)

Rating	<b>OUTPERFORM*</b>
Price (30 Jul 15, C\$)	36.03
Target price (C\$)	44.00 <sup>1</sup>
52-week price range	41.91 - 33.09
Market cap. (C\$ m)	10,038.74
Enterprise value (C\$ m)	22,493.53

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

## Research Analysts

### Andrew M. Kuske

416 352 4561

andrew.kuske@credit-suisse.com

### Paul Tan

416 352 4593

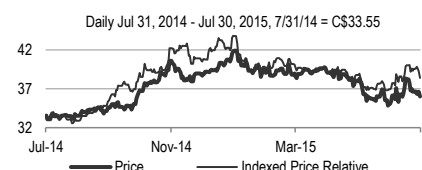
paul.tan@credit-suisse.com

## RESULTS

## At a glance: Corporate clean-up complete

- **Earnings at a glance:** Fortis reported Q2 2015 headline EPS of C\$0.88 and an adjusted C\$0.44. The adjusted compares to our C\$0.41 and the Street's C\$0.44 estimate (range of C\$0.41-C\$0.48). The capex program until 2019 is projected to an asset base CAGR of roughly 6.5% excluding Tilbury 1B and Woodfibre. With those two additional projects, a rate base CAGR could rise to 7.5%. FTS sold real estate assets along with non-regulated generation in Ontario and NY to generate an after-tax gain of C\$123m. The proceeds will be used to pay down a UNS acquisition related credit facility. After the FTS corporate clean-up, we believe a period of time exists to enhance the capital program prior to re-focusing on potential M&A. Yet, M&A that tends to have a US focus looks a bit more challenging at the current foreign exchange rate. Given the long-cycle nature of many assets, we do not place undue emphasis on quarterly results.
- **Selected notable items:** Highlights include: (a) FTS provided a capital view of C\$2.2bn for 2015; (b) the 5-year capex outlook (2015 to 2019) is expected to exceed C\$9bn; (c) expected gross proceeds from sale of commercial properties and non-regulated hydro to be C\$888m; and, (d) construction on Tilbury 1A is ongoing at a capital budget of C\$440m and expected in service at the end of 2016.
- **Conference call:** The FTS results call will be at 10:00 am (eastern). The call will be accessible via 1-877-223-4471 or at 647-788-4922.
- **Valuation:** Our target price of C\$44.00 is on an implied yield of 3.09% and a yield spread of roughly 59 bps on a 2.50% Canadian 10-year. We maintain our Outperform rating.

## Share price performance



On 07/30/15 the S&P/TSX Composite closed at 14382.78

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	0.64	0.24	0.22	0.45
2015E	0.65	0.41	0.39	0.51
2016E	0.72	0.42	0.38	0.57

## Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (C\$)	1.56	1.96	2.10	2.20
Prev. EPS (C\$)	—	—	—	—
P/E (x)	23.2	18.4	17.1	16.4
P/E rel. (%)	143.2	101.7	114.0	128.1
Revenue (C\$ m)	5,401.0	6,018.0	6,324.2	6,588.5
EBITDA (C\$ m)	1,711.0	2,099.6	2,185.3	2,279.6
OCFPS (C\$)	3.95	4.44	4.33	4.50
P/OCF (x)	9.9	8.1	8.3	8.0
EV/EBITDA (current)	12.8	10.4	10.0	9.6
Net debt (C\$ m)	11,304	12,455	13,227	13,750
ROIC (%)	4.32	4.94	5.08	5.14
Number of shares (m)	278.62	IC (current, C\$ m)		20,416.00
BV/share (Next Qtr., C\$)	26.9	EV/IC (x)		1.0
Net debt (Next Qtr., C\$ m)	12,014.8	Dividend (current, C\$)		1.4
Net debt/tot eq (Next Qtr.. %)	123.8	Dividend yield (%)		0.94

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.



**Companies Mentioned** (Price as of 30-Jul-2015)

Fortis Inc. (FTS.TO, C\$36.03, OUTPERFORM, TP C\$44.0)

## Disclosure Appendix

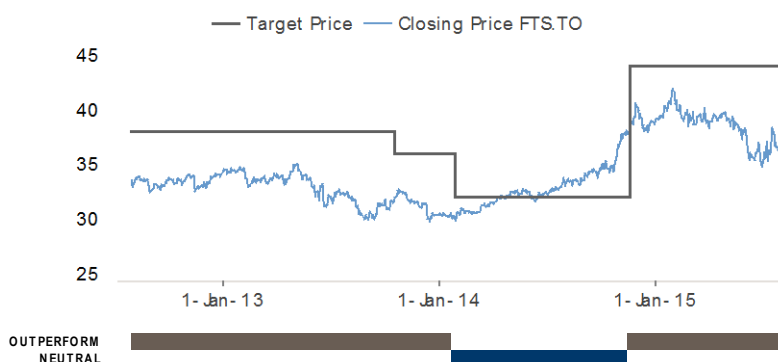
**Important Global Disclosures**

I, Andrew M. Kuske, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Fortis Inc. (FTS.TO)**

FTS.TO	Closing Price	Target Price	
Date	(C\$)	(C\$)	Rating
31-Jul-12	33.54	38.00	O
18-Oct-13	32.01	36.00	
28-Jan-14	29.99	32.00	N
18-Nov-14	38.17	44.00	O

\* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	50%	(28% banking clients)
Neutral/Hold*	34%	(41% banking clients)
Underperform/Sell*	13%	(38% banking clients)
Restricted	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

### Price Target: (12 months) for Fortis Inc. (FTS.TO)

**Method:** We obtain our C\$44.00 target price for Fortis Inc. by using multiple valuation methodologies, but primarily rely upon a targeted dividend yield of 3.09% and an imputed 59 bps spread over a 2.50% Canadian 10-year bond yield.

**Risk:** There are a number of risks to Fortis' achievement of our C\$44.00 target price: commodity prices; weather; environmental; regulatory; access to capital markets; and, interest rates. Moreover, one should never underestimate the power of the regulator in any regulated business.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the *Companies Mentioned* section for full company names

The subject company (FTS.TO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (FTS.TO) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FTS.TO) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (FTS.TO) within the past 12 months

### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FTS.TO) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research

analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Securities (Canada), Inc.**..... Andrew M. Kuske ; Paul Tan

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG, Dubai Branch, duly licensed and regulated by the Dubai Financial Services Authority (DFSA), and is directed at Professional Clients or Market Counterparties only, as defined by the DFSA. The financial products or financial services to which the information relates will only be made available to a client who meets the regulatory criteria to be a Professional Client or Market Counterparty only, as defined by the DFSA, and is not intended for any other person. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2015 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.

# Fortis

## Return roulette

### Event

- We are forecasting reductions in allowed returns between 2010 and 2012. Cost of capital filings have now been made in Alberta and British Columbia.

### Impact

- It is too early to judge the outcome of allowed return proceedings but we remain cautious on potential outcomes because credit spreads – a key driver of higher allowed returns on 2009/10 – have narrowed.
- In Alberta, a generic hearing has commenced in earnest with round 1 evidence filings this winter (hearing in May). In 2009, The AUC boosted FTS Alberta's allowed return from 8.51% ROE on 37% equity to 9.0% ROE on 41% equity.
- In BC, the regulator directed Terasen Gas (the FTS gas utility) to study alternative ROE formulae and report back. On 8 December, FTS recommended that the regulator not adopt a formula return nor re-examine cost of capital at this time. That is not totally surprising since the BCUC had boosted the company's allowed return from 8.47% ROE on 35% equity to 9.5% ROE on 40% equity.
- We believe that any potential reductions in allowed returns on Alberta and BC will be based on perceived changes in the cost of risk and corporate credit spreads between mid-2009 and now.
- The Alberta regulator's decision specifically cited uncertainty over whether credit spreads would normalize as a rationale for boosting allowed returns for the 2009 and 2010 periods. Since those spreads have indeed normalized, at least one rationale for having boosted returns is gone.
- The BC regulator's decision relied primarily on DCF-based cost of equity tests on US utilities whose stocks were depressed during the credit crisis. Re-doing those tests today would likely result in lower required returns on equity.

### Earnings and target price revision

- We are maintaining our estimates as we have already reduced them (on 5 November 2010) to factor our forecast reductions in allowed returns.

### Price catalyst

- 12-month price target: C\$31.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decisions and growth project announcements

### Action and recommendation

- FTS management continues navigating well in its regulatory landscape, in our view. However, a reduction in allowed returns may be inescapable. At the same time, the stock has one of the lowest free cash yields in our coverage universe (6.2% on 2012). Therefore, we recommend reducing holdings at these levels.

### CANADA

FTS CN Underperform

Price 18 Jan 11 C\$34.25

Volatility index Low

12-month target C\$ 31.00

12-month TSR % -6.2

Valuation C\$ 31.00

- EV/EBITDA

GICS sector Utilities

Market cap C\$m 5,949

30-day avg turnover C\$m 8.3

Number shares on issue m 173.7

### Investment fundamentals

Year end 31 Dec	2009A	2010E	2011E	2012E
Revenue	m 3,980.1	4,544.9	4,725.5	4,939.0
EBITDA	m 1,066.9	1,218.3	1,266.7	1,323.9
Recurring profit	m 259.8	284.1	297.5	311.0
Reported profit	m 262.8	284.1	297.5	311.0
CFPS	C\$ 3.98	4.38	4.48	4.61
CFPS growth	% 0.8	9.9	2.5	2.8
PGCFPS	x 8.6	7.8	7.6	7.4
EPS rec	C\$ 1.53	1.65	1.70	1.75
EPS rec growth	% -5.0	7.9	3.3	2.9
PER rec	x 22.4	20.8	20.1	19.6
Total DPS	C\$ 1.04	1.12	1.16	1.21
Total div yield	% 3.0	3.3	3.4	3.5
EV/EBITDA	x 11.7	10.5	10.2	10.1

### FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2011

(all figures in CAD unless noted)

Matthew Akman

+1 416 848 3510 matthew.akman@macquarie.com

Gilbert Chan, CFA

+1 416 848 3539 gilbert.chan@macquarie.com

Tuc Tuncay, CFA

+1 416 848 3538 tuc.tuncay@macquarie.com

19 January 2011



**Fortis Inc. (FTS CN, Underperform, Target price: C\$31.00)**

Earnings and Per Share Data (Annual)					Earnings and Per Share Data (Quarterly)				
	2009	2010E	2011E	2012E		1Q10	2Q10	3Q10	4Q10E
Newfoundland Power	\$32.6	\$34.7	\$34.7	\$34.7	Newfoundland Power	\$7.2	\$11.0	\$8.0	\$8.5
Alberta & BC Utilities	\$96.6	\$105.9	\$107.4	\$110.5	Alberta & BC Utilities	\$27.8	\$25.0	\$30.0	\$23.1
BC Gas	\$117.0	\$129.5	\$137.0	\$143.8	BC Gas	\$73.0	\$17.0	(\$5.0)	\$44.5
Maritime Electric	\$12.2	\$13.4	\$14.0	\$14.7	Maritime Electric	\$3.2	\$2.2	\$3.0	\$5.0
FortisOntario (CNP & Cornwall)	\$7.8	\$7.0	\$7.0	\$7.0	FortisOntario (CNP & Cornwall)	\$1.8	\$1.8	\$2.0	\$1.4
Fortis Generation	\$16.2	\$20.0	\$20.7	\$21.0	Fortis Generation	\$2.0	\$3.0	\$9.0	\$5.9
Regulated Electric Utilities - Caribbean	\$25.0	\$27.6	\$30.7	\$33.2	Regulated Electric Utilities - Caribbean	\$4.0	\$7.0	\$8.0	\$8.6
Fortis Properties	\$24.1	\$24.0	\$24.0	\$24.0	Fortis Properties	\$2.0	\$8.0	\$9.0	\$5.0
Corporate	(\$71.8)	(\$78.0)	(\$78.0)	(\$78.0)	Corporate	(\$21.0)	(\$20.0)	(\$19.0)	(\$18.0)
<b>Operating Earnings for common shares</b>	<b>\$259.8</b>	<b>\$284.1</b>	<b>\$297.5</b>	<b>\$311.0</b>	<b>Operating Earnings for common shares</b>	<b>\$100.0</b>	<b>\$55.0</b>	<b>\$45.1</b>	<b>\$84.0</b>
Unusual items	\$3.0	\$0.0	\$0.0	\$0.0	Unusual items	\$0.0	\$0.0	\$0.0	\$0.0
Reported Earnings	\$262.8	\$284.1	\$297.5	\$311.0	Reported Earnings	\$100.0	\$55.0	\$45.1	\$84.0
Average shares o/s (mln)	170.2	172.6	174.9	177.7	Average shares o/s (mln)	171.6	172.4	173.2	173.2
<b>Operating Earnings per basic share</b>	<b>\$1.53</b>	<b>\$1.65</b>	<b>\$1.70</b>	<b>\$1.75</b>	<b>Operating Earnings per basic share</b>	<b>\$0.58</b>	<b>\$0.32</b>	<b>\$0.26</b>	<b>\$0.48</b>
Reported Earnings per basic share	\$1.54	\$1.65	\$1.70	\$1.75	Reported Earnings per basic share	\$0.58	\$0.32	\$0.26	\$0.48
<b>Dividends Per Share</b>	<b>\$1.04</b>	<b>\$1.12</b>	<b>\$1.16</b>	<b>\$1.21</b>					
EBITDA	\$1,066.9	\$1,218.3	\$1,266.7	\$1,323.9					
EBITDA Per Share	\$6.27	\$7.06	\$7.24	\$7.45					
Cash Flow From Operations	\$678.0	\$755.3	\$784.4	\$819.1					
<b>Cash Flow Per Share</b>	<b>\$3.98</b>	<b>\$4.38</b>	<b>\$4.48</b>	<b>\$4.61</b>					
Book Value Per Share	\$18.76	\$19.18	\$19.73	\$20.23					
Return On Book Value	8.1%	8.7%	8.7%	8.8%					
Cash Flow Statement					Consolidated Capitalization				
	2009	2010E	2011E	2012E		2009	2010E	2011E	2012E
<b>Operating Activities</b>					Short-term debt	\$639.0	\$857.0	\$857.0	\$857.0
Earnings	\$262.8	\$284.1	\$297.5	\$311.0	Long term debt	\$5,276.0	\$5,532.0	\$5,982.0	\$6,232.0
Depreciation and Amortization	\$364.0	\$450.7	\$458.4	\$479.0	<b>Total debt</b>	<b>\$5,915.0</b>	<b>\$6,389.0</b>	<b>\$6,839.0</b>	<b>\$7,089.0</b>
Other	\$51.2	\$20.5	\$28.4	\$29.2	Pref shares	\$667.0	\$909.0	\$909.0	\$909.0
Cash Flow from Operations	\$678.0	\$755.3	\$784.4	\$819.1	<b>Common equity</b>	<b>\$3,193.0</b>	<b>\$3,310.8</b>	<b>\$3,451.6</b>	<b>\$3,594.3</b>
Changes in non-cash Working Capital	(\$41.0)	\$53.0	\$0.0	\$0.0	<b>Total capitalization</b>	<b>\$9,775.0</b>	<b>\$10,608.8</b>	<b>\$11,199.6</b>	<b>\$11,592.3</b>
<b>Cash Provided from Operating Activities</b>	<b>\$637.0</b>	<b>\$808.3</b>	<b>\$784.4</b>	<b>\$819.1</b>	<b>Weighting</b>				
<b>Investment Activities</b>					Total Debt	60.5%	60.2%	61.1%	61.2%
Total Capex	(\$1,024.0)	(\$1,157.0)	(\$1,029.0)	(\$804.0)	Preferred Shares	6.8%	8.6%	8.1%	7.8%
Other & Asset Sales	(\$28.0)	(\$18.0)	(\$20.0)	(\$19.0)	Common Equity	32.7%	31.2%	30.8%	31.0%
<b>Cash Used in Investing Activities</b>	<b>(\$1,052.0)</b>	<b>(\$1,175.0)</b>	<b>(\$1,049.0)</b>	<b>(\$823.0)</b>		100.0%	100.0%	100.0%	100.0%
<b>Financing Activities</b>									
Dividends - common/pref shares	(\$151.0)	(\$218.3)	(\$228.8)	(\$240.3)					
Other Financing Activities	\$589.0	\$768.0	\$522.0	\$322.0					
<b>Cash Used in Financing Activities</b>	<b>\$438.0</b>	<b>\$549.7</b>	<b>\$293.2</b>	<b>\$81.7</b>					
Foreign Currency Translation	(\$4.0)	\$0.0	\$0.0	\$0.0					
<b>Increase (decrease) in cash</b>	<b>\$19.0</b>	<b>\$183.0</b>	<b>\$28.6</b>	<b>\$77.8</b>					
Cash - Beginning of Year	\$65.9	\$84.9	\$267.9	\$296.5					
<b>Cash - End of Year</b>	<b>\$84.9</b>	<b>\$267.9</b>	<b>\$296.5</b>	<b>\$374.3</b>					

All figures in CAD unless noted.

Source: Company data, Macquarie Research, January 2011

## Important disclosures:

<p><b>Recommendation definitions</b></p> <p><b>Macquarie - Australia/New Zealand</b> Outperform – return &gt;3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return &gt;3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p><b>Macquarie – Asia/Europe</b> Outperform – expected return &gt;+10% Neutral – expected return from -10% to +10% Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b> Outperform – expected return &gt;+10% Neutral – expected return from -10% to +10% Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b> Outperform – return &gt;5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b> Outperform (Buy) – return &gt;5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return &gt;5% below Russell 3000 index return</p>	<p><b>Volatility index definition*</b></p> <p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ/Canada stocks only</p> <p><b>Recommendations</b> – 12 months <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p><b>Financial definitions</b></p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / efpowa* <b>ROA</b> = adjusted ebit / average total assets <b>ROA Banks/Insurance</b> = adjusted net profit /average total assets <b>ROE</b> = adjusted net profit / average shareholders funds <b>Gross cashflow</b> = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																																
<p><b>Recommendation proportions – For quarter ending 31 December 2010</b></p> <table><tr><td></td><td><b>AU/NZ</b></td><td><b>Asia</b></td><td><b>RSA</b></td><td><b>USA</b></td><td><b>CA</b></td><td><b>EUR</b></td><td></td></tr><tr><td>Outperform</td><td>46.38%</td><td>62.62%</td><td>52.17%</td><td>44.99%</td><td>67.57%</td><td>50.90%</td><td>(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)</td></tr><tr><td>Neutral</td><td>37.68%</td><td>18.58%</td><td>34.78%</td><td>50.61%</td><td>28.83%</td><td>35.48%</td><td>(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)</td></tr><tr><td>Underperform</td><td>15.94%</td><td>18.80%</td><td>13.04%</td><td>4.40%</td><td>3.60%</td><td>13.62%</td><td>(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)</td></tr></table>				<b>AU/NZ</b>	<b>Asia</b>	<b>RSA</b>	<b>USA</b>	<b>CA</b>	<b>EUR</b>		Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)	Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)	Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)
	<b>AU/NZ</b>	<b>Asia</b>	<b>RSA</b>	<b>USA</b>	<b>CA</b>	<b>EUR</b>																												
Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)																											
Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)																											
Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)																											

## Company Specific Disclosures:

Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are entitled to have equal access to our research. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/disclosures](http://www.macquarie.com/disclosures).

## Analyst Certification:

The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062) (MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## General Disclaimers:

Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd and its Taiwan branch; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; Macquarie First South Securities (Pty) Limited; Macquarie Capital Securities (India) Pvt Ltd; Macquarie Capital Securities (Malaysia) Sdn Bhd; Macquarie Securities Korea Limited and Macquarie Securities (Thailand) Ltd are not authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account your investment objectives, financial situation or particular needs. Before making an investment decision on the basis of this research, you need to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise.

## Country-Specific Disclaimers:

**Australia:** In Australia, research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947), a participating organisation of the Australian Securities Exchange. **New Zealand:** In New Zealand, research is issued and distributed by Macquarie Securities (NZ) Ltd, a NZX Firm. **Canada:** In Canada, research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are



entitled to have equal access to our research. **United Kingdom:** In the United Kingdom, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated by the Financial Services Authority (No. 193905). **Germany:** In Germany, research is issued and distributed by Macquarie Capital (Europe) Ltd, Niederlassung Deutschland, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **France:** In France, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **Hong Kong:** In Hong Kong, research is issued and distributed by Macquarie Capital Securities Ltd, which is licensed and regulated by the Securities and Futures Commission. **Japan:** In Japan, research is issued and distributed by Macquarie Capital Securities (Japan) Limited, a member of the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co. Ltd (Financial Instruments Firm, Kanto Financial Bureau (kin-sho) No. 231, a member of Japan Securities Dealers Association and Financial Futures Association of Japan). **India:** In India, research is issued and distributed by Macquarie Capital Securities (India) Pvt Ltd. Level 3, Mafatlal Centre, Nariman Point, Mumbai 400 021, INDIA, which is a SEBI registered Stock Broker having membership with National Stock Exchange of India Limited (INB231246738) and Bombay Stock Exchange Limited (INB011246734). **Malaysia:** In Malaysia, research is issued and distributed by Macquarie Capital Securities (Malaysia) Sdn. Bhd. (Company registration number: 463469-W) which is a Participating Organisation of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission. **Taiwan:** Information on securities/instruments that are traded in Taiwan is distributed by Macquarie Capital Securities Ltd, Taiwan Branch, which is licensed and regulated by the Financial Supervisory Commission. No portion of the report may be reproduced or quoted by the press or any other person without authorisation from Macquarie. Nothing in this research shall be construed as a solicitation to buy or sell any security or product. **Thailand:** In Thailand, research is issued and distributed by Macquarie Securities (Thailand) Ltd, a licensed securities company that is authorized by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is an exchange member no. 28 of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. Macquarie Securities (Thailand) Ltd does not endorse the result of the Corporate Governance Report of Thai Listed Companies but this Report can be accessed at: <http://www.thai-iod.com/en/publications.asp?type=4>. **South Korea:** In South Korea, unless otherwise stated, research is prepared, issued and distributed by Macquarie Securities Korea Limited, which is regulated by the Financial Supervisory Services. Information on analysts in MSKL is disclosed at <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03053&pageDiv=02>. **South Africa:** In South Africa, research is issued and distributed by Macquarie First South Securities (Pty) Limited, a member of the JSE Limited. **Singapore:** In Singapore, research is issued and distributed by Macquarie Capital Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services license holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Capital Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. All Singapore-based recipients of research produced by Macquarie Capital (Europe) Limited, Macquarie Capital Markets Canada Ltd, Macquarie First South Securities (Pty) Limited and Macquarie Capital (USA) Inc. represent and warrant that they are institutional investors as defined in the Securities and Futures Act. **United States:** In the United States, research is issued and distributed by Macquarie Capital (USA) Inc., which is a registered broker-dealer and member of FINRA. Macquarie Capital (USA) Inc. accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Capital (USA) Inc. Macquarie Capital (USA) Inc.'s affiliate's analysts are not registered as research analysts with FINRA, may not be associated persons of Macquarie Capital (USA) Inc., and therefore may not be subject to FINRA rule restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures), or contact your registered representative at 1-888-MAC-STOCK, or write to the Supervisory Analysts, Research Department, Macquarie Securities, 125 W.55th Street, New York, NY 10019.

© Macquarie Group

<b>Auckland</b> Tel: (649) 377 6433	<b>Bangkok</b> Tel: (662) 694 7999	<b>Calgary</b> Tel: (1 403) 218 6650	<b>Denver</b> Tel: (303) 952 2800	<b>Frankfurt</b> Tel: (069) 509 578 000	<b>Geneva</b> Tel: (41) 22 818 7777	<b>Hong Kong</b> Tel: (852) 2823 3588
<b>Jakarta</b> Tel: (62 21) 515 1818	<b>Johannesburg</b> Tel: (2711) 583 2000	<b>Kuala Lumpur</b> Tel: (60 3) 2059 8833	<b>London</b> Tel: (44 20) 3037 4400	<b>Manila</b> Tel: (63 2) 857 0888	<b>Melbourne</b> Tel: (613) 9635 8139	<b>Montreal</b> Tel: (1 514) 925 2850
<b>Mumbai</b> Tel: (91 22) 6653 3000	<b>Munich</b> Tel: (089) 2444 31800	<b>New York</b> Tel: (1 212) 231 2500	<b>Paris</b> Tel: (33 1) 7842 3823	<b>Perth</b> Tel: (618) 9224 0888	<b>Seoul</b> Tel: (82 2) 3705 8500	<b>Shanghai</b> Tel: (86 21) 6841 3355
<b>Singapore</b> Tel: (65) 6231 1111	<b>Sydney</b> Tel: (612) 8232 9555	<b>Taipei</b> Tel: (886 2) 2734 7500	<b>Tokyo</b> Tel: (81 3) 3512 7900	<b>Toronto</b> Tel: (1 416) 848 3500		

Available to clients on the world wide web at [www.macquarieresearch.com](http://www.macquarieresearch.com) and through Thomson Financial, FactSet, Reuters, Bloomberg, CapitalIQ and TheMarkets.com.

## Research

### Heads of Equity Research

John O'Connell (Global Co-Head)	(612) 8232 7544
David Rickards (Global Co-Head)	(44 20) 3037 4399
Graham Copley (US)	(1 212) 231 2632
Stephen Harris (Canada Co-Head)	(1 416) 848 3655
Matthew Akman (Canada Co-Head)	(1 416) 848 3510

### Consumer Discretionary & Healthcare

#### Life Sciences & Technology

Jon Groberg (Head of US Discretionary & Healthcare)	(1 212) 231 2612
---	------------------

#### Gaming & Leisure

Chad Beynon (New York)	(1 212) 231 2634
------------------------	------------------

### Consumer Staples and Agriculture

David Pupo (Toronto)	(1 416) 848 3505
----------------------	------------------

### Energy

#### US Exploration & Production

Joe Magner (Denver)	(1 303) 952 2751
Scott Buller (Denver)	(1 303) 952 2754
John Nelson (New York)	(1 212) 231 2622

#### US Oilfield Services & Drilling

Waqar Syed (Head of US Energy)	(1 303) 952 2753
Ryan McCormick (Denver)	(1 303) 952 2752

#### US Refining

Chi Chow (Denver)	(1 303) 952 2757
-------------------	------------------

#### Canadian Oil Sands/Heavy Oil Producers

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### Canadian Oilfield Services & Drilling

Scott Treadwell (Calgary)	(1 403) 539 8530
---------------------------	------------------

#### Canadian Independents

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### Canadian Integrations

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### International/Canadian Oil & Gas Producers

Cristina Lopez (Calgary)	(1 403) 539 8542
David Popowich (Calgary)	(1 403) 539 8529
Ray Kwan (Calgary)	(1 403) 539 4355

### Financials

#### Asset Managers

Roger Smith (New York)	(1 212) 231 8016
------------------------	------------------

#### Banks/Trust Banks

Albert Savastano (New York)	(1 212) 231 8046
Thomas Alonso (New York)	(1 212) 231 8047
Jonathan Elmi (New York)	(1 212) 231 8065
Bill Young (New York)	(1 212) 231 8052
Sumit Malhotra (Toronto)	(1 416) 848 3687
Stephen Scinicariello (New York)	(1 212) 231 0663
John Moran (New York)	(1 212) 231 0662

### Financials – cont'd

#### Financial Technology

Bill Carcache (New York)	(1 212) 231 8034
--------------------------	------------------

#### Life Insurance

Mark Finkelstein (Chicago)	(1 312) 660 9179
Paul Saran (Chicago)	(1 312) 660 9137
Sumit Malhotra (Toronto)	(1 416) 848 3687

#### Market Structure

Edward Ditmire (Head of Diversified Financials)	(1 212) 231 8076
Chris Ross (New York)	(1 212) 231 8033

#### Mortgage & Consumer Finance

Matthew Howlett (New York)	(1 212) 231 8063
----------------------------	------------------

#### Mortgage REITs

Matthew Howlett (New York)	(1 212) 231 8063
----------------------------	------------------

#### Property & Casualty Insurance

Alan Zimmermann	(1 212) 231 8081
Adam Klauber (Chicago)	(1 312) 660 9187
Amit Kumar (New York)	(1 212) 231 8013
Caroline Steers (New York)	(1 212) 231 8048

### Industrials

#### Air Freight & Surface Transportation

Scott Flower (New York)	(1 212) 231 2537
-------------------------	------------------

#### Chemicals

Cooley May (New York)	(1 212) 231 2586
-----------------------	------------------

#### Construction and Engineering/Machinery

Sameer Rathod (New York)	(1 212) 231 2474
--------------------------	------------------

#### Containers & Packaging

Al Kabili (New York)	(1 212) 231 2473
----------------------	------------------

### Materials

#### Global Metals & Mining

Curt Woodworth (New York)	(1 212) 231 2482
Pierre Vaillancourt (Toronto)	(1 416) 848 3647
Tony Lesiak (Toronto)	(1 416) 848 3594
Duncan McKeen (Montréal)	(1 514) 925 2856
Michael Gray (Vancouver)	(1 604) 639 6372

### Real Estate

#### Property Trusts & Developers

Robert Stevenson (Head of US REITs)	(1 212) 231 8068
Ki Bin Kim (New York)	(1 212) 231 6386
Michael Smith (Toronto)	(1 416) 848 3696

### TMET

#### Business Services

Kevin McVeigh (New York)	(1 212) 231 6191
--------------------------	------------------

#### Cable & Satellite

Amy Yong (New York)	(1 212) 231 2624
---------------------	------------------

### TMET – cont'd

#### Internet

Ben Schachter (New York)	(1 212) 231 0644
Tom White (New York)	(1 212) 231 0643

#### Media

Andrew Kim (New York)	(1 212) 231 2631
-----------------------	------------------

#### Semiconductors

Shawn Webster (New York)	(1 212) 231 2539
--------------------------	------------------

#### Software & IT Hardware

Brad Zelnick (New York)	(1 212) 231 2618
-------------------------	------------------

#### Solar & Clean Technology

Kelly Dougherty (New York)	(1 212) 231 2493
----------------------------	------------------

### Utilities & Alternative Energy

Angie Storzynski (Head of US Utilities & Alternative Energy)	(1 212) 231 2569
Andrew Weisel (New York)	(1 212) 231 1159
Matthew Akman (Toronto)	(1 416) 848 3510
Stephen Harris (Toronto)	(1 416) 848 3655

### Commodities & Precious Metals

#### Metals & Mining

Jim Lennon (London)	(44 20) 3037 4271
Max Layton (London)	(44 20) 3037 4273
Kona Haque (London)	(44 20) 3037 4334

#### Oil & gas

Jan Stuart (New York)	(1 212) 231 2485
-----------------------	------------------

### Economics and Strategy

Stephen Harris (Toronto)	(1 416) 848 3655
Jan Stuart (Global Oil Economist)	(1 212) 231 2485
Rebecca Hiscock-Croft (US Economist)	(1 212) 231 6115

### Quantitative Analysis

Charles Lowe (New York)	(1 212) 231 2602
Victor Morange (New York)	(1 212) 231 2538

### Find our research at

Macquarie:	<a href="http://www.macquarie.com.au/research">www.macquarie.com.au/research</a>
Thomson:	<a href="http://www.thomson.com/financial">www.thomson.com/financial</a>
Reuters:	<a href="http://www.knowledge.reuters.com">www.knowledge.reuters.com</a>
Bloomberg:	MAC GO
Factset:	<a href="http://www.factset.com/home.aspx">http://www.factset.com/home.aspx</a>
CapitalIQ	<a href="http://www.capitaliq.com">www.capitaliq.com</a>
TheMarkets.com	<a href="http://www.themarkets.com">www.themarkets.com</a>
Contact Gareth Warfield for access	(612) 8232 3207

### Email addresses

[FirstName.Surname@macquarie.com](mailto:FirstName.Surname@macquarie.com)

eg. [David.Rickards@macquarie.com](mailto:David.Rickards@macquarie.com)

## Equities

### Head of Global Cash Equities

Stevan Vrcelj (Sydney)	(612) 8232 5999
------------------------	-----------------

### Head of Canadian Equities

Alex Rothwell (Toronto)	(1 416) 848 3677
-------------------------	------------------

### Head of US Equities

Graham Copley (New York)	(1 212) 231 2632
--------------------------	------------------

## Sales

### US Sales

Greg Coleman (New York)	(1 212) 231 2567
-------------------------	------------------

### US Financial Specialist Sales

Blair Smith (New York)	(1 212) 231 8004
------------------------	------------------

### Canada Sales

Craig Brenner (Toronto)	(1 416) 848-3626
Chris Naprawa (Toronto)	(1 416) 848-3634

## Trading

### US Sales Trading

Austin Graham (New York)	(1 212) 231 2494
--------------------------	------------------

### Canada Trading

Perry Catellier (Toronto)	(1 416) 848 3619
---------------------------	------------------

## CANADA

FTS CN Underperform  
Price 10 Feb 11 C\$33.81

Volatility index Low

12-month target	C\$	31.00
12-month TSR	%	-4.9
Valuation	C\$	31.00
- EV/EBITDA		
GICS sector		Utilities
Market cap	C\$m	5,883
30-day avg turnover	C\$m	15.2
Number shares on issue	m	174.0

### Investment fundamentals

Year end 31 Dec		2010A	2011E	2012E	2013E
Revenue	m	3,664.0	3,868.7	4,005.1	4,096.7
EBITDA	m	1,150.0	1,214.2	1,257.0	1,285.8
Recurring profit	m	284.6	299.2	312.0	325.9
Reported profit	m	284.6	299.2	312.0	325.9
CFPS	C\$	4.25	4.57	4.73	4.82
CFPS growth	%	6.7	7.5	3.6	1.8
PGCFPS	x	8.0	7.4	7.1	7.0
EPS rec	C\$	1.65	1.70	1.75	1.80
EPS rec growth	%	7.9	3.3	2.7	2.8
PER rec	x	20.5	19.9	19.3	18.8
Total DPS	C\$	1.12	1.16	1.21	1.25
Total div yield	%	3.3	3.4	3.6	3.7
EV/EBITDA	x	10.3	9.8	9.5	9.4

### FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2011  
(all figures in CAD unless noted)

**Matthew Akman**  
+1 416 848 3510 matthew.akman@macquarie.com  
**Gilbert Chan, CFA**  
+1 416 848 3539 gilbert.chan@macquarie.com  
**Tuc Tuncay, CFA**  
+1 416 848 3538 tuc.tuncay@macquarie.com

11 February 2011

# Fortis

## Reliable but expensive

### Event

- FTS reported 4Q10 EPS of \$0.49 vs our estimate of \$0.48 and \$0.48 in 4Q09.

### Impact

- The earnings report may be slightly negative for the stock in that earnings came in below consensus (\$0.51) and the stock trades at a premium. Relative to our expectations, there were no real surprises though. The Canadian regulated assets are performing as they should as FTS usually manages to earn slightly above their allowed returns due to an efficient operating model. On the other hand, sales and earnings in the Caribbean continue to lag.
- Following the 4Q report, our view is unchanged. We believe that, given potential headwinds on allowed returns, there is insufficient growth in earnings and dividends to justify the share valuation premium.
- So far, ROE headwinds have cropped up only in Newfoundland. A hearing is underway in Alberta, though. Whether there will be any review in BC is still up in the air, so we only assume a 50 basis point reduction starting in 2012.
- In this context, FTS may need a recovery in Belize Electricity earnings to get EPS growth back up above 5%. With only \$1.5m in reported net income there last year, we believe the company has not been treated fairly. There may be \$0.05 upside to our estimates if the Belize courts and government implement a regulatory policy that is fair and balanced to customers and the company (court decision 1H11).
- The company's capital program continues marching on and up with about \$1.2bn of expenditure slated for 2011. Cashflow has strengthened and the DRIP take-up is strong (\$80m common shares issued through DRIP last year). Therefore, we are not building any equity issuance into our model over and above the DRIP.
- With that type of organic growth – most of which entails investing in safe Canadian regulated utilities at 1.0x BV – one wonders why FTS continues seeking acquisitions that would undoubtedly be done at a premium to BV.

### Earnings and target price revision

- We are maintaining our EPS estimates and introducing a 2013 estimate of \$1.80. Our target price is unchanged.

### Price catalyst

- 12-month price target: C\$31.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decisions and growth project announcements.

### Action and recommendation

- We view FTS as a solid company. But given the growth profile (one of the slower dividend growers among its direct peers now) and premium valuation, we believe the shares will underperform on a relative basis in 2011.

**Fortis Inc. (FTS CN, Underperform, Target price: C\$31.00)**

Earnings and Per Share Data (Annual)					Earnings and Per Share Data (Quarterly)				
	2010	2011E	2012E	2013E		1Q11E	2Q11E	3Q11E	4Q11E
Newfoundland Power	\$35.3	\$34.2	\$34.2	\$34.2	Newfoundland Power	\$6.8	\$9.8	\$8.6	\$9.0
Alberta & BC Utilities	\$110.0	\$116.3	\$123.5	\$130.7	Alberta & BC Utilities	\$27.1	\$27.2	\$30.7	\$31.3
BC Gas	\$129.5	\$136.0	\$137.6	\$139.2	BC Gas	\$74.6	\$18.6	(\$3.4)	\$46.1
Maritime Electric	\$12.3	\$12.6	\$13.3	\$14.0	Maritime Electric	\$3.3	\$2.3	\$3.1	\$4.0
FortisOntario (CNP & Cornwall)	\$7.0	\$7.0	\$7.0	\$7.0	FortisOntario (CNP & Cornwall)	\$1.8	\$1.8	\$2.0	\$1.4
Fortis Generation	\$19.1	\$19.1	\$19.9	\$20.3	Fortis Generation	\$1.8	\$3.5	\$8.7	\$5.1
Regulated Electric Utilities - Caribbean	\$23.3	\$26.5	\$29.4	\$31.2	Regulated Electric Utilities - Caribbean	\$5.4	\$7.0	\$7.9	\$6.1
Fortis Properties	\$26.1	\$26.5	\$27.2	\$29.3	Fortis Properties	\$6.0	\$6.0	\$6.0	\$8.3
Corporate	(\$78.0)	(\$79.0)	(\$80.0)	(\$80.0)	Corporate	(\$19.8)	(\$19.8)	(\$19.8)	(\$19.8)
<b>Operating Earnings for common shares</b>	<b>\$284.6</b>	<b>\$299.2</b>	<b>\$312.0</b>	<b>\$325.9</b>	<b>Operating Earnings for common shares</b>	<b>\$107.1</b>	<b>\$56.6</b>	<b>\$44.0</b>	<b>\$91.6</b>
Unusual items	\$0.0	\$0.0	\$0.0	\$0.0	Unusual items	\$0.0	\$0.0	\$0.0	\$0.0
Reported Earnings	\$284.6	\$299.2	\$312.0	\$325.9	Reported Earnings	\$107.1	\$56.6	\$44.0	\$91.6
Average shares o/s (mln)	172.8	175.7	178.5	181.2	Average shares o/s (mln)	175.7	175.7	175.7	175.7
<b>Operating Earnings per basic share</b>	<b>\$1.65</b>	<b>\$1.70</b>	<b>\$1.75</b>	<b>\$1.80</b>	<b>Operating Earnings per basic share</b>	<b>\$0.61</b>	<b>\$0.32</b>	<b>\$0.25</b>	<b>\$0.52</b>
Reported Earnings per basic share	\$1.65	\$1.70	\$1.75	\$1.80	Reported Earnings per basic share	\$0.61	\$0.32	\$0.25	\$0.52
<b>Dividends Per Share</b>	<b>\$1.12</b>	<b>\$1.16</b>	<b>\$1.21</b>	<b>\$1.25</b>					
EBITDA	\$1,150.0	\$1,214.2	\$1,257.0	\$1,285.8					
EBITDA Per Share	\$6.66	\$6.91	\$7.04	\$7.09					
Cash Flow From Operations	\$734.0	\$802.5	\$844.4	\$873.1					
<b>Cash Flow Per Share</b>	<b>\$4.25</b>	<b>\$4.57</b>	<b>\$4.73</b>	<b>\$4.82</b>					
Book Value Per Share	\$19.13	\$19.49	\$19.88	\$20.25					
Return On Book Value	8.7%	8.8%	8.9%	9.0%					

Cash Flow Statement					Consolidated Capitalization				
	2010	2011E	2012E	2013E		2010	2011E	2012E	2013E
<b>Operating Activities</b>					Short-term debt	\$414.0	\$414.0	\$414.0	\$414.0
Earnings	\$284.6	\$299.2	\$312.0	\$325.9	Long term debt	\$5,609.0	\$6,109.0	\$6,409.0	\$6,459.0
Depreciation and Amortization	\$410.0	\$469.8	\$498.2	\$512.3	<b>Total debt</b>	<b>\$6,023.0</b>	<b>\$6,523.0</b>	<b>\$6,823.0</b>	<b>\$6,873.0</b>
Other	\$39.4	\$33.5	\$34.2	\$35.0	Pref shares	\$912.0	\$912.0	\$912.0	\$912.0
Cash Flow from Operations	\$734.0	\$802.5	\$844.4	\$873.1	<b>Common equity</b>	<b>\$3,305.0</b>	<b>\$3,425.4</b>	<b>\$3,547.1</b>	<b>\$3,670.6</b>
Changes in non-cash Working Capital	\$49.0	\$0.0	\$0.0	\$0.0	<b>Total capitalization</b>	<b>\$10,240.0</b>	<b>\$10,860.4</b>	<b>\$11,282.1</b>	<b>\$11,455.6</b>
<b>Cash Provided from Operating Activities</b>	<b>\$783.0</b>	<b>\$802.5</b>	<b>\$844.4</b>	<b>\$873.1</b>	<b>Weighting</b>				
<b>Investment Activities</b>					Total Debt	58.8%	60.1%	60.5%	60.0%
Total Capex	(\$1,073.0)	(\$1,212.0)	(\$779.0)	(\$559.0)	Preferred Shares	8.9%	8.4%	8.1%	8.0%
Other & Asset Sales	\$82.0	\$30.0	\$0.0	\$0.0	Common Equity	32.3%	31.5%	31.4%	32.0%
<b>Cash Used in Investing Activities</b>	<b>(\$991.0)</b>	<b>(\$1,182.0)</b>	<b>(\$779.0)</b>	<b>(\$559.0)</b>		100.0%	100.0%	100.0%	100.0%
<b>Financing Activities</b>									
Dividends - common/pref shares	(\$244.0)	(\$228.8)	(\$240.3)	(\$252.4)					
Other Financing Activities	\$476.0	\$550.0	\$350.0	\$100.0					
<b>Cash Used in Financing Activities</b>	<b>\$232.0</b>	<b>\$321.2</b>	<b>\$109.7</b>	<b>(\$152.4)</b>					
Foreign Currency Translation	\$0.0	\$0.0	\$0.0	\$0.0					
<b>Increase (decrease) in cash</b>	<b>\$24.0</b>	<b>(\$58.3)</b>	<b>\$175.1</b>	<b>\$161.8</b>					
Cash - Beginning of Year	\$84.9	\$108.9	\$50.6	\$225.7					
<b>Cash - End of Year</b>	<b>\$108.9</b>	<b>\$50.6</b>	<b>\$225.7</b>	<b>\$387.5</b>					

All figures in CAD unless noted.

Source: Company data, Macquarie Research, February 2011



## Important disclosures:

<p><b>Recommendation definitions</b></p> <p><b>Macquarie - Australia/New Zealand</b> Outperform – return &gt;3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return &gt;3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p><b>Macquarie – Asia/Europe</b> Outperform – expected return &gt;+10% Neutral – expected return from -10% to +10% Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b> Outperform – expected return &gt;+10% Neutral – expected return from -10% to +10% Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b> Outperform – return &gt;5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b> Outperform (Buy) – return &gt;5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return &gt;5% below Russell 3000 index return</p>	<p><b>Volatility index definition*</b></p> <p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ/Canada stocks only</p> <p><b>Recommendations</b> – 12 months <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p><b>Financial definitions</b></p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / efpowa* <b>ROA</b> = adjusted ebit / average total assets <b>ROA Banks/Insurance</b> = adjusted net profit /average total assets <b>ROE</b> = adjusted net profit / average shareholders funds <b>Gross cashflow</b> = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																																
<p><b>Recommendation proportions – For quarter ending 31 December 2010</b></p> <table><tr><td></td><td><b>AU/NZ</b></td><td><b>Asia</b></td><td><b>RSA</b></td><td><b>USA</b></td><td><b>CA</b></td><td><b>EUR</b></td><td></td></tr><tr><td>Outperform</td><td>46.38%</td><td>62.62%</td><td>52.17%</td><td>44.99%</td><td>67.57%</td><td>50.90%</td><td>(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)</td></tr><tr><td>Neutral</td><td>37.68%</td><td>18.58%</td><td>34.78%</td><td>50.61%</td><td>28.83%</td><td>35.48%</td><td>(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)</td></tr><tr><td>Underperform</td><td>15.94%</td><td>18.80%</td><td>13.04%</td><td>4.40%</td><td>3.60%</td><td>13.62%</td><td>(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)</td></tr></table>				<b>AU/NZ</b>	<b>Asia</b>	<b>RSA</b>	<b>USA</b>	<b>CA</b>	<b>EUR</b>		Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)	Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)	Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)
	<b>AU/NZ</b>	<b>Asia</b>	<b>RSA</b>	<b>USA</b>	<b>CA</b>	<b>EUR</b>																												
Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)																											
Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)																											
Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)																											

## Company Specific Disclosures:

Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are entitled to have equal access to our research. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/disclosures](http://www.macquarie.com/disclosures).

## Analyst Certification:

The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062) (MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## General Disclaimers:

Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd and its Taiwan branch; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; Macquarie First South Securities (Pty) Limited; Macquarie Capital Securities (India) Pvt Ltd; Macquarie Capital Securities (Malaysia) Sdn Bhd; Macquarie Securities Korea Limited and Macquarie Securities (Thailand) Ltd are not authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account your investment objectives, financial situation or particular needs. Before making an investment decision on the basis of this research, you need to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise.

## Country-Specific Disclaimers:

**Australia:** In Australia, research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947), a participating organisation of the Australian Securities Exchange. **New Zealand:** In New Zealand, research is issued and distributed by Macquarie Securities (NZ) Ltd, a NZX Firm. **Canada:** In Canada, research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are

entitled to have equal access to our research. **United Kingdom:** In the United Kingdom, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated by the Financial Services Authority (No. 193905). **Germany:** In Germany, research is issued and distributed by Macquarie Capital (Europe) Ltd, Niederlassung Deutschland, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **France:** In France, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **Hong Kong:** In Hong Kong, research is issued and distributed by Macquarie Capital Securities Ltd, which is licensed and regulated by the Securities and Futures Commission. **Japan:** In Japan, research is issued and distributed by Macquarie Capital Securities (Japan) Limited, a member of the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co. Ltd (Financial Instruments Firm, Kanto Financial Bureau (kin-sho) No. 231, a member of Japan Securities Dealers Association and Financial Futures Association of Japan). **India:** In India, research is issued and distributed by Macquarie Capital Securities (India) Pvt Ltd, Level 3, Mafatlal Centre, Nariman Point, Mumbai 400 021, INDIA, which is a SEBI registered Stock Broker having membership with National Stock Exchange of India Limited (INB231246738) and Bombay Stock Exchange Limited (INB011246734). **Malaysia:** In Malaysia, research is issued and distributed by Macquarie Capital Securities (Malaysia) Sdn. Bhd. (Company registration number: 463469-W) which is a Participating Organisation of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission. **Taiwan:** Information on securities/instruments that are traded in Taiwan is distributed by Macquarie Capital Securities Ltd, Taiwan Branch, which is licensed and regulated by the Financial Supervisory Commission. No portion of the report may be reproduced or quoted by the press or any other person without authorisation from Macquarie. Nothing in this research shall be construed as a solicitation to buy or sell any security or product. **Thailand:** In Thailand, research is issued and distributed by Macquarie Securities (Thailand) Ltd, a licensed securities company that is authorized by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is an exchange member no. 28 of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. Macquarie Securities (Thailand) Ltd does not endorse the result of the Corporate Governance Report of Thai Listed Companies but this Report can be accessed at: <http://www.thai-iod.com/en/publications.asp?type=4>. **South Korea:** In South Korea, unless otherwise stated, research is prepared, issued and distributed by Macquarie Securities Korea Limited, which is regulated by the Financial Supervisory Services. Information on analysts in MSKL is disclosed at <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03053&pageDiv=02>. **South Africa:** In South Africa, research is issued and distributed by Macquarie First South Securities (Pty) Limited, a member of the JSE Limited. **Singapore:** In Singapore, research is issued and distributed by Macquarie Capital Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services license holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Capital Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. All Singapore-based recipients of research produced by Macquarie Capital (Europe) Limited, Macquarie Capital Markets Canada Ltd, Macquarie First South Securities (Pty) Limited and Macquarie Capital (USA) Inc. represent and warrant that they are institutional investors as defined in the Securities and Futures Act. **United States:** In the United States, research is issued and distributed by Macquarie Capital (USA) Inc., which is a registered broker-dealer and member of FINRA. Macquarie Capital (USA) Inc. accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Capital (USA) Inc. Macquarie Capital (USA) Inc.'s affiliate's analysts are not registered as research analysts with FINRA, may not be associated persons of Macquarie Capital (USA) Inc., and therefore may not be subject to FINRA rule restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures), or contact your registered representative at 1-888-MAC-STOCK, or write to the Supervisory Analysts, Research Department, Macquarie Securities, 125 W.55th Street, New York, NY 10019.

© Macquarie Group

<b>Auckland</b> Tel: (649) 377 6433	<b>Bangkok</b> Tel: (662) 694 7999	<b>Calgary</b> Tel: (1 403) 218 6650	<b>Denver</b> Tel: (303) 952 2800	<b>Frankfurt</b> Tel: (069) 509 578 000	<b>Geneva</b> Tel: (41) 22 818 7777	<b>Hong Kong</b> Tel: (852) 2823 3588
<b>Jakarta</b> Tel: (62 21) 515 1818	<b>Johannesburg</b> Tel: (2711) 583 2000	<b>Kuala Lumpur</b> Tel: (60 3) 2059 8833	<b>London</b> Tel: (44 20) 3037 4400	<b>Manila</b> Tel: (63 2) 857 0888	<b>Melbourne</b> Tel: (613) 9635 8139	<b>Montreal</b> Tel: (1 514) 925 2850
<b>Mumbai</b> Tel: (91 22) 6653 3000	<b>Munich</b> Tel: (089) 2444 31800	<b>New York</b> Tel: (1 212) 231 2500	<b>Paris</b> Tel: (33 1) 7842 3823	<b>Perth</b> Tel: (618) 9224 0888	<b>Seoul</b> Tel: (82 2) 3705 8500	<b>Shanghai</b> Tel: (86 21) 6841 3355
<b>Singapore</b> Tel: (65) 6231 1111	<b>Sydney</b> Tel: (612) 8232 9555	<b>Taipei</b> Tel: (886 2) 2734 7500	<b>Tokyo</b> Tel: (81 3) 3512 7900	<b>Toronto</b> Tel: (1 416) 848 3500		

Available to clients on the world wide web at [www.macquarieresearch.com](http://www.macquarieresearch.com) and through Thomson Financial, FactSet, Reuters, Bloomberg, CapitalIQ and TheMarkets.com.

## Research

### Heads of Equity Research

John O'Connell (Global Co-Head)	(612) 8232 7544
David Rickards (Global Co-Head)	(44 20) 3037 4399
Graham Copley (US)	(1 212) 231 2632
Stephen Harris (Canada Co-Head)	(1 416) 848 3655
Matthew Akman (Canada Co-Head)	(1 416) 848 3510

### Consumer Discretionary & Healthcare

#### Life Sciences & Technology

Jon Groberg (Head of US Discretionary & Healthcare)	(1 212) 231 2612
---	------------------

#### Gaming & Leisure

Chad Beynon (New York)	(1 212) 231 2634
------------------------	------------------

### Consumer Staples and Agriculture

David Pupo (Toronto)	(1 416) 848 3505
----------------------	------------------

### Energy

#### US Exploration & Production

Joe Wagner (Denver)	(1 303) 952 2751
John Nelson (New York)	(1 212) 231 2622

#### US Oilfield Services & Drilling

Waqar Syed (Head of US Energy)	(1 303) 952 2753
Ryan McCormick (Denver)	(1 303) 952 2752

#### US Refining

Chi Chow (Denver)	(1 303) 952 2757
-------------------	------------------

#### Canadian Oil Sands/Heavy Oil Producers

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### Canadian Oilfield Services & Drilling

Scott Treadwell (Calgary)	(1 403) 539 8530
---------------------------	------------------

#### Canadian Independents

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### Canadian Integrated

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### International/Canadian Oil & Gas Producers

Cristina Lopez (Calgary)	(1 403) 539 8542
David Popowich (Calgary)	(1 403) 539 8529
Ray Kwan (Calgary)	(1 403) 539 4355

### Financials

#### Asset Managers

Roger Smith (New York)	(1 212) 231 8016
------------------------	------------------

#### Banks/Trust Banks

Albert Savastano (New York)	(1 212) 231 8046
Thomas Alonso (New York)	(1 212) 231 8047
Jonathan Elmi (New York)	(1 212) 231 8065
Bill Young (New York)	(1 212) 231 8052
Sumit Malhotra (Toronto)	(1 416) 848 3687
Stephen Scinicariello (New York)	(1 212) 231 0663
John Moran (New York)	(1 212) 231 0662

### Financials – cont'd

#### Financial Technology

Bill Carcache (New York)	(1 212) 231 8034
--------------------------	------------------

#### Life Insurance

Mark Finkelstein (Chicago)	(1 312) 660 9179
Paul Sarran (Chicago)	(1 312) 660 9137
Sumit Malhotra (Toronto)	(1 416) 848 3687

#### Market Structure

Edward Ditmire (Head of Diversified Financials)	(1 212) 231 8076
Chris Ross (New York)	(1 212) 231 8033

#### Mortgage & Consumer Finance

Matthew Howlett (New York)	(1 212) 231 8063
----------------------------	------------------

#### Mortgage REITs

Matthew Howlett (New York)	(1 212) 231 8063
----------------------------	------------------

#### Property & Casualty Insurance

Alan Zimmermann	(1 212) 231 8081
Amit Kumar (New York)	(1 212) 231 8013
Caroline Steers (New York)	(1 212) 231 8048

### Industrials

#### Air Freight & Surface Transportation

Scott Flower (New York)	(1 212) 231 2537
-------------------------	------------------

#### Chemicals

Cooley May (New York)	(1 212) 231 2586
-----------------------	------------------

#### Construction and Engineering/Machinery

Sameer Rathod (New York)	(1 212) 231 2474
--------------------------	------------------

#### Containers & Packaging

Al Kabili (New York)	(1 212) 231 2473
----------------------	------------------

### Materials

#### Global Metals & Mining

Curt Woodworth (New York)	(1 212) 231 2482
Pierre Vaillancourt (Toronto)	(1 416) 848 3647
Tony Lesiak (Toronto)	(1 416) 848 3594
Duncan McKeen (Montréal)	(1 514) 925 2856
Michael Gray (Vancouver)	(1 604) 639 6372

### Real Estate

#### Property Trusts & Developers

Robert Stevenson (Head of US REITs)	(1 212) 231 8068
Ki Bin Kim (New York)	(1 212) 231 6386
Michael Smith (Toronto)	(1 416) 848 3696

### TMET

#### Telecommunications

Kevin Smithen (New York)	(1 212) 231 0695
--------------------------	------------------

#### Business Services

Kevin McVeigh (New York)	(1 212) 231 6191
--------------------------	------------------

#### Cable & Satellite

Amy Yong (New York)	(1 212) 231 2624
---------------------	------------------

### TMET – cont'd

#### Internet

Ben Schachter (New York)	(1 212) 231 0644
Tom White (New York)	(1 212) 231 0643

#### Media

Andrew Kim (New York)	(1 212) 231 2631
-----------------------	------------------

#### Semiconductors

Shawn Webster (New York)	(1 212) 231 2539
--------------------------	------------------

#### Software & IT Hardware

Brad Zelnick (New York)	(1 212) 231 2618
-------------------------	------------------

#### Solar & Clean Technology

Kelly Dougherty (New York)	(1 212) 231 2493
----------------------------	------------------

### Utilities & Alternative Energy

Angie Storozyński (Head of US Utilities & Alternative Energy)	(1 212) 231 2569
Andrew Weisel (New York)	(1 212) 231 1159
Matthew Akman (Toronto)	(1 416) 848 3510
Stephen Harris (Toronto)	(1 416) 848 3655

### Commodities & Precious Metals

#### Metals & Mining

Jim Lennon (London)	(44 20) 3037 4271
Max Layton (London)	(44 20) 3037 4273
Kona Haque (London)	(44 20) 3037 4334

#### Oil & gas

Jan Stuart (New York)	(1 212) 231 2485
-----------------------	------------------

### Economics and Strategy

Stephen Harris (Toronto)	(1 416) 848 3655
Jan Stuart (Global Oil Economist)	(1 212) 231 2485
Rebecca Hiscock-Croft (US Economist)	(1 212) 231 6115

### Quantitative Analysis

Charles Lowe (New York)	(1 212) 231 2602
Victor Morange (New York)	(1 212) 231 2538

### Find our research at

Macquarie:	<a href="http://www.macquarie.com.au/research">www.macquarie.com.au/research</a>
Thomson:	<a href="http://www.thomson.com/financial">www.thomson.com/financial</a>
Reuters:	<a href="http://www.knowledge.reuters.com">www.knowledge.reuters.com</a>
Bloomberg:	MAC GO
Factset:	<a href="http://www.factset.com/home.aspx">http://www.factset.com/home.aspx</a>
CapitalIQ	<a href="http://www.capitaliq.com">www.capitaliq.com</a>
TheMarkets.com	<a href="http://www.themarkets.com">www.themarkets.com</a>
Contact Gareth Warfield for access	(612) 8232 3207

### Email addresses

[FirstName.Surname@macquarie.com](mailto:FirstName.Surname@macquarie.com)  
eg. [David.Rickards@macquarie.com](mailto:David.Rickards@macquarie.com)

## Equities

### Head of Global Cash Equities

Stevan Vrcelj (Sydney)	(612) 8232 5999
------------------------	-----------------

### Head of Canadian Equities

Alex Rothwell (Toronto)	(1 416) 848 3677
-------------------------	------------------

### Head of US Equities

Graham Copley (New York)	(1 212) 231 2632
--------------------------	------------------

## Sales

### US Sales

Greg Coleman (New York)	(1 212) 231 2567
-------------------------	------------------

### US Financial Specialist Sales

Blair Smith (New York)	(1 212) 231 8004
------------------------	------------------

### Canada Sales

Craig Brenner (Toronto)	(1 416) 848-3626
Chris Naprawa (Toronto)	(1 416) 848-3634

## Trading

### US Sales Trading

Austin Graham (New York)	(1 212) 231 2494
--------------------------	------------------

### Canada Trading

Perry Catellier (Toronto)	(1 416) 848 3619
---------------------------	------------------





## CANADA

FTS CN Underperform

Price 4 May 11 C\$32.35

Volatility index Low

12-month target	C\$	31.00
12-month TSR	%	-0.5
Valuation	C\$	31.00
- EV/EBITDA		
GICS sector		Utilities
Market cap	C\$m	5,674
30-day avg turnover	C\$m	8.1
Number shares on issue	m	175.4

### Investment fundamentals

Year end 31 Dec		2010A	2011E	2012E	2013E
Revenue	m	3,664.0	3,877.9	4,014.5	4,106.3
EBITDA	m	1,150.0	1,217.1	1,260.0	1,288.8
Recurring profit	m	284.6	298.5	313.1	327.0
Reported profit	m	284.6	298.5	313.1	327.0
CFPS	C\$	4.25	4.56	4.73	4.81
CFPS growth	%	21.3	7.4	3.7	1.7
PGCFPS	x	7.6	7.1	6.8	6.7
EPS rec	C\$	1.65	1.70	1.75	1.80
EPS rec growth	%	7.9	3.1	3.1	2.8
PER rec	x	19.6	19.0	18.5	17.9
Total DPS	C\$	1.12	1.16	1.21	1.25
Total div yield	%	3.5	3.6	3.7	3.9
EV/EBITDA	x	11.0	10.7	10.6	10.5

### FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2011

(all figures in CAD unless noted)

Matthew Akman

+1 416 848 3510 matthew.akman@macquarie.com

Gilbert Chan, CFA

+1 416 848 3539 gilbert.chan@macquarie.com

Tuc Tuncay, CFA

+1 416 848 3538 tuc.tuncay@macquarie.com

5 May 2011

Macquarie Capital Markets Canada Ltd.

# Fortis

## Upside surprise may not sustain

### Event

- FTS reported 1Q11 EPS of \$0.67 vs our estimate of \$0.61 and \$0.58 in 1Q10.

### Impact

- The earnings report could be positive for the stock in the near term, but we caution that upside surprises may not sustain. In particular, achieved returns on the fast-growing Alberta utility may compress over the next two years.
- FTS Alberta and all other Alberta electric utilities have experienced accelerated growth recently. Asset expansion is likely sustainable as oil production activity drives asset expansion and extension. Nevertheless, we remain concerned that achieved returns on that growing asset base are unsustainable.
- We have highlighted a risk that the Alberta regulator will reduce allowed returns in the current cost of capital proceeding. Though returns for comparable companies are not lower than the allowed return for FTS Alberta, risk-free rates and credit spreads have both come in since the last hearing on this issue.
- Regulators rarely grant consumer groups (or the companies) everything they are asking for but we note the consumer advocate has proposed an allowed return that could reduce EPS by about \$0.10 relative to reported results.
- Outside of the Canadian regulated utility growth, there is not a lot to get excited about in the earnings report. Other businesses such as Caribbean, generation and properties lack growth at this time (though we acknowledge management has wisely avoided significant capital investment in the Caribbean lately).
- Business development costs are down \$2m YoY in the quarter, which may just mean the company is looking at smaller deals than last year but we believe FTS remains active in seeking acquisition targets.

### Earnings and target price revision

- Despite the variance to our forecast in 1Q, we are maintaining our estimates and target price. We expect regulated utility earnings growth will decelerate through the year due to timing issues and a potential reduction in the Alberta allowed ROE.

### Price catalyst

- 12-month price target: C\$31.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decisions and growth project announcements.

### Action and recommendation

- FTS management continues to achieve the best possible results from its utility assets. But given the risk of compression in ROEs combined with the company's relatively low free cash yield (7.5% vs group at 9.0%), and dividend yield, we believe the stock will continue to underperform in 2011.

**Fortis Inc. (FTS CN, Underperform, Target price: C\$31.00)**

Earnings and Per Share Data (Annual)					Earnings and Per Share Data (Quarterly)				
	2010	2011E	2012E	2013E		1Q11	2Q11E	3Q11E	4Q11E
Newfoundland Power	\$35.3	\$34.2	\$34.2	\$34.2	Newfoundland Power	\$7.0	\$10.0	\$8.6	\$8.6
Alberta & BC Utilities	\$110.0	\$119.8	\$126.5	\$133.8	Alberta & BC Utilities	\$40.0	\$28.0	\$31.8	\$20.0
BC Gas	\$129.5	\$136.0	\$137.6	\$139.2	BC Gas	\$76.0	\$18.6	(\$3.4)	\$44.7
Maritime Electric	\$12.3	\$12.6	\$13.3	\$14.0	Maritime Electric	\$4.0	\$2.3	\$3.1	\$3.3
FortisOntario (CNP & Cornwall)	\$7.0	\$7.0	\$7.0	\$7.0	FortisOntario (CNP & Cornwall)	\$2.0	\$1.8	\$2.0	\$1.2
Fortis Generation	\$19.1	\$19.1	\$19.9	\$20.3	Fortis Generation	\$3.0	\$4.5	\$7.1	\$4.5
Regulated Electric Utilities - Caribbean	\$23.3	\$23.3	\$27.4	\$29.2	Regulated Electric Utilities - Caribbean	\$4.0	\$6.3	\$7.2	\$5.8
Fortis Properties	\$26.1	\$26.5	\$27.2	\$29.3	Fortis Properties	\$1.0	\$7.0	\$6.0	\$12.4
Corporate	(\$78.0)	(\$80.0)	(\$80.0)	(\$80.0)	Corporate	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)
<b>Operating Earnings for common shares</b>	<b>\$284.6</b>	<b>\$298.5</b>	<b>\$313.1</b>	<b>\$327.0</b>	<b>Operating Earnings for common shares</b>	<b>\$117.0</b>	<b>\$58.4</b>	<b>\$42.5</b>	<b>\$80.6</b>
Unusual items	\$0.0	\$0.0	\$0.0	\$0.0	Unusual items	\$0.0	\$0.0	\$0.0	\$0.0
Reported Earnings	\$284.6	\$298.5	\$313.1	\$327.0	Reported Earnings	\$117.0	\$58.4	\$42.5	\$80.6
Average shares o/s (mln)	172.8	175.8	178.6	181.4	Average shares o/s (mln)	175.0	175.8	176.0	176.4
<b>Operating Earnings per basic share</b>	<b>\$1.65</b>	<b>\$1.70</b>	<b>\$1.75</b>	<b>\$1.80</b>	<b>Operating Earnings per basic share</b>	<b>\$0.67</b>	<b>\$0.33</b>	<b>\$0.24</b>	<b>\$0.46</b>
Reported Earnings per basic share	\$1.65	\$1.70	\$1.75	\$1.80	Reported Earnings per basic share	\$0.67	\$0.33	\$0.24	\$0.46
<b>Dividends Per Share</b>	<b>\$1.12</b>	<b>\$1.16</b>	<b>\$1.21</b>	<b>\$1.25</b>					
EBITDA	\$1,150.0	\$1,217.1	\$1,260.0	\$1,288.8					
EBITDA Per Share	\$6.66	\$6.92	\$7.05	\$7.10					
Cash Flow From Operations	\$734.0	\$802.3	\$845.3	\$873.2					
<b>Cash Flow Per Share</b>	<b>\$4.25</b>	<b>\$4.56</b>	<b>\$4.73</b>	<b>\$4.81</b>					
Book Value Per Share	\$19.13	\$19.51	\$19.88	\$20.27					
Return On Book Value	8.7%	8.8%	8.9%	9.0%					

Cash Flow Statement					Consolidated Capitalization				
	2010	2011E	2012E	2013E		2010	2011E	2012E	2013E
<b>Operating Activities</b>					Short-term debt	\$414.0	\$414.0	\$414.0	\$414.0
Earnings	\$284.6	\$298.5	\$313.1	\$327.0	Long term debt	\$5,609.0	\$6,109.0	\$6,409.0	\$6,459.0
Depreciation and Amortization	\$410.0	\$469.8	\$498.2	\$512.3	<b>Total debt</b>	<b>\$6,023.0</b>	<b>\$6,523.0</b>	<b>\$6,823.0</b>	<b>\$6,873.0</b>
Other	\$39.4	\$34.0	\$34.0	\$34.0	Pref shares	\$912.0	\$912.0	\$912.0	\$912.0
Cash Flow from Operations	\$734.0	\$802.3	\$845.3	\$873.2	<b>Common equity</b>	<b>\$3,305.0</b>	<b>\$3,429.6</b>	<b>\$3,552.2</b>	<b>\$3,676.6</b>
Changes in non-cash Working Capital	\$49.0	\$0.0	\$0.0	\$0.0	<b>Total capitalization</b>	<b>\$10,240.0</b>	<b>\$10,864.6</b>	<b>\$11,287.2</b>	<b>\$11,461.6</b>
<b>Cash Provided from Operating Activities</b>	<b>\$783.0</b>	<b>\$802.3</b>	<b>\$845.3</b>	<b>\$873.2</b>	<b>Weighting</b>				
<b>Investment Activities</b>					Total Debt	58.8%	60.0%	60.4%	60.0%
Total Capex	(\$1,073.0)	(\$1,212.0)	(\$814.0)	(\$799.0)	Preferred Shares	8.9%	8.4%	8.1%	8.0%
Other & Asset Sales	\$82.0	\$35.0	\$0.0	\$0.0	Common Equity	32.3%	31.6%	31.5%	32.1%
<b>Cash Used in Investing Activities</b>	<b>(\$991.0)</b>	<b>(\$1,177.0)</b>	<b>(\$814.0)</b>	<b>(\$799.0)</b>		100.0%	100.0%	100.0%	100.0%
<b>Financing Activities</b>									
Dividends - common/pref shares	(\$244.0)	(\$228.9)	(\$240.5)	(\$252.6)					
Other Financing Activities	\$476.0	\$555.0	\$350.0	\$100.0					
<b>Cash Used in Financing Activities</b>	<b>\$232.0</b>	<b>\$326.1</b>	<b>\$109.5</b>	<b>(\$152.6)</b>					
Foreign Currency Translation	\$0.0	\$0.0	\$0.0	\$0.0					
<b>Increase (decrease) in cash</b>	<b>\$24.0</b>	<b>(\$48.6)</b>	<b>\$140.8</b>	<b>(\$78.4)</b>					
Cash - Beginning of Year	\$84.9	\$108.9	\$60.3	\$201.0					
<b>Cash - End of Year</b>	<b>\$108.9</b>	<b>\$60.3</b>	<b>\$201.0</b>	<b>\$122.7</b>					

All figures in CAD unless noted.

Source: Company data, Macquarie Research, May 2011

## Important disclosures:

<p><b>Recommendation definitions</b></p> <p><b>Macquarie – Australia/New Zealand</b> Outperform – return &gt;3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return &gt;3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p><b>Macquarie – Asia/Europe</b> Outperform – expected return &gt;+10% Neutral – expected return from -10% to +10% Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b> Outperform – expected return &gt;+10% Neutral – expected return from -10% to +10% Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b> Outperform – return &gt;5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b> Outperform (Buy) – return &gt;5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return &gt;5% below Russell 3000 index return</p>	<p><b>Volatility index definition*</b></p> <p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ/Canada stocks only</p> <p><b>Recommendations</b> – 12 months <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p><b>Financial definitions</b></p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / efpowa* <b>ROA</b> = adjusted ebit / average total assets <b>ROA Banks/Insurance</b> = adjusted net profit /average total assets <b>ROE</b> = adjusted net profit / average shareholders funds <b>Gross cashflow</b> = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																																
<p><b>Recommendation proportions – For quarter ending 31 March 2011</b></p> <table><tr><td></td><td><b>AU/NZ</b></td><td><b>Asia</b></td><td><b>RSA</b></td><td><b>USA</b></td><td><b>CA</b></td><td><b>EUR</b></td><td></td></tr><tr><td>Outperform</td><td>45.65%</td><td>65.72%</td><td>59.70%</td><td>43.02%</td><td>68.91%</td><td>51.16%</td><td>(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)</td></tr><tr><td>Neutral</td><td>39.49%</td><td>19.00%</td><td>29.85%</td><td>53.09%</td><td>26.43%</td><td>35.73%</td><td>(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)</td></tr><tr><td>Underperform</td><td>14.86%</td><td>15.28%</td><td>10.45%</td><td>3.89%</td><td>4.66%</td><td>13.11%</td><td>(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)</td></tr></table>				<b>AU/NZ</b>	<b>Asia</b>	<b>RSA</b>	<b>USA</b>	<b>CA</b>	<b>EUR</b>		Outperform	45.65%	65.72%	59.70%	43.02%	68.91%	51.16%	(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)	Neutral	39.49%	19.00%	29.85%	53.09%	26.43%	35.73%	(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)	Underperform	14.86%	15.28%	10.45%	3.89%	4.66%	13.11%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)
	<b>AU/NZ</b>	<b>Asia</b>	<b>RSA</b>	<b>USA</b>	<b>CA</b>	<b>EUR</b>																												
Outperform	45.65%	65.72%	59.70%	43.02%	68.91%	51.16%	(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)																											
Neutral	39.49%	19.00%	29.85%	53.09%	26.43%	35.73%	(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)																											
Underperform	14.86%	15.28%	10.45%	3.89%	4.66%	13.11%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)																											

## Company Specific Disclosures:

Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are entitled to have equal access to our research. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/disclosures](http://www.macquarie.com/disclosures).

## Analyst Certification:

The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062) (MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## General Disclaimers:

Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd and its Taiwan branch; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; Macquarie First South Securities (Pty) Limited; Macquarie Capital Securities (India) Pvt Ltd; Macquarie Capital Securities (Malaysia) Sdn Bhd; Macquarie Securities Korea Limited and Macquarie Securities (Thailand) Ltd are not authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account your investment objectives, financial situation or particular needs. Before making an investment decision on the basis of this research, you need to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise.

## Country-Specific Disclaimers:

**Australia:** In Australia, research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947), a participating organisation of the Australian Securities Exchange. **New Zealand:** In New Zealand, research is issued and distributed by Macquarie Securities (NZ) Ltd, a NZX Firm. **Canada:** In Canada, research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are

entitled to have equal access to our research. **United Kingdom:** In the United Kingdom, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated by the Financial Services Authority (No. 193905). **Germany:** In Germany, research is issued and distributed by Macquarie Capital (Europe) Ltd, Niederlassung Deutschland, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **France:** In France, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **Hong Kong:** In Hong Kong, research is issued and distributed by Macquarie Capital Securities Ltd, which is licensed and regulated by the Securities and Futures Commission. **Japan:** In Japan, research is issued and distributed by Macquarie Capital Securities (Japan) Limited, a member of the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co. Ltd (Financial Instruments Firm, Kanto Financial Bureau (kin-sho) No. 231, a member of Japan Securities Dealers Association and Financial Futures Association of Japan). **India:** In India, research is issued and distributed by Macquarie Capital Securities (India) Pvt Ltd, Level 3, Mafatlal Centre, Nariman Point, Mumbai 400 021, INDIA, which is a SEBI registered Stock Broker having membership with National Stock Exchange of India Limited (INB231246738) and Bombay Stock Exchange Limited (INB011246734). **Malaysia:** In Malaysia, research is issued and distributed by Macquarie Capital Securities (Malaysia) Sdn. Bhd. (Company registration number: 463469-W) which is a Participating Organisation of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission. **Taiwan:** Information on securities/instruments that are traded in Taiwan is distributed by Macquarie Capital Securities Ltd, Taiwan Branch, which is licensed and regulated by the Financial Supervisory Commission. No portion of the report may be reproduced or quoted by the press or any other person without authorisation from Macquarie. Nothing in this research shall be construed as a solicitation to buy or sell any security or product. **Thailand:** In Thailand, research is issued and distributed by Macquarie Securities (Thailand) Ltd, a licensed securities company that is authorized by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is an exchange member no. 28 of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. Macquarie Securities (Thailand) Ltd does not endorse the result of the Corporate Governance Report of Thai Listed Companies but this Report can be accessed at: <http://www.thai-iod.com/en/publications.asp?type=4>. **South Korea:** In South Korea, unless otherwise stated, research is prepared, issued and distributed by Macquarie Securities Korea Limited, which is regulated by the Financial Supervisory Services. Information on analysts in MSKL is disclosed at <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03053&pageDiv=02>. **South Africa:** In South Africa, research is issued and distributed by Macquarie First South Securities (Pty) Limited, a member of the JSE Limited. **Singapore:** In Singapore, research is issued and distributed by Macquarie Capital Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services license holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Capital Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. All Singapore-based recipients of research produced by Macquarie Capital (Europe) Limited, Macquarie Capital Markets Canada Ltd, Macquarie First South Securities (Pty) Limited and Macquarie Capital (USA) Inc. represent and warrant that they are institutional investors as defined in the Securities and Futures Act. **United States:** In the United States, research is issued and distributed by Macquarie Capital (USA) Inc., which is a registered broker-dealer and member of FINRA. Macquarie Capital (USA) Inc. accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Capital (USA) Inc. Macquarie Capital (USA) Inc.'s affiliate's analysts are not registered as research analysts with FINRA, may not be associated persons of Macquarie Capital (USA) Inc., and therefore may not be subject to FINRA rule restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures), or contact your registered representative at 1-888-MAC-STOCK, or write to the Supervisory Analysts, Research Department, Macquarie Securities, 125 W.55th Street, New York, NY 10019.

© Macquarie Group

<b>Auckland</b> Tel: (649) 377 6433	<b>Bangkok</b> Tel: (662) 694 7999	<b>Calgary</b> Tel: (1 403) 218 6650	<b>Denver</b> Tel: (303) 952 2800	<b>Frankfurt</b> Tel: (069) 509 578 000	<b>Geneva</b> Tel: (41) 22 818 7777	<b>Hong Kong</b> Tel: (852) 2823 3588
<b>Jakarta</b> Tel: (62 21) 515 1818	<b>Johannesburg</b> Tel: (2711) 583 2000	<b>Kuala Lumpur</b> Tel: (60 3) 2059 8833	<b>London</b> Tel: (44 20) 3037 4400	<b>Manila</b> Tel: (63 2) 857 0888	<b>Melbourne</b> Tel: (613) 9635 8139	<b>Montreal</b> Tel: (1 514) 925 2850
<b>Mumbai</b> Tel: (91 22) 6653 3000	<b>Munich</b> Tel: (089) 2444 31800	<b>New York</b> Tel: (1 212) 231 2500	<b>Paris</b> Tel: (33 1) 7842 3823	<b>Perth</b> Tel: (618) 9224 0888	<b>Seoul</b> Tel: (82 2) 3705 8500	<b>Shanghai</b> Tel: (86 21) 6841 3355
<b>Singapore</b> Tel: (65) 6601 1111	<b>Sydney</b> Tel: (612) 8232 9555	<b>Taipei</b> Tel: (886 2) 2734 7500	<b>Tokyo</b> Tel: (81 3) 3512 7900	<b>Toronto</b> Tel: (1 416) 848 3500		

Available to clients on the world wide web at [www.macquarieresearch.com](http://www.macquarieresearch.com) and through Thomson Financial, FactSet, Reuters, Bloomberg, CapitalIQ and TheMarkets.com.



## Research

### Heads of Equity Research

John O'Connell (Global Co-Head)	(612) 8232 7544
David Rickards (Global Co-Head)	(44 20) 3037 4399
Andrew Root (US)	(1 212) 231 2336
Stephen Harris (Canada Co-Head)	(1 416) 848 3655
Matthew Akman (Canada Co-Head)	(1 416) 848 3510

### Consumer Discretionary & Healthcare

#### Life Sciences & Technology

Jon Groberg (Head of US Discretionary & Healthcare)	(1 212) 231 2612
Dane Leone (New York)	(1 212) 231 6369

#### Gaming & Leisure

Chad Beynon (New York)	(1 212) 231 2634
------------------------	------------------

### Consumer Staples and Agriculture

David Pupo (Toronto)	(1 416) 848 3505
----------------------	------------------

### Energy

#### US Exploration & Production

Joe Magner (Denver)	(1 303) 952 2751
John Nelson (New York)	(1 212) 231 2622

#### US Oilfield Services & Drilling

Waqar Syed (Head of US Energy)	(1 303) 952 2753
Ryan McCormick (Denver)	(1 303) 952 2752

#### US Refining

Chi Chow (Denver)	(1 303) 952 2757
-------------------	------------------

#### US Integrated

Jason Gammel (London)	(44 20) 3037 4085
-----------------------	-------------------

#### Canadian Oil Sands/Heavy Oil Producers

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### Canadian Oilfield Services & Drilling

Scott Treadwell (Calgary)	(1 403) 539 8530
---------------------------	------------------

#### Canadian Independents

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### Canadian Integrations

Chris Feltin (Calgary)	(1 403) 539 8544
------------------------	------------------

#### International/Canadian Oil & Gas Producers

Cristina Lopez (Calgary)	(1 403) 539 8542
David Popowich (Calgary)	(1 403) 539 8529
Ray Kwan (Calgary)	(1 403) 539 4355

### Financials

#### Asset Managers

Roger Smith (New York)	(1 212) 231 8016
------------------------	------------------

#### Banks/Trust Banks

Albert Savastano (New York)	(1 212) 231 8046
Thomas Alonso (New York)	(1 212) 231 8047
Jonathan Elmi (New York)	(1 212) 231 8065
Bill Young (New York)	(1 212) 231 8052
Sumit Malhotra (Toronto)	(1 416) 848 3687
Stephen Scinicariello (New York)	(1 212) 231 0663
John Moran (New York)	(1 212) 231 0662

### Financials – cont'd

#### Financial Technology

Bill Carcache (New York)	(1 212) 231 8034
--------------------------	------------------

#### Life Insurance

Mark Finkelstein (Chicago)	(1 312) 660 9179
Paul Sarran (Chicago)	(1 312) 660 9137
Sumit Malhotra (Toronto)	(1 416) 848 3687

#### Market Structure

Edward Ditmire (Head of Diversified Financials)	(1 212) 231 8076
Chris Ross (New York)	(1 212) 231 8033

#### Mortgage & Consumer Finance

Matthew Howlett (New York)	(1 212) 231 8063
----------------------------	------------------

#### Mortgage REITs

Matthew Howlett (New York)	(1 212) 231 8063
----------------------------	------------------

#### Property & Casualty Insurance

Alan Zimmermann	(1 212) 231 8081
Amit Kumar (New York)	(1 212) 231 8013
Ray Iardella (New York)	(1 212) 231 2454
Caroline Cameron (New York)	(1 212) 231 8048

### Industrials

#### Air Freight & Surface Transportation

Scott Flower (New York)	(1 212) 231 2537
-------------------------	------------------

#### Chemicals

Cooley May (New York)	(1 212) 231 2586
-----------------------	------------------

#### Construction and Engineering/Machinery

Sameer Rathod (New York)	(1 212) 231 2474
Smitha Balasubramanian (New York)	(1 212) 231 2638

#### Containers & Packaging

Al Kabili (New York)	(1 212) 231 2473
----------------------	------------------

### Materials

#### Global Metals & Mining

Curt Woodworth (New York)	(1 212) 231 2482
Pierre Vaillancourt (Toronto)	(1 416) 848 3647
Tony Lesiak (Toronto)	(1 416) 848 3594
Duncan McKeen (Montréal)	(1 514) 925 2856
Michael Gray (Vancouver)	(1 604) 639 6372

### Real Estate

#### Property Trusts & Developers

Robert Stevenson (Head of US REITs)	(1 212) 231 8068
Ki Bin Kim (New York)	(1 212) 231 6386
Michael Smith (Toronto)	(1 416) 848 3696

### TMET

#### Telecommunications

Kevin Smithen (New York)	(1 212) 231 0695
Greg MacDonald (Toronto)	(1 416) 628 3934

#### Business Services

Kevin McVeigh (New York)	(1 212) 231 6191
--------------------------	------------------

#### Cable & Satellite

Amy Yong (New York)	(1 212) 231 2624
---------------------	------------------

### TMET – cont'd

#### Cable & Satellite

Amy Yong (New York)	(1 212) 231 2624
---------------------	------------------

#### Internet

Ben Schachter (New York)	(1 212) 231 0644
Tom White (New York)	(1 212) 231 0643

#### Semiconductors

Shawn Webster (San Francisco)	(1 415) 762 5033
-------------------------------	------------------

#### Software & IT Hardware

Brad Zelnick (New York)	(1 212) 231 2618
-------------------------	------------------

#### Solar & Clean Technology

Kelly Dougherty (New York)	(1 212) 231 2493
----------------------------	------------------

#### Media

Tim Nollen (London)	(44 20) 3037 4524
---------------------	-------------------

### Utilities & Alternative Energy

#### Angie Storzynski (Head of US Utilities & Alternative Energy)

Andrew Weisel (New York)	(1 212) 231 2569
Matthew Akman (Toronto)	(1 212) 231 1159
Stephen Harris (Toronto)	(1 416) 848 3510
	(1 416) 848 3655

### Commodities & Precious Metals

#### Metals & Mining

Jim Lennon (London)	(44 20) 3037 4271
Max Layton (London)	(44 20) 3037 4273
Kona Haque (London)	(44 20) 3037 4334

#### Oil & gas

Jan Stuart (New York)	(1 212) 231 2485
-----------------------	------------------

### Economics and Strategy

Stephen Harris (Toronto)	(1 416) 848 3655
Jan Stuart (Global Oil Economist)	(1 212) 231 2485
Rebecca Hiscock-Croft (US Economist)	(1 212) 231 6115

### Quantitative Analysis

Venkat Eleswarapu	(1 212) 231 2577
Charles Lowe (New York)	(1 212) 231 2602
Victor Morange (New York)	(1 212) 231 2538

### Find our research at

Macquarie:	<a href="http://www.macquarie.com.au/research">www.macquarie.com.au/research</a>
Thomson:	<a href="http://www.thomson.com/financial">www.thomson.com/financial</a>
Reuters:	<a href="http://www.knowledge.reuters.com">www.knowledge.reuters.com</a>
Bloomberg:	MAC GO
Factset:	<a href="http://www.factset.com/home.aspx">http://www.factset.com/home.aspx</a>
CapitalIQ	<a href="http://www.capitaliq.com">www.capitaliq.com</a>
TheMarkets.com	<a href="http://www.themarkets.com">www.themarkets.com</a>
Contact Gareth Warfield for access	(612) 8232 3207

### Email addresses

[FirstName.Surname@macquarie.com](mailto:FirstName.Surname@macquarie.com)

eg. [David.Rickards@macquarie.com](mailto:David.Rickards@macquarie.com)

## Equities

### Head of Global Cash Equities

Stevan Vrcelj (Sydney)	(612) 8232 5999
------------------------	-----------------

### Head of Canadian Equities

Alex Rothwell (Toronto)	(1 416) 848 3677
-------------------------	------------------

### Head of US Equities

Graham Copley (New York)	(1 212) 231 2632
--------------------------	------------------

## Sales

### US Sales

Greg Coleman (New York)	(1 212) 231 2567
-------------------------	------------------

### US Financial Specialist Sales

Blair Smith (New York)	(1 212) 231 8004
------------------------	------------------

### Canada Sales

Craig Brenner (Toronto)	(1 416) 848 3626
Chris Naprawa (Toronto)	(1 416) 848 3634

## Trading

### US Sales Trading

Austin Graham (New York)	(1 212) 231 2494
--------------------------	------------------

### Canada Trading

Perry Catellier (Toronto)	(1 416) 848 3619
---------------------------	------------------

### International Sales Trading

Chris Reale (New York)	(1 212) 231 2555
------------------------	------------------

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## A regulated revenue mix offers investors a stable dividend profile and earnings.

Updated Forecasts and Estimates from 03 Jan 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Jan 2012  
Estimates as of 03 Jan 2012  
Pricing data through 02 Jan 2012  
Rating updated as of 03 Jan 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	-
Thesis	2
Valuation, Growth and Profitability	2
Scenario Analysis	3
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	4
Credit Analysis	
Financial Health	5
Capital Structure	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	-
Additional Information	-
Morningstar Analyst Forecasts	7
Comparable Company Analysis	11
Methodology for Valuing Companies	13

### Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

### Vital Statistics

Market Cap (CAD Mil)	6,288
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	1.6
YTD Total Return %	1.6
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.15

### Valuation Summary and Forecasts

	Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings		18.6	20.6	19.5	18.6
EV/EBITDA		10.4	10.8	9.9	9.2
EV/EBIT		15.8	16.8	15.5	14.1
Free Cash Flow Yield %		-6.7	-4.6	-1.3	-6.0
Dividend Yield %		3.6	3.3	3.3	3.6

### Financial Summary and Forecasts (CAD Mil)

	Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue		3,637	3,664	3,814	3,950
Revenue YoY %		-6.8	0.7	4.1	3.6
EBIT		701	740	812	893
EBIT YoY %		0.1	5.6	9.7	10.1
Net Income, Adjusted		262	285	309	337
Net Income YoY %		6.9	8.8	8.3	9.2
Diluted EPS		1.54	1.65	1.71	1.79
Diluted EPS YoY %		-1.1	7.0	3.5	4.7
Free Cash Flow		-331	-274	-81	-377
Free Cash Flow YoY %		244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates  
Analyst Note:

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

### Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Jan 01 0001



CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

## Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings.
- ▶ With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

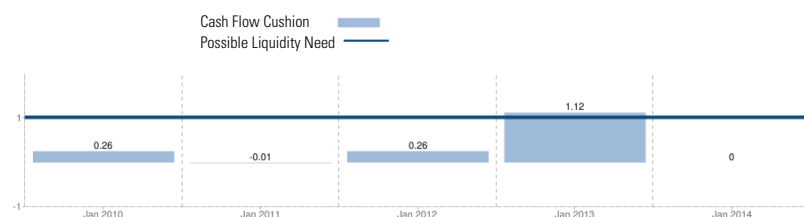
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Concentrated Holders

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

### Top 5 Sellers

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Stewardship: NA03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was \$4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast		5-Year Proj. CAGR
					Dec 2011	Dec 2012	
Growth (% YoY)							
Revenue	10.5	43.6	-6.8	0.7	4.1	3.6	—
EBIT	11.0	29.4	0.1	5.6	9.7	10.1	8.0
EBITDA	12.2	36.1	-3.9	8.0	10.7	7.6	6.8
Net Income	17.2	38.4	6.9	8.8	8.3	9.2	8.1
Diluted EPS	8.6	21.0	-1.1	7.0	3.5	4.7	5.0
Earnings Before Interest, after Tax	16.1	38.2	89.7	-40.3	-2.2	0.4	4.0
Free Cash Flow to the Firm	-135.9	-112.8	-45.5	-33.3	167.0	-158.3	52.6
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Profitability							
Operating margin %	19.1	17.9	19.3	20.2	21.3	22.6	23.5
EBITDA margin %	29.7	28.4	29.3	31.4	33.4	34.7	35.5
Net margin %	7.1	6.3	7.2	7.8	8.1	8.5	9.0
Free Cash Flow to the Firm margin %	2.8	4.2	2.5	1.6	4.2	-2.4	4.1
ROIC with Goodwill %	8.9	7.3	12.6	6.9	6.5	6.1	6.4
ROIC w/out Goodwill %	10.6	8.8	14.9	8.1	7.5	7.0	7.3
Return on Assets, pretax %	6.2	6.5	6.0	5.9	6.1	6.3	6.4
Return on Equity %	9.7	9.6	9.4	9.9	9.9	9.9	10.2
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Leverage							
Debt/Capital	0.62	0.62	0.63	0.61	0.59	0.59	0.59
Total Debt/EBITDA	5.26	—	5.55	5.24	4.91	4.78	4.89
EBITDA/Interest Expense	3.10	3.05	2.96	3.29	3.40	3.30	3.34

### Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	19.5	18.6
EV/EBITDA	10.4	10.8	9.9	9.2
EV/EBIT	15.8	16.8	15.5	14.1
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.0
Dividend Yield %	3.6	3.3	3.3	3.6

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,185</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
<b>Equity Value</b>	<b>5,068</b>	<b>—</b>	<b>28.67</b>
Projected Diluted Shares	187		
<b>Fair Value per Share (CAD)</b>	<b>29.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Total Revenue</b>	<b>3,903</b>	<b>3,637</b>	<b>3,664</b>	<b>3,814</b>	<b>3,950</b>
Cost of Goods Sold	2,112	1,799	1,686	1,737	1,763
<b>Gross Profit</b>	<b>1,791</b>	<b>1,838</b>	<b>1,978</b>	<b>2,078</b>	<b>2,188</b>
Selling, General & Administrative Expenses	743	773	828	846	860
Research & Development Expenses	0	0	0	0	0
Other Operating Expenses (Income)	0	0	0	0	0
Restructuring & Other Charges (Gains)	0	0	0	0	0
Depreciation Expense (if reported separately)	348	364	410	420	435
Amortization of Other Intangibles (if reported separately)	0	0	0	0	0
Amortization/Impairment of Goodwill	0	0	0	0	0
<b>Total Expenses</b>	<b>3,203</b>	<b>2,936</b>	<b>2,924</b>	<b>3,003</b>	<b>3,057</b>
<b>Operating Income (EBIT)</b>	<b>700</b>	<b>701</b>	<b>740</b>	<b>812</b>	<b>893</b>
Interest Expense	363	360	350	375	415
Interest & Other Income (Expense)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>337</b>	<b>341</b>	<b>390</b>	<b>437</b>	<b>478</b>
Income Tax Expense (Benefit)	65	49	67	85	93
<b>Income After Taxes</b>	<b>272</b>	<b>292</b>	<b>323</b>	<b>352</b>	<b>385</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	-10	-10
(Preferred Dividends)	-14	-18	-28	-33	-38
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>245</b>	<b>262</b>	<b>285</b>	<b>309</b>	<b>337</b>
Net Income (Loss) Excluding Charges	245	262	285	309	337
Diluted Shares Outstanding (Mil)	157	170	173	181	189
Diluted EPS Including Charges	1.56	1.54	1.65	1.71	1.79
Diluted EPS Excluding Charges	1.56	1.54	1.65	1.71	1.79
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>
<b>EBITDA without restructuring</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Assets</b>					
Excess Cash & Investments	0	0	0	251	0
Operating Cash & Equivalents	66	85	109	114	119
Accounts Receivable	681	595	655	523	541
Inventory	229	178	168	143	145
Other Short Term Operating Assets	174	268	272	270	280
<b>Total Current Assets</b>	<b>1,150</b>	<b>1,126</b>	<b>1,204</b>	<b>1,300</b>	<b>1,085</b>
Property Plant & Equipment, Net	7,367	7,687	8,202	8,994	9,772
Property Plant & Equipment, Gross	7,367	11,408	12,109	13,321	14,533
(Accumulated Depreciation)	0	-3,721	-3,907	-4,327	-4,761
Goodwill, Net	1,575	1,560	1,553	1,553	1,553
Other Intangibles	9	279	324	282	240
Other Long-Term Operating Assets	1,023	1,491	1,604	1,700	1,750
Deferred Tax Assets	54	17	16	20	20
Long-Term Non-Operating Assets, including Pension items	0	0	0	0	0
<b>Total Assets</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
<b>Liabilities</b>					
Accounts Payable	874	852	953	1,078	1,112
Short-Term Debt	650	639	414	500	500
Other Current Liabilities	173	103	150	150	150
<b>Total Current Liabilities</b>	<b>1,697</b>	<b>1,594</b>	<b>1,517</b>	<b>1,728</b>	<b>1,762</b>
Long-Term Debt	4,884	5,276	5,609	5,750	6,050
Incremental Debt Requirements	—	—	—	0	0
<b>Total Long-Term Debt</b>	<b>4,884</b>	<b>5,276</b>	<b>5,609</b>	<b>5,750</b>	<b>6,050</b>
Long-Term Operating Liabilities	678	731	775	810	810
Deferred Tax Liabilities	61	576	623	670	650
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>7,640</b>	<b>8,497</b>	<b>8,844</b>	<b>9,278</b>	<b>9,593</b>
<b>Preferred Stock</b>	<b>347</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>145</b>	<b>123</b>	<b>162</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	157	170	173	185	196
Additional Paid in Capital	2,301	2,338	2,417	2,776	2,895
Retained Earnings (Deficit)	634	763	804	903	1,013
(Treasury Stock)	0	0	0	0	0
Other Equity	-46	-78	-89	-89	-89
<b>Total Shareholders' Equity</b>	<b>3,046</b>	<b>3,193</b>	<b>3,305</b>	<b>3,774</b>	<b>4,015</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
Difference, from analyst adjustments and restatements	0	0	0	0	0



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	259	280	323	342	375
Depreciation Expense	399	317	368	420	435
Amortization of Other Intangibles	9	47	42	42	42
Impairment of Goodwill	0	0	0	0	0
Other Non-Cash Adjustments to Operating Income	38	9	-8	0	0
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	43	-20
<b>Cash from Operations</b>	<b>723</b>	<b>637</b>	<b>732</b>	<b>1,131</b>	<b>835</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	132	-19
(Increase) Decrease in Inventory	0	0	0	25	-2
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	2	-10
Increase (Decrease) in Accounts Payable	0	0	0	125	34
Increase (Decrease) in Other Current Liabilities	18	-16	7	0	0
<b>Cash from Investing</b>	<b>-854</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,273</b>	<b>-1,262</b>
(Capital Expenditures)	-819	-968	-1,006	-1,212	-1,212
(Acquisitions)	-22	-77	0	0	0
Asset Sales & Dispositions of Discontinued Operations	18	1	15	0	0
Other Investing Cash Flows (Outlays)	-31	-8	0	-61	-50
<b>Cash From Financing</b>	<b>196</b>	<b>394</b>	<b>283</b>	<b>398</b>	<b>181</b>
Common Stock (Purchase) or Sale	308	46	80	371	130
Common Stock (Dividends)	-162	-177	-193	-210	-227
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	-33	-38
Short Term Debt Issuance and (Retirement)	-378	-6	-48	86	0
Long Term Debt Issuance and (Retirement)	231	557	194	141	300
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	43	15
Other Financing Cash Flows (Outlays)	0	0	0	0	0
<b>Net Change in Cash</b>	<b>65</b>	<b>-21</b>	<b>24</b>	<b>256</b>	<b>-246</b>
Change in Cash on Balance Sheet	8	19	24	256	-246
Difference, from analyst adjustments and restatements	57	-40	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.13	11.0	13.8	13.5	7.9	9.4	9.0	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.6
TransAlta Corporation TAC USA	0.90	21.1	17.2	16.5	9.0	7.4	8.1	221.1	32.2	20.7	1.6	1.6	1.5	1.6	1.6	1.5
Average		16.1	15.5	15.0	8.5	8.4	8.6	122.9	32.2	20.7	1.6	1.7	1.6	1.5	1.6	1.6
<b>Fortis, Inc. FTS CA</b>	<b>1.24</b>	<b>19.5</b>	<b>18.6</b>	<b>17.0</b>	<b>9.9</b>	<b>9.2</b>	<b>8.6</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.6	3.8
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.7	5.8
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.7	4.8
<b>Fortis, Inc. FTS CA</b>	<b>13,850 CAD</b>	<b>6.5</b>	<b>6.1</b>	<b>6.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.3</b>	<b>9.9</b>	<b>9.9</b>	<b>10.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.6</b>	<b>3.3</b>	<b>3.6</b>	<b>4.0</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
<b>Fortis, Inc. FTS CA</b>	<b>3,814 CAD</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>9.7</b>	<b>10.1</b>	<b>8.7</b>	<b>3.5</b>	<b>4.7</b>	<b>10.0</b>	<b>-70.6</b>	<b>367.9</b>	<b>-19.7</b>	<b>4.0</b>	<b>3.5</b>	<b>8.0</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
<b>Fortis, Inc. FTS CA</b>	<b>309 CAD</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>33.4</b>	<b>34.7</b>	<b>35.8</b>	<b>21.3</b>	<b>22.6</b>	<b>23.8</b>	<b>8.1</b>	<b>8.5</b>	<b>9.3</b>	<b>-2.1</b>	<b>-9.6</b>	<b>-7.4</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>165.6</b>	<b>163.2</b>	<b>166.3</b>	<b>58.9</b>	<b>58.7</b>	<b>59.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CF0 per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,724 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,611 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
<b>Fortis, Inc. FTS CA</b>	<b>6,288 CAD</b>	<b>2.02</b>	<b>0.63</b>	<b>0.77</b>	<b>-32.52</b>	<b>-34.08</b>	<b>-36.11</b>	<b>6.25</b>	<b>4.42</b>	<b>4.72</b>	<b>-0.45</b>	<b>-2.00</b>	<b>-1.58</b>	<b>68.0</b>	<b>67.2</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Grades
- ▶ Financial Health Grades

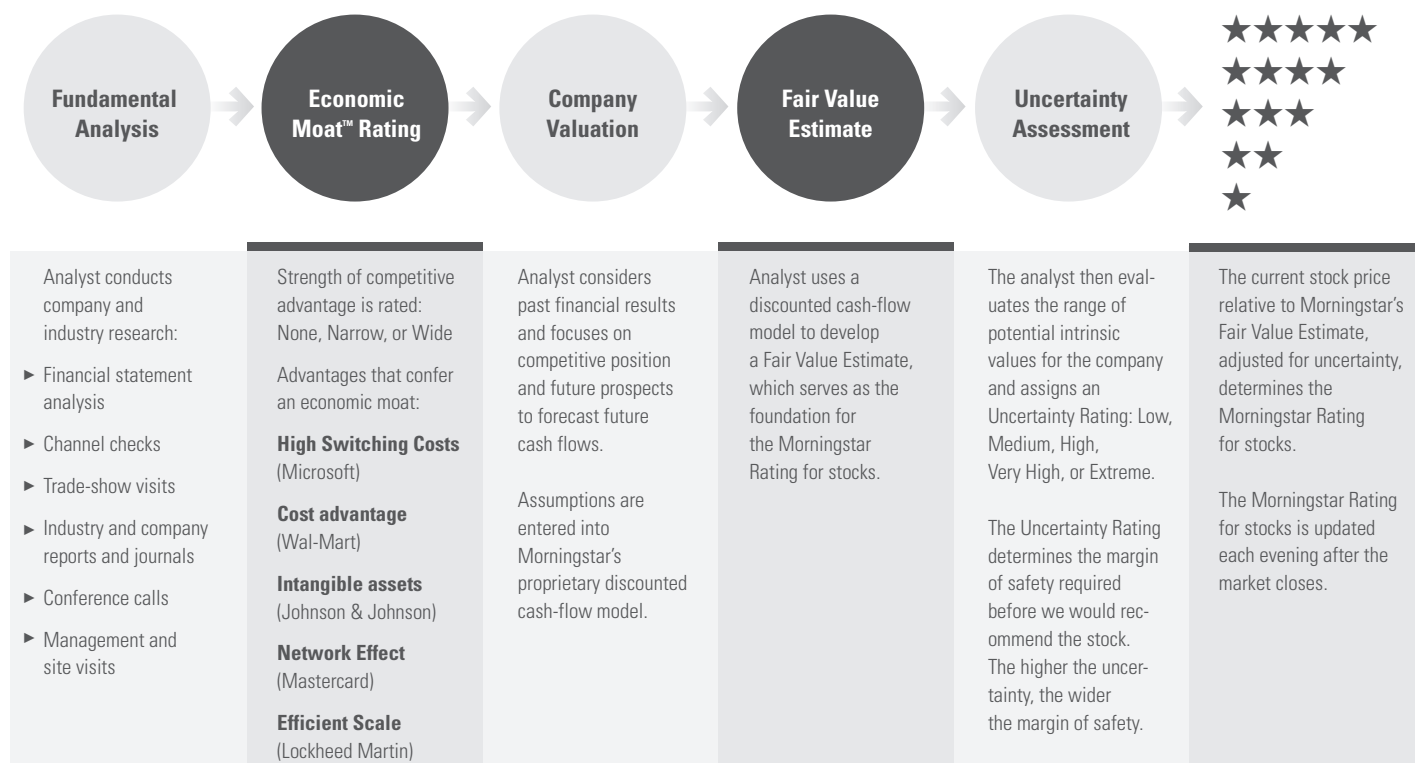
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

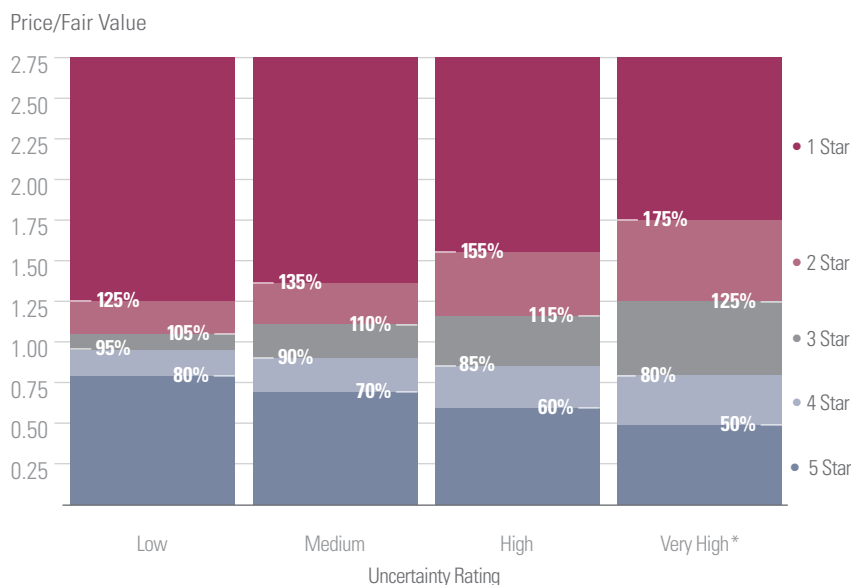
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

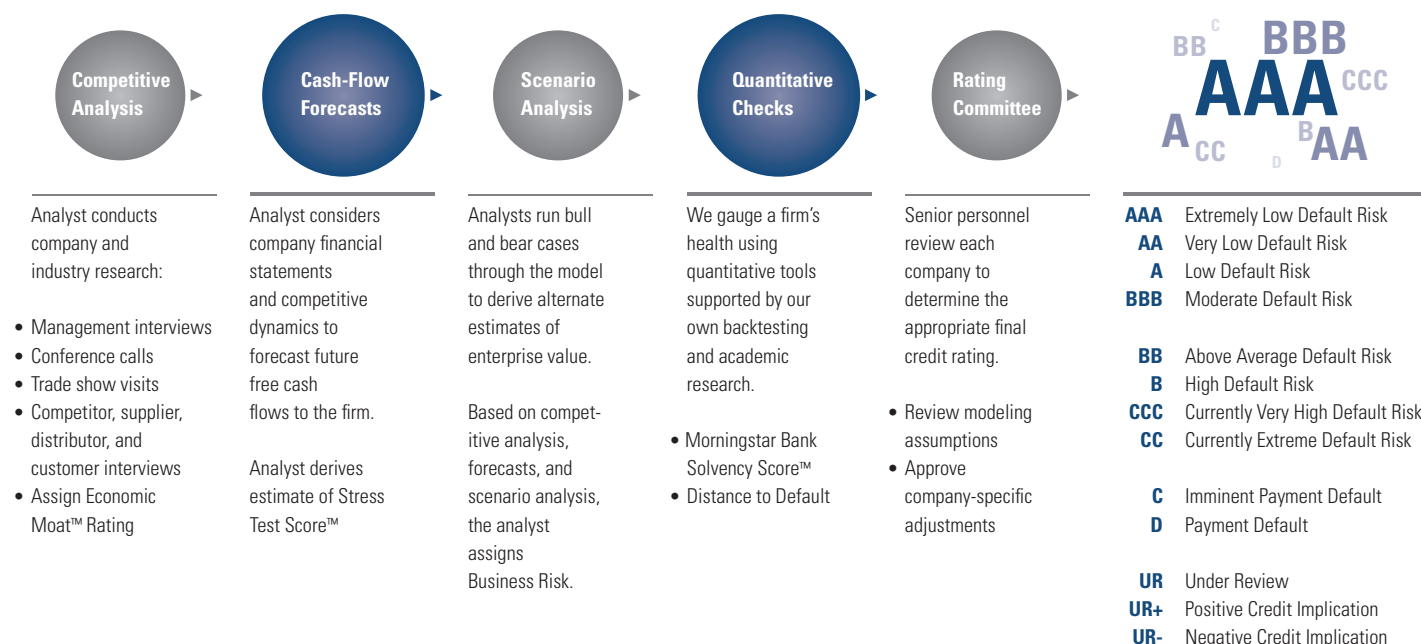
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## A regulated revenue mix offers investors a stable dividend profile and earnings.

Updated Forecasts and Estimates from 03 Jan 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Jan 2012  
Estimates as of 03 Jan 2012  
Pricing data through 03 Jan 2012  
Rating updated as of 03 Jan 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	-
Thesis	2
Valuation, Growth and Profitability	2
Scenario Analysis	3
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	4
Credit Analysis	
Financial Health	5
Capital Structure	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	-
Additional Information	-
Morningstar Analyst Forecasts	7
Comparable Company Analysis	11
Methodology for Valuing Companies	13

### Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

### Vital Statistics

Market Cap (CAD Mil)	6,250
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	1.0
YTD Total Return %	-0.6
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.14

### Valuation Summary and Forecasts

	Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings		18.6	20.6	19.4	18.5
EV/EBITDA		10.4	10.8	9.9	9.2
EV/EBIT		15.8	16.8	15.5	14.1
Free Cash Flow Yield %		-6.7	-4.6	-1.3	-6.0
Dividend Yield %		3.6	3.3	3.4	3.6

### Financial Summary and Forecasts (CAD Mil)

	Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue		3,637	3,664	3,814	3,950
Revenue YoY %		-6.8	0.7	4.1	3.6
EBIT		701	740	812	893
EBIT YoY %		0.1	5.6	9.7	10.1
Net Income, Adjusted		262	285	309	337
Net Income YoY %		6.9	8.8	8.3	9.2
Diluted EPS		1.54	1.65	1.71	1.79
Diluted EPS YoY %		-1.1	7.0	3.5	4.7
Free Cash Flow		-331	-274	-81	-377
Free Cash Flow YoY %		244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates  
Analyst Note:

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

### Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Jan 03 2012



CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings.
- ▶ With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

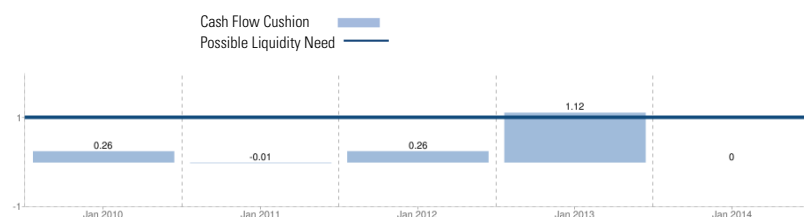
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Concentrated Holders

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

### Top 5 Sellers

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Stewardship: NA03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was \$4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast		5-Year Proj. CAGR
					Dec 2011	Dec 2012	
Growth (% YoY)							
Revenue	10.5	43.6	-6.8	0.7	4.1	3.6	—
EBIT	11.0	29.4	0.1	5.6	9.7	10.1	8.0
EBITDA	12.2	36.1	-3.9	8.0	10.7	7.6	6.8
Net Income	17.2	38.4	6.9	8.8	8.3	9.2	8.1
Diluted EPS	8.6	21.0	-1.1	7.0	3.5	4.7	5.0
Earnings Before Interest, after Tax	16.1	38.2	89.7	-40.3	-2.2	0.4	4.0
Free Cash Flow to the Firm	-135.9	-112.8	-45.5	-33.3	167.0	-158.3	52.6
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Profitability							
Operating margin %	19.1	17.9	19.3	20.2	21.3	22.6	23.5
EBITDA margin %	29.7	28.4	29.3	31.4	33.4	34.7	35.5
Net margin %	7.1	6.3	7.2	7.8	8.1	8.5	9.0
Free Cash Flow to the Firm margin %	2.8	4.2	2.5	1.6	4.2	-2.4	4.1
ROIC with Goodwill %	8.9	7.3	12.6	6.9	6.5	6.1	6.4
ROIC w/out Goodwill %	10.6	8.8	14.9	8.1	7.5	7.0	7.3
Return on Assets, pretax %	6.2	6.5	6.0	5.9	6.1	6.3	6.4
Return on Equity %	9.7	9.6	9.4	9.9	9.9	9.9	10.2
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Leverage							
Debt/Capital	0.62	0.62	0.63	0.61	0.59	0.59	0.59
Total Debt/EBITDA	5.26	—	5.55	5.24	4.91	4.78	4.89
EBITDA/Interest Expense	3.10	3.05	2.96	3.29	3.40	3.30	3.34

### Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	19.4	18.5
EV/EBITDA	10.4	10.8	9.9	9.2
EV/EBIT	15.8	16.8	15.5	14.1
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.0
Dividend Yield %	3.6	3.3	3.4	3.6

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,185</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
<b>Equity Value</b>	<b>5,068</b>	<b>—</b>	<b>28.67</b>
Projected Diluted Shares	187		
<b>Fair Value per Share (CAD)</b>	<b>29.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Total Revenue</b>	<b>3,903</b>	<b>3,637</b>	<b>3,664</b>	<b>3,814</b>	<b>3,950</b>
Cost of Goods Sold	2,112	1,799	1,686	1,737	1,763
<b>Gross Profit</b>	<b>1,791</b>	<b>1,838</b>	<b>1,978</b>	<b>2,078</b>	<b>2,188</b>
Selling, General & Administrative Expenses	743	773	828	846	860
Research & Development Expenses	0	0	0	0	0
Other Operating Expenses (Income)	0	0	0	0	0
Restructuring & Other Charges (Gains)	0	0	0	0	0
Depreciation Expense (if reported separately)	348	364	410	420	435
Amortization of Other Intangibles (if reported separately)	0	0	0	0	0
Amortization/Impairment of Goodwill	0	0	0	0	0
<b>Total Expenses</b>	<b>3,203</b>	<b>2,936</b>	<b>2,924</b>	<b>3,003</b>	<b>3,057</b>
<b>Operating Income (EBIT)</b>	<b>700</b>	<b>701</b>	<b>740</b>	<b>812</b>	<b>893</b>
Interest Expense	363	360	350	375	415
Interest & Other Income (Expense)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>337</b>	<b>341</b>	<b>390</b>	<b>437</b>	<b>478</b>
Income Tax Expense (Benefit)	65	49	67	85	93
<b>Income After Taxes</b>	<b>272</b>	<b>292</b>	<b>323</b>	<b>352</b>	<b>385</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	-10	-10
(Preferred Dividends)	-14	-18	-28	-33	-38
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>245</b>	<b>262</b>	<b>285</b>	<b>309</b>	<b>337</b>
Net Income (Loss) Excluding Charges	245	262	285	309	337
Diluted Shares Outstanding (Mil)	157	170	173	181	189
Diluted EPS Including Charges	1.56	1.54	1.65	1.71	1.79
Diluted EPS Excluding Charges	1.56	1.54	1.65	1.71	1.79
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>
<b>EBITDA without restructuring</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Assets</b>					
Excess Cash & Investments	0	0	0	251	0
Operating Cash & Equivalents	66	85	109	114	119
Accounts Receivable	681	595	655	523	541
Inventory	229	178	168	143	145
Other Short Term Operating Assets	174	268	272	270	280
<b>Total Current Assets</b>	<b>1,150</b>	<b>1,126</b>	<b>1,204</b>	<b>1,300</b>	<b>1,085</b>
Property Plant & Equipment, Net	7,367	7,687	8,202	8,994	9,772
Property Plant & Equipment, Gross	7,367	11,408	12,109	13,321	14,533
(Accumulated Depreciation)	0	-3,721	-3,907	-4,327	-4,761
Goodwill, Net	1,575	1,560	1,553	1,553	1,553
Other Intangibles	9	279	324	282	240
Other Long-Term Operating Assets	1,023	1,491	1,604	1,700	1,750
Deferred Tax Assets	54	17	16	20	20
Long-Term Non-Operating Assets, including Pension items	0	0	0	0	0
<b>Total Assets</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
<b>Liabilities</b>					
Accounts Payable	874	852	953	1,078	1,112
Short-Term Debt	650	639	414	500	500
Other Current Liabilities	173	103	150	150	150
<b>Total Current Liabilities</b>	<b>1,697</b>	<b>1,594</b>	<b>1,517</b>	<b>1,728</b>	<b>1,762</b>
Long-Term Debt	4,884	5,276	5,609	5,750	6,050
Incremental Debt Requirements	—	—	—	0	0
<b>Total Long-Term Debt</b>	<b>4,884</b>	<b>5,276</b>	<b>5,609</b>	<b>5,750</b>	<b>6,050</b>
Long-Term Operating Liabilities	678	731	775	810	810
Deferred Tax Liabilities	61	576	623	670	650
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>7,640</b>	<b>8,497</b>	<b>8,844</b>	<b>9,278</b>	<b>9,593</b>
<b>Preferred Stock</b>	<b>347</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>145</b>	<b>123</b>	<b>162</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	157	170	173	185	196
Additional Paid in Capital	2,301	2,338	2,417	2,776	2,895
Retained Earnings (Deficit)	634	763	804	903	1,013
(Treasury Stock)	0	0	0	0	0
Other Equity	-46	-78	-89	-89	-89
<b>Total Shareholders' Equity</b>	<b>3,046</b>	<b>3,193</b>	<b>3,305</b>	<b>3,774</b>	<b>4,015</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
Difference, from analyst adjustments and restatements	0	0	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	259	280	323	342	375
Depreciation Expense	399	317	368	420	435
Amortization of Other Intangibles	9	47	42	42	42
Impairment of Goodwill	0	0	0	0	0
Other Non-Cash Adjustments to Operating Income	38	9	-8	0	0
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	43	-20
<b>Cash from Operations</b>	<b>723</b>	<b>637</b>	<b>732</b>	<b>1,131</b>	<b>835</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	132	-19
(Increase) Decrease in Inventory	0	0	0	25	-2
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	2	-10
Increase (Decrease) in Accounts Payable	0	0	0	125	34
Increase (Decrease) in Other Current Liabilities	18	-16	7	0	0
<b>Cash from Investing</b>	<b>-854</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,273</b>	<b>-1,262</b>
(Capital Expenditures)	-819	-968	-1,006	-1,212	-1,212
(Acquisitions)	-22	-77	0	0	0
Asset Sales & Dispositions of Discontinued Operations	18	1	15	0	0
Other Investing Cash Flows (Outlays)	-31	-8	0	-61	-50
<b>Cash From Financing</b>	<b>196</b>	<b>394</b>	<b>283</b>	<b>398</b>	<b>181</b>
Common Stock (Purchase) or Sale	308	46	80	371	130
Common Stock (Dividends)	-162	-177	-193	-210	-227
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	-33	-38
Short Term Debt Issuance and (Retirement)	-378	-6	-48	86	0
Long Term Debt Issuance and (Retirement)	231	557	194	141	300
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	43	15
Other Financing Cash Flows (Outlays)	0	0	0	0	0
<b>Net Change in Cash</b>	<b>65</b>	<b>-21</b>	<b>24</b>	<b>256</b>	<b>-246</b>
Change in Cash on Balance Sheet	8	19	24	256	-246
Difference, from analyst adjustments and restatements	57	-40	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.09	11.0	13.3	13.1	7.9	9.2	8.8	24.7	NM	NM	1.5	1.6	1.5	1.4	1.5	1.5
TransAlta Corporation TAC USA	0.92	21.1	17.7	17.0	9.0	7.5	8.2	221.1	33.1	21.2	1.6	1.7	1.6	1.6	1.6	1.6
Average		16.1	15.5	15.1	8.5	8.4	8.5	122.9	33.1	21.2	1.6	1.7	1.6	1.5	1.6	1.6
<b>Fortis, Inc. FTS CA</b>	<b>1.14</b>	<b>19.4</b>	<b>18.5</b>	<b>16.9</b>	<b>9.9</b>	<b>9.2</b>	<b>8.6</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	4.0
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.5	5.6
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.6	4.8
<b>Fortis, Inc. FTS CA</b>	<b>13,850 CAD</b>	<b>6.5</b>	<b>6.1</b>	<b>6.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.3</b>	<b>9.9</b>	<b>9.9</b>	<b>10.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.6</b>	<b>3.4</b>	<b>3.6</b>	<b>4.0</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
<b>Fortis, Inc. FTS CA</b>	<b>3,814 CAD</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>9.7</b>	<b>10.1</b>	<b>8.7</b>	<b>3.5</b>	<b>4.7</b>	<b>10.0</b>	<b>-70.6</b>	<b>367.9</b>	<b>-19.7</b>	<b>4.0</b>	<b>3.5</b>	<b>8.0</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
<b>Fortis, Inc. FTS CA</b>	<b>309 CAD</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>33.4</b>	<b>34.7</b>	<b>35.8</b>	<b>21.3</b>	<b>22.6</b>	<b>23.8</b>	<b>8.1</b>	<b>8.5</b>	<b>9.3</b>	<b>-2.1</b>	<b>-9.6</b>	<b>-7.4</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>165.6</b>	<b>163.2</b>	<b>166.3</b>	<b>58.9</b>	<b>58.7</b>	<b>59.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	24,909 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,730 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>2.02</b>	<b>0.63</b>	<b>0.77</b>	<b>-32.52</b>	<b>-34.08</b>	<b>-36.11</b>	<b>6.25</b>	<b>4.42</b>	<b>4.72</b>	<b>-0.45</b>	<b>-2.00</b>	<b>-1.58</b>	<b>68.0</b>	<b>67.2</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Grades
- ▶ Financial Health Grades

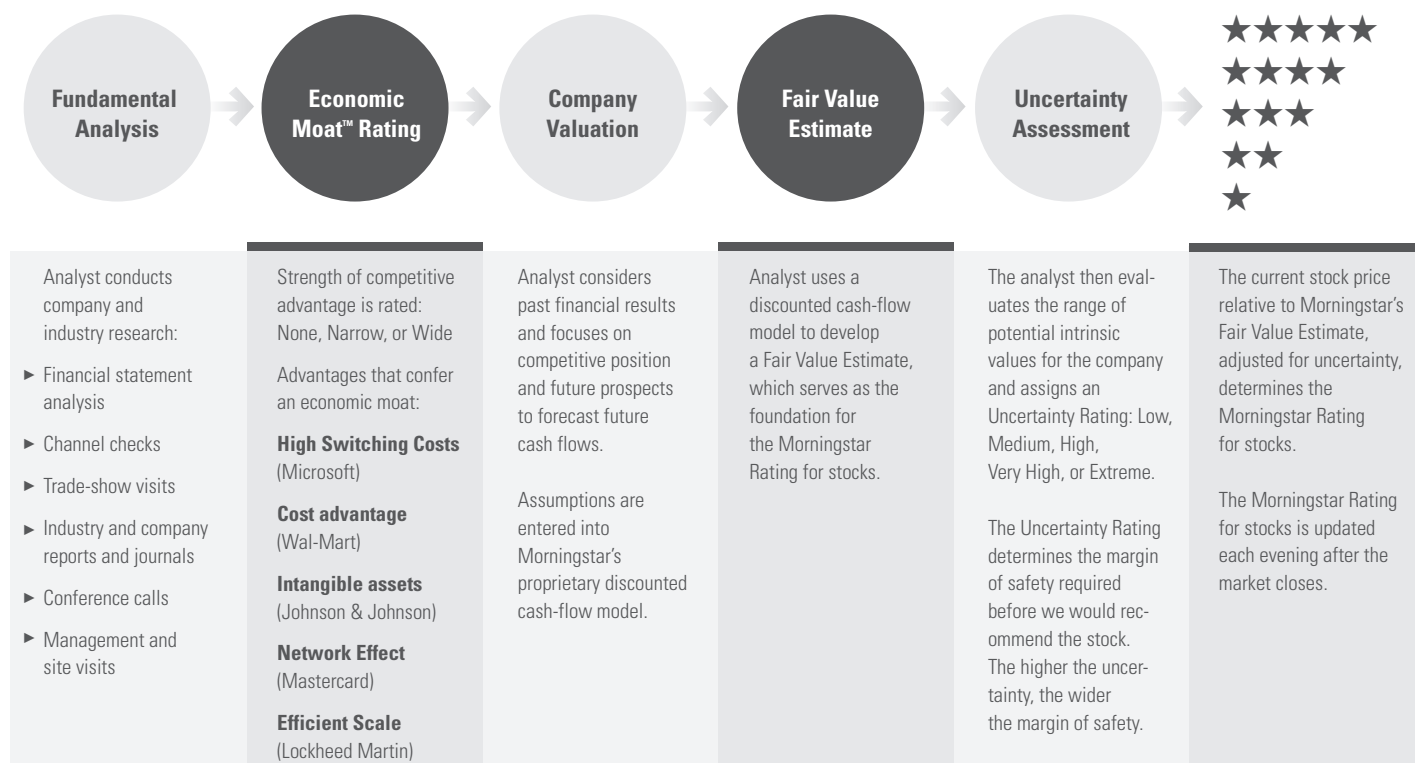
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

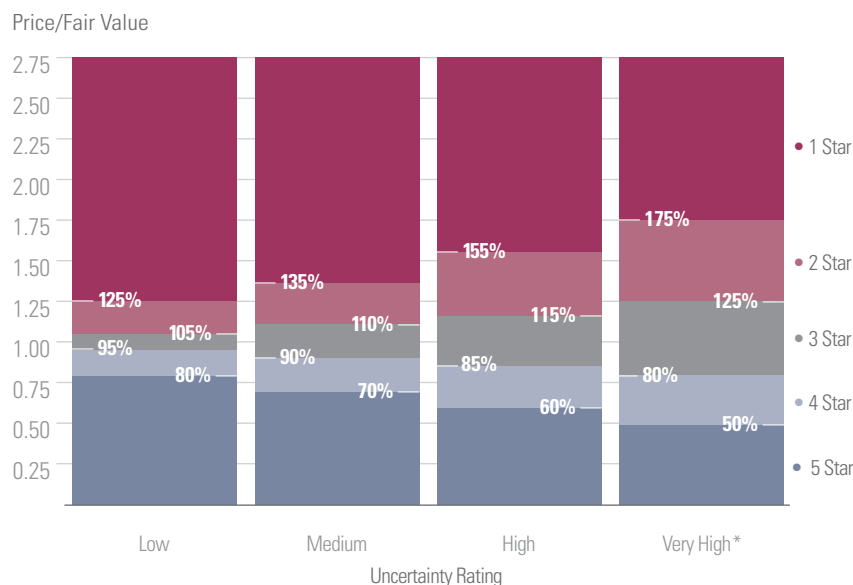
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.



# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

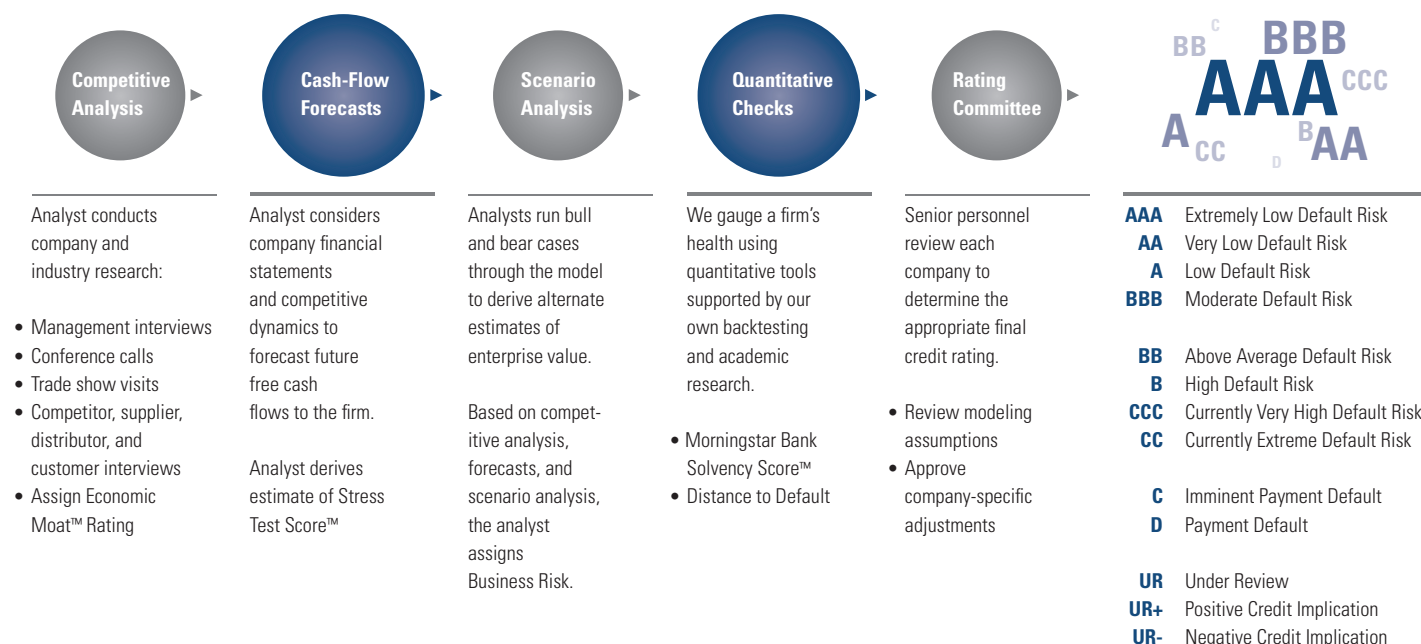
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Strong Customer Growth Generates Impressive 2011 Results at Fortis.

See Page 2 for the full Analyst Note from 09 Feb 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 09 Feb 2012  
Estimates as of 03 Jan 2012  
Pricing data through 08 Feb 2012  
Rating updated as of 08 Feb 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	2
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	-
Additional Information	-
Morningstar Analyst Forecasts	8
Comparable Company Analysis	12
Methodology for Valuing Companies	14

### Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

### Vital Statistics

Market Cap (CAD Mil)	6,435
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	0.9
YTD Total Return %	2.1
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.18

### Valuation Summary and Forecasts

Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings	18.6	20.6	19.9	19.0
EV/EBITDA	10.4	10.8	10.0	9.3
EV/EBIT	15.8	16.8	15.7	14.3
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-5.9
Dividend Yield %	3.6	3.3	3.3	3.5

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue	3,637	3,664	3,814	3,950
Revenue YoY %	-6.8	0.7	4.1	3.6
EBIT	701	740	812	893
EBIT YoY %	0.1	5.6	9.7	10.1
Net Income, Adjusted	262	285	309	337
Net Income YoY %	6.9	8.8	8.3	9.2
Diluted EPS	1.54	1.65	1.71	1.79
Diluted EPS YoY %	-1.1	7.0	3.5	4.7
Free Cash Flow	-331	-274	-81	-377
Free Cash Flow YoY %	244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates  
Analyst Note:

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted \$1.75 in EPS in 2011, higher than our own \$1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as \$5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to \$1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

### Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the

healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Feb 08 2012



regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

## Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of

CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat due to its monopoly position

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

## Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings.
- ▶ With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.



# Fortis, Inc. FTS (TSE) ★★

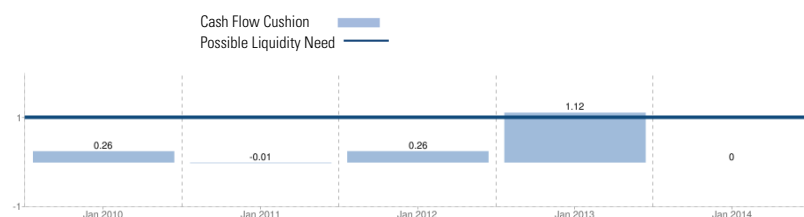
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Concentrated Holders

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

### Top 5 Sellers

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was \$4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast		5-Year Proj. CAGR
					Dec 2011	Dec 2012	
Growth (% YoY)							
Revenue	10.5	43.6	-6.8	0.7	4.1	3.6	—
EBIT	11.0	29.4	0.1	5.6	9.7	10.1	8.0
EBITDA	12.2	36.1	-3.9	8.0	10.7	7.6	6.8
Net Income	17.2	38.4	6.9	8.8	8.3	9.2	8.1
Diluted EPS	8.6	21.0	-1.1	7.0	3.5	4.7	5.0
Earnings Before Interest, after Tax	16.1	38.2	89.7	-40.3	-2.2	0.4	4.0
Free Cash Flow to the Firm	-135.9	-112.8	-45.5	-33.3	167.0	-158.3	52.6
Profitability							
Operating margin %	19.1	17.9	19.3	20.2	21.3	22.6	23.5
EBITDA margin %	29.7	28.4	29.3	31.4	33.4	34.7	35.5
Net margin %	7.1	6.3	7.2	7.8	8.1	8.5	9.0
Free Cash Flow to the Firm margin %	2.8	4.2	2.5	1.6	4.2	-2.4	4.1
ROIC with Goodwill %	8.9	7.3	12.6	6.9	6.5	6.1	6.4
ROIC w/out Goodwill %	10.6	8.8	14.9	8.1	7.5	7.0	7.3
Return on Assets, pretax %	6.2	6.5	6.0	5.9	6.1	6.3	6.4
Return on Equity %	9.7	9.6	9.4	9.9	9.9	9.9	10.2
Leverage							
Debt/Capital	0.62	0.62	0.63	0.61	0.59	0.59	0.59
Total Debt/EBITDA	5.26	—	5.55	5.24	4.91	4.78	4.89
EBITDA/Interest Expense	3.10	3.05	2.96	3.29	3.40	3.30	3.34

### Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	19.9	19.0
EV/EBITDA	10.4	10.8	10.0	9.3
EV/EBIT	15.8	16.8	15.7	14.3
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-5.9
Dividend Yield %	3.6	3.3	3.3	3.5

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,185</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
<b>Equity Value</b>	<b>5,068</b>	<b>—</b>	<b>28.67</b>
Projected Diluted Shares	187		
<b>Fair Value per Share (CAD)</b>	<b>29.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Total Revenue</b>	<b>3,903</b>	<b>3,637</b>	<b>3,664</b>	<b>3,814</b>	<b>3,950</b>
Cost of Goods Sold	2,112	1,799	1,686	1,737	1,763
<b>Gross Profit</b>	<b>1,791</b>	<b>1,838</b>	<b>1,978</b>	<b>2,078</b>	<b>2,188</b>
Selling, General & Administrative Expenses	743	773	828	846	860
Research & Development Expenses	0	0	0	0	0
Other Operating Expenses (Income)	0	0	0	0	0
Restructuring & Other Charges (Gains)	0	0	0	0	0
Depreciation Expense (if reported separately)	348	364	410	420	435
Amortization of Other Intangibles (if reported separately)	0	0	0	0	0
Amortization/Impairment of Goodwill	0	0	0	0	0
<b>Total Expenses</b>	<b>3,203</b>	<b>2,936</b>	<b>2,924</b>	<b>3,003</b>	<b>3,057</b>
<b>Operating Income (EBIT)</b>	<b>700</b>	<b>701</b>	<b>740</b>	<b>812</b>	<b>893</b>
Interest Expense	363	360	350	375	415
Interest & Other Income (Expense)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>337</b>	<b>341</b>	<b>390</b>	<b>437</b>	<b>478</b>
Income Tax Expense (Benefit)	65	49	67	85	93
<b>Income After Taxes</b>	<b>272</b>	<b>292</b>	<b>323</b>	<b>352</b>	<b>385</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	-10	-10
(Preferred Dividends)	-14	-18	-28	-33	-38
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>245</b>	<b>262</b>	<b>285</b>	<b>309</b>	<b>337</b>
Net Income (Loss) Excluding Charges	245	262	285	309	337
Diluted Shares Outstanding (Mil)	157	170	173	181	189
Diluted EPS Including Charges	1.56	1.54	1.65	1.71	1.79
Diluted EPS Excluding Charges	1.56	1.54	1.65	1.71	1.79
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>
<b>EBITDA without restructuring</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Assets</b>					
Excess Cash & Investments	0	0	0	251	0
Operating Cash & Equivalents	66	85	109	114	119
Accounts Receivable	681	595	655	523	541
Inventory	229	178	168	143	145
Other Short Term Operating Assets	174	268	272	270	280
<b>Total Current Assets</b>	<b>1,150</b>	<b>1,126</b>	<b>1,204</b>	<b>1,300</b>	<b>1,085</b>
Property Plant & Equipment, Net	7,367	7,687	8,202	8,994	9,772
Property Plant & Equipment, Gross	7,367	11,408	12,109	13,321	14,533
(Accumulated Depreciation)	0	-3,721	-3,907	-4,327	-4,761
Goodwill, Net	1,575	1,560	1,553	1,553	1,553
Other Intangibles	9	279	324	282	240
Other Long-Term Operating Assets	1,023	1,491	1,604	1,700	1,750
Deferred Tax Assets	54	17	16	20	20
Long-Term Non-Operating Assets, including Pension items	0	0	0	0	0
<b>Total Assets</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
<b>Liabilities</b>					
Accounts Payable	874	852	953	1,078	1,112
Short-Term Debt	650	639	414	500	500
Other Current Liabilities	173	103	150	150	150
<b>Total Current Liabilities</b>	<b>1,697</b>	<b>1,594</b>	<b>1,517</b>	<b>1,728</b>	<b>1,762</b>
Long-Term Debt	4,884	5,276	5,609	5,750	6,050
Incremental Debt Requirements	—	—	—	0	0
<b>Total Long-Term Debt</b>	<b>4,884</b>	<b>5,276</b>	<b>5,609</b>	<b>5,750</b>	<b>6,050</b>
Long-Term Operating Liabilities	678	731	775	810	810
Deferred Tax Liabilities	61	576	623	670	650
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>7,640</b>	<b>8,497</b>	<b>8,844</b>	<b>9,278</b>	<b>9,593</b>
<b>Preferred Stock</b>	<b>347</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>145</b>	<b>123</b>	<b>162</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	157	170	173	185	196
Additional Paid in Capital	2,301	2,338	2,417	2,776	2,895
Retained Earnings (Deficit)	634	763	804	903	1,013
(Treasury Stock)	0	0	0	0	0
Other Equity	-46	-78	-89	-89	-89
<b>Total Shareholders' Equity</b>	<b>3,046</b>	<b>3,193</b>	<b>3,305</b>	<b>3,774</b>	<b>4,015</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
Difference, from analyst adjustments and restatements	0	0	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	259	280	323	342	375
Depreciation Expense	399	317	368	420	435
Amortization of Other Intangibles	9	47	42	42	42
Impairment of Goodwill	0	0	0	0	0
Other Non-Cash Adjustments to Operating Income	38	9	-8	0	0
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	43	-20
<b>Cash from Operations</b>	<b>723</b>	<b>637</b>	<b>732</b>	<b>1,131</b>	<b>835</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	132	-19
(Increase) Decrease in Inventory	0	0	0	25	-2
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	2	-10
Increase (Decrease) in Accounts Payable	0	0	0	125	34
Increase (Decrease) in Other Current Liabilities	18	-16	7	0	0
<b>Cash from Investing</b>	<b>-854</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,273</b>	<b>-1,262</b>
(Capital Expenditures)	-819	-968	-1,006	-1,212	-1,212
(Acquisitions)	-22	-77	0	0	0
Asset Sales & Dispositions of Discontinued Operations	18	1	15	0	0
Other Investing Cash Flows (Outlays)	-31	-8	0	-61	-50
<b>Cash From Financing</b>	<b>196</b>	<b>394</b>	<b>283</b>	<b>398</b>	<b>181</b>
Common Stock (Purchase) or Sale	308	46	80	371	130
Common Stock (Dividends)	-162	-177	-193	-210	-227
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	-33	-38
Short Term Debt Issuance and (Retirement)	-378	-6	-48	86	0
Long Term Debt Issuance and (Retirement)	231	557	194	141	300
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	43	15
Other Financing Cash Flows (Outlays)	0	0	0	0	0
<b>Net Change in Cash</b>	<b>65</b>	<b>-21</b>	<b>24</b>	<b>256</b>	<b>-246</b>
Change in Cash on Balance Sheet	8	19	24	256	-246
Difference, from analyst adjustments and restatements	57	-40	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	13.7	13.4	7.9	9.3	8.9	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.5
TransAlta Corporation TAC USA	0.90	21.1	16.8	16.2	9.0	7.3	8.0	221.1	31.6	20.3	1.6	1.6	1.5	1.6	1.5	1.5
Average		16.1	15.3	14.8	8.5	8.3	8.5	122.9	31.6	20.3	1.6	1.7	1.6	1.5	1.6	1.5
<b>Fortis, Inc. FTS CA</b>	<b>1.18</b>	<b>19.9</b>	<b>19.0</b>	<b>17.4</b>	<b>10.0</b>	<b>9.3</b>	<b>8.7</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	3.9
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.8	5.9
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.8	4.9
<b>Fortis, Inc. FTS CA</b>	<b>13,850 CAD</b>	<b>6.5</b>	<b>6.1</b>	<b>6.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.3</b>	<b>9.9</b>	<b>9.9</b>	<b>10.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.6</b>	<b>3.3</b>	<b>3.5</b>	<b>3.9</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
<b>Fortis, Inc. FTS CA</b>	<b>3,814 CAD</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>9.7</b>	<b>10.1</b>	<b>8.7</b>	<b>3.5</b>	<b>4.7</b>	<b>10.0</b>	<b>-70.6</b>	<b>367.9</b>	<b>-19.7</b>	<b>4.0</b>	<b>3.5</b>	<b>8.0</b>



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
<b>Fortis, Inc. FTS CA</b>	<b>309 CAD</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>33.4</b>	<b>34.7</b>	<b>35.8</b>	<b>21.3</b>	<b>22.6</b>	<b>23.8</b>	<b>8.1</b>	<b>8.5</b>	<b>9.3</b>	<b>-2.1</b>	<b>-9.6</b>	<b>-7.4</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>165.6</b>	<b>163.2</b>	<b>166.3</b>	<b>58.9</b>	<b>58.7</b>	<b>59.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CF0 per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,500 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,618 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
<b>Fortis, Inc. FTS CA</b>	<b>6,435 CAD</b>	<b>2.02</b>	<b>0.63</b>	<b>0.77</b>	<b>-32.52</b>	<b>-34.08</b>	<b>-36.11</b>	<b>6.25</b>	<b>4.42</b>	<b>4.72</b>	<b>-0.45</b>	<b>-2.00</b>	<b>-1.58</b>	<b>68.0</b>	<b>67.2</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Grades
- ▶ Financial Health Grades

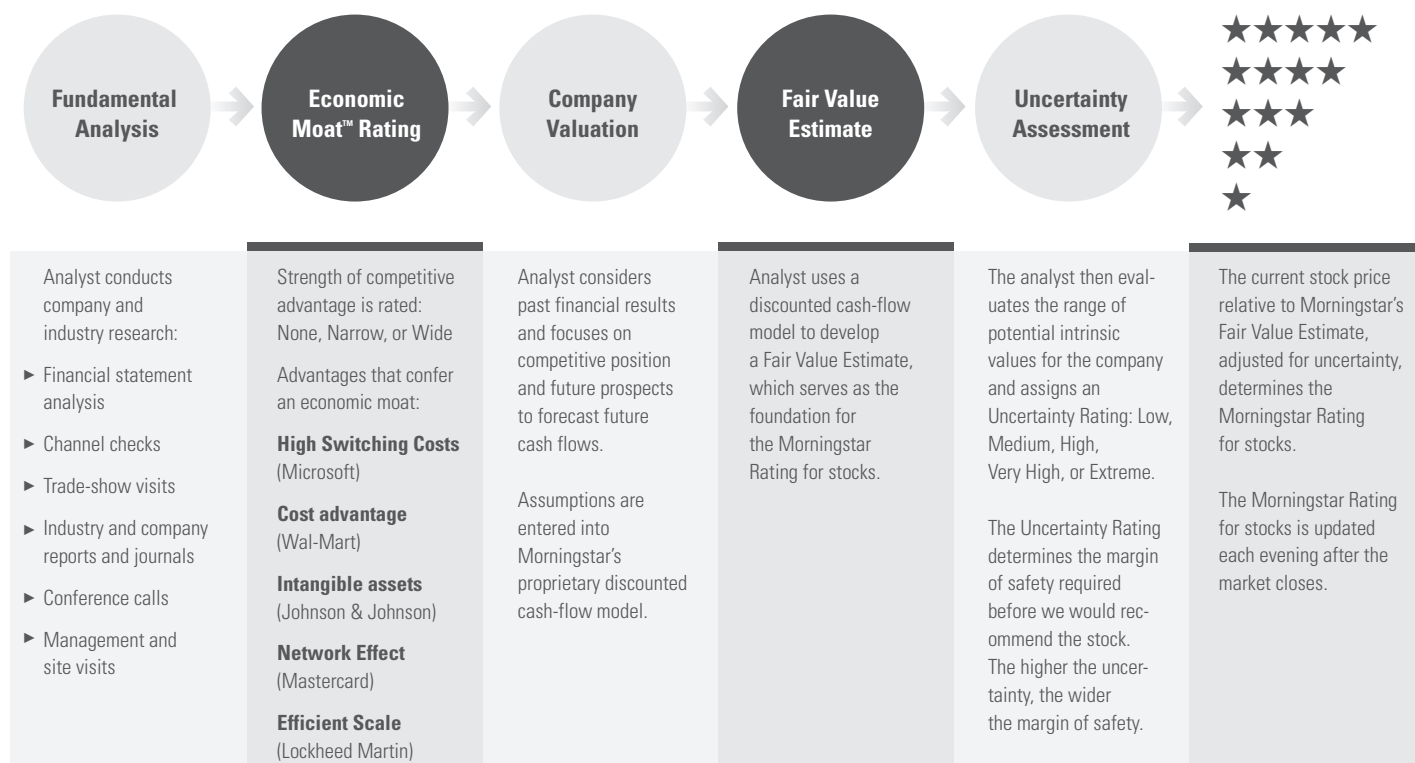
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

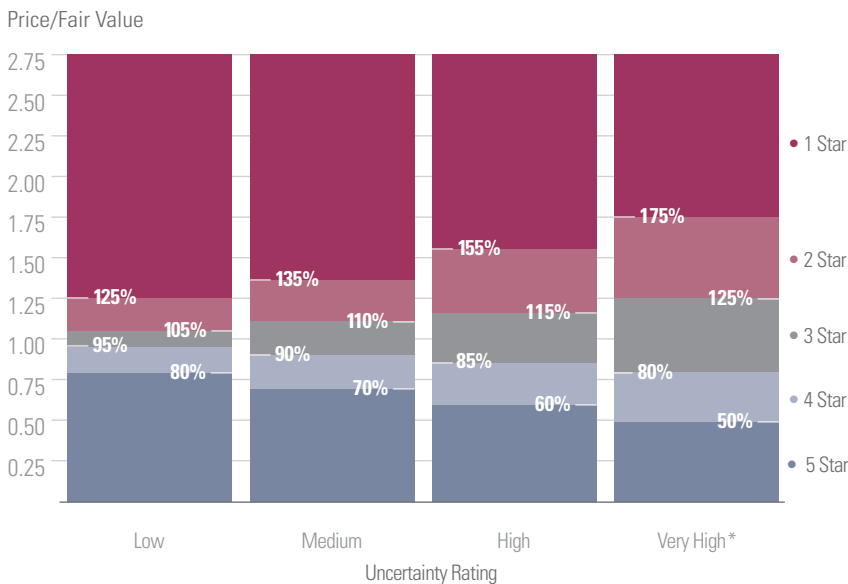
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

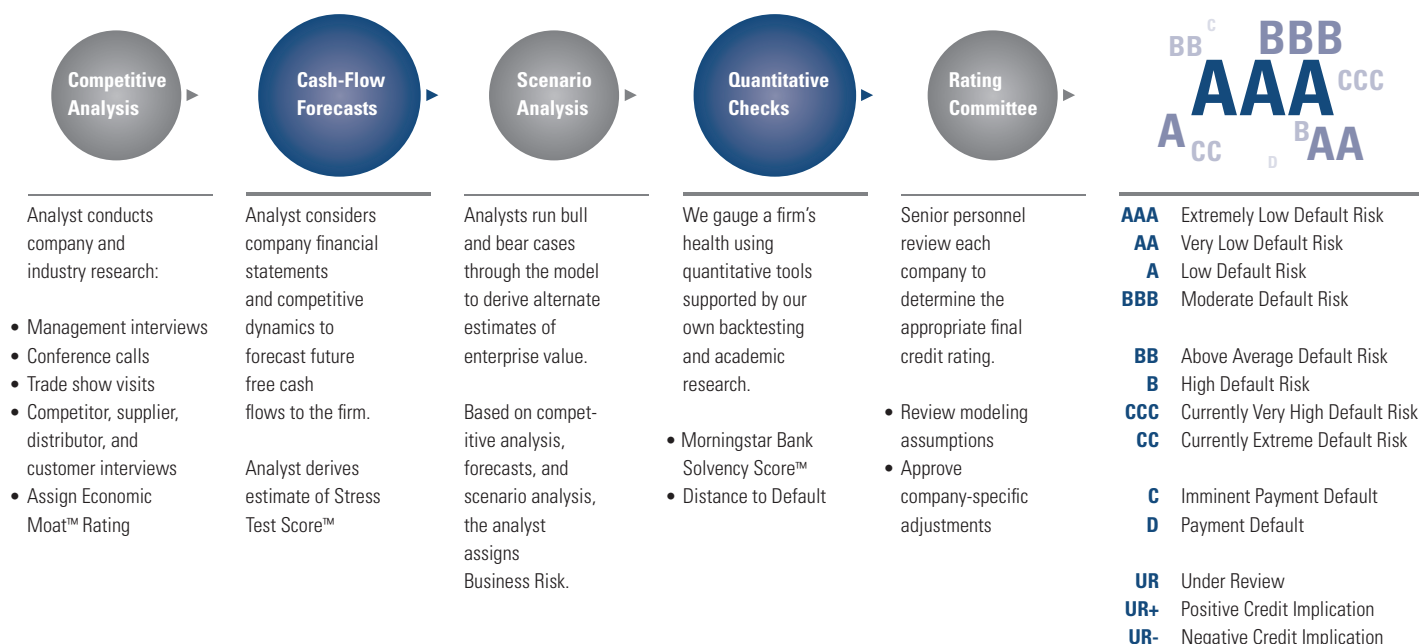
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Strong Customer Growth Generates Impressive 2011 Results at Fortis.

See Page 2 for the full Analyst Note from 09 Feb 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 09 Feb 2012  
Estimates as of 03 Jan 2012  
Pricing data through 09 Feb 2012  
Rating updated as of 09 Feb 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	2
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	-
Additional Information	-
Morningstar Analyst Forecasts	8
Comparable Company Analysis	12
Methodology for Valuing Companies	14

### Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

### Vital Statistics

Market Cap (CAD Mil)	6,399
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	1.5
YTD Total Return %	1.6
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.17

### Valuation Summary and Forecasts

	Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings		18.6	20.6	19.8	18.9
EV/EBITDA		10.4	10.8	10.0	9.3
EV/EBIT		15.8	16.8	15.7	14.2
Free Cash Flow Yield %		-6.7	-4.6	-1.3	-5.9
Dividend Yield %		3.6	3.3	3.3	3.5

### Financial Summary and Forecasts (CAD Mil)

	Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue		3,637	3,664	3,814	3,950
Revenue YoY %		-6.8	0.7	4.1	3.6
EBIT		701	740	812	893
EBIT YoY %		0.1	5.6	9.7	10.1
Net Income, Adjusted		262	285	309	337
Net Income YoY %		6.9	8.8	8.3	9.2
Diluted EPS		1.54	1.65	1.71	1.79
Diluted EPS YoY %		-1.1	7.0	3.5	4.7
Free Cash Flow		-331	-274	-81	-377
Free Cash Flow YoY %		244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates  
Analyst Note:

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted \$1.75 in EPS in 2011, higher than our own \$1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as \$5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to \$1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

### Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the

healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

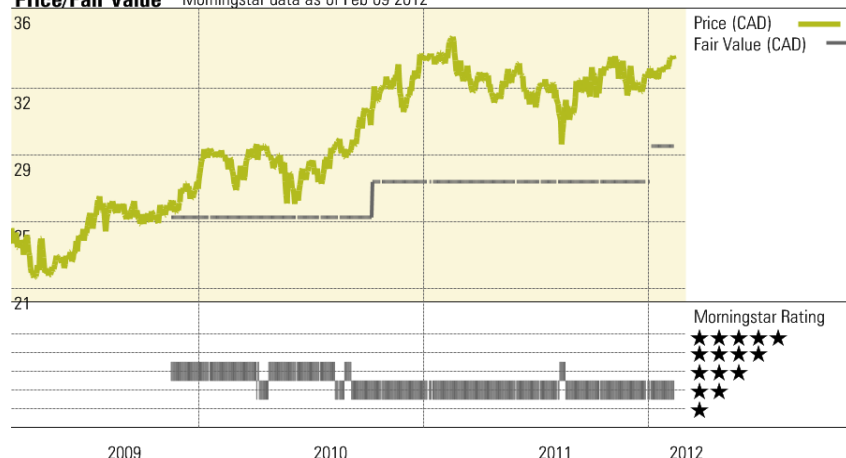
Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Feb 09 2012



regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

## Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of

CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat due to its monopoly position

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings.
- ▶ With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

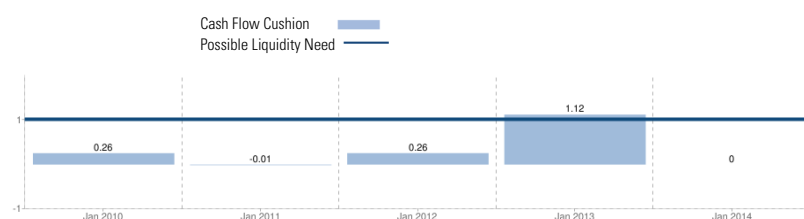
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Concentrated Holders

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

### Top 5 Sellers

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was \$4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast		5-Year Proj. CAGR
					Dec 2011	Dec 2012	
Growth (% YoY)							
Revenue	10.5	43.6	-6.8	0.7	4.1	3.6	—
EBIT	11.0	29.4	0.1	5.6	9.7	10.1	8.0
EBITDA	12.2	36.1	-3.9	8.0	10.7	7.6	6.8
Net Income	17.2	38.4	6.9	8.8	8.3	9.2	8.1
Diluted EPS	8.6	21.0	-1.1	7.0	3.5	4.7	5.0
Earnings Before Interest, after Tax	16.1	38.2	89.7	-40.3	-2.2	0.4	4.0
Free Cash Flow to the Firm	-135.9	-112.8	-45.5	-33.3	167.0	-158.3	52.6
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Profitability							
Operating margin %	19.1	17.9	19.3	20.2	21.3	22.6	23.5
EBITDA margin %	29.7	28.4	29.3	31.4	33.4	34.7	35.5
Net margin %	7.1	6.3	7.2	7.8	8.1	8.5	9.0
Free Cash Flow to the Firm margin %	2.8	4.2	2.5	1.6	4.2	-2.4	4.1
ROIC with Goodwill %	8.9	7.3	12.6	6.9	6.5	6.1	6.4
ROIC w/out Goodwill %	10.6	8.8	14.9	8.1	7.5	7.0	7.3
Return on Assets, pretax %	6.2	6.5	6.0	5.9	6.1	6.3	6.4
Return on Equity %	9.7	9.6	9.4	9.9	9.9	9.9	10.2
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Leverage							
Debt/Capital	0.62	0.62	0.63	0.61	0.59	0.59	0.59
Total Debt/EBITDA	5.26	—	5.55	5.24	4.91	4.78	4.89
EBITDA/Interest Expense	3.10	3.05	2.96	3.29	3.40	3.30	3.34

### Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	19.8	18.9
EV/EBITDA	10.4	10.8	10.0	9.3
EV/EBIT	15.8	16.8	15.7	14.2
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-5.9
Dividend Yield %	3.6	3.3	3.3	3.5

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,185</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
<b>Equity Value</b>	<b>5,068</b>	<b>—</b>	<b>28.67</b>
Projected Diluted Shares	187		
<b>Fair Value per Share (CAD)</b>	<b>29.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Total Revenue</b>	<b>3,903</b>	<b>3,637</b>	<b>3,664</b>	<b>3,814</b>	<b>3,950</b>
Cost of Goods Sold	2,112	1,799	1,686	1,737	1,763
<b>Gross Profit</b>	<b>1,791</b>	<b>1,838</b>	<b>1,978</b>	<b>2,078</b>	<b>2,188</b>
Selling, General & Administrative Expenses	743	773	828	846	860
Research & Development Expenses	0	0	0	0	0
Other Operating Expenses (Income)	0	0	0	0	0
Restructuring & Other Charges (Gains)	0	0	0	0	0
Depreciation Expense (if reported separately)	348	364	410	420	435
Amortization of Other Intangibles (if reported separately)	0	0	0	0	0
Amortization/Impairment of Goodwill	0	0	0	0	0
<b>Total Expenses</b>	<b>3,203</b>	<b>2,936</b>	<b>2,924</b>	<b>3,003</b>	<b>3,057</b>
<b>Operating Income (EBIT)</b>	<b>700</b>	<b>701</b>	<b>740</b>	<b>812</b>	<b>893</b>
Interest Expense	363	360	350	375	415
Interest & Other Income (Expense)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>337</b>	<b>341</b>	<b>390</b>	<b>437</b>	<b>478</b>
Income Tax Expense (Benefit)	65	49	67	85	93
<b>Income After Taxes</b>	<b>272</b>	<b>292</b>	<b>323</b>	<b>352</b>	<b>385</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	-10	-10
(Preferred Dividends)	-14	-18	-28	-33	-38
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>245</b>	<b>262</b>	<b>285</b>	<b>309</b>	<b>337</b>
Net Income (Loss) Excluding Charges	245	262	285	309	337
Diluted Shares Outstanding (Mil)	157	170	173	181	189
Diluted EPS Including Charges	1.56	1.54	1.65	1.71	1.79
Diluted EPS Excluding Charges	1.56	1.54	1.65	1.71	1.79
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>
<b>EBITDA without restructuring</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Assets</b>					
Excess Cash & Investments	0	0	0	251	0
Operating Cash & Equivalents	66	85	109	114	119
Accounts Receivable	681	595	655	523	541
Inventory	229	178	168	143	145
Other Short Term Operating Assets	174	268	272	270	280
<b>Total Current Assets</b>	<b>1,150</b>	<b>1,126</b>	<b>1,204</b>	<b>1,300</b>	<b>1,085</b>
Property Plant & Equipment, Net	7,367	7,687	8,202	8,994	9,772
Property Plant & Equipment, Gross	7,367	11,408	12,109	13,321	14,533
(Accumulated Depreciation)	0	-3,721	-3,907	-4,327	-4,761
Goodwill, Net	1,575	1,560	1,553	1,553	1,553
Other Intangibles	9	279	324	282	240
Other Long-Term Operating Assets	1,023	1,491	1,604	1,700	1,750
Deferred Tax Assets	54	17	16	20	20
Long-Term Non-Operating Assets, including Pension items	0	0	0	0	0
<b>Total Assets</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
<b>Liabilities</b>					
Accounts Payable	874	852	953	1,078	1,112
Short-Term Debt	650	639	414	500	500
Other Current Liabilities	173	103	150	150	150
<b>Total Current Liabilities</b>	<b>1,697</b>	<b>1,594</b>	<b>1,517</b>	<b>1,728</b>	<b>1,762</b>
Long-Term Debt	4,884	5,276	5,609	5,750	6,050
Incremental Debt Requirements	—	—	—	0	0
<b>Total Long-Term Debt</b>	<b>4,884</b>	<b>5,276</b>	<b>5,609</b>	<b>5,750</b>	<b>6,050</b>
Long-Term Operating Liabilities	678	731	775	810	810
Deferred Tax Liabilities	61	576	623	670	650
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>7,640</b>	<b>8,497</b>	<b>8,844</b>	<b>9,278</b>	<b>9,593</b>
<b>Preferred Stock</b>	<b>347</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>145</b>	<b>123</b>	<b>162</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	157	170	173	185	196
Additional Paid in Capital	2,301	2,338	2,417	2,776	2,895
Retained Earnings (Deficit)	634	763	804	903	1,013
(Treasury Stock)	0	0	0	0	0
Other Equity	-46	-78	-89	-89	-89
<b>Total Shareholders' Equity</b>	<b>3,046</b>	<b>3,193</b>	<b>3,305</b>	<b>3,774</b>	<b>4,015</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
Difference, from analyst adjustments and restatements	0	0	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	259	280	323	342	375
Depreciation Expense	399	317	368	420	435
Amortization of Other Intangibles	9	47	42	42	42
Impairment of Goodwill	0	0	0	0	0
Other Non-Cash Adjustments to Operating Income	38	9	-8	0	0
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	43	-20
<b>Cash from Operations</b>	<b>723</b>	<b>637</b>	<b>732</b>	<b>1,131</b>	<b>835</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	132	-19
(Increase) Decrease in Inventory	0	0	0	25	-2
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	2	-10
Increase (Decrease) in Accounts Payable	0	0	0	125	34
Increase (Decrease) in Other Current Liabilities	18	-16	7	0	0
<b>Cash from Investing</b>	<b>-854</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,273</b>	<b>-1,262</b>
(Capital Expenditures)	-819	-968	-1,006	-1,212	-1,212
(Acquisitions)	-22	-77	0	0	0
Asset Sales & Dispositions of Discontinued Operations	18	1	15	0	0
Other Investing Cash Flows (Outlays)	-31	-8	0	-61	-50
<b>Cash From Financing</b>	<b>196</b>	<b>394</b>	<b>283</b>	<b>398</b>	<b>181</b>
Common Stock (Purchase) or Sale	308	46	80	371	130
Common Stock (Dividends)	-162	-177	-193	-210	-227
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	-33	-38
Short Term Debt Issuance and (Retirement)	-378	-6	-48	86	0
Long Term Debt Issuance and (Retirement)	231	557	194	141	300
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	43	15
Other Financing Cash Flows (Outlays)	0	0	0	0	0
<b>Net Change in Cash</b>	<b>65</b>	<b>-21</b>	<b>24</b>	<b>256</b>	<b>-246</b>
Change in Cash on Balance Sheet	8	19	24	256	-246
Difference, from analyst adjustments and restatements	57	-40	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	13.6	13.4	7.9	9.3	8.9	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.5
TransAlta Corporation TAC USA	0.89	21.1	16.7	16.0	9.0	7.3	8.0	221.1	31.3	20.1	1.6	1.6	1.5	1.6	1.5	1.5
Average		16.1	15.2	14.7	8.5	8.3	8.5	122.9	31.3	20.1	1.6	1.7	1.6	1.5	1.6	1.5
<b>Fortis, Inc. FTS CA</b>	<b>1.17</b>	<b>19.8</b>	<b>18.9</b>	<b>17.3</b>	<b>10.0</b>	<b>9.3</b>	<b>8.7</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	3.9
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.9	6.0
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.8	5.0
<b>Fortis, Inc. FTS CA</b>	<b>13,850 CAD</b>	<b>6.5</b>	<b>6.1</b>	<b>6.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.3</b>	<b>9.9</b>	<b>9.9</b>	<b>10.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.6</b>	<b>3.3</b>	<b>3.5</b>	<b>3.9</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
<b>Fortis, Inc. FTS CA</b>	<b>3,814 CAD</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>9.7</b>	<b>10.1</b>	<b>8.7</b>	<b>3.5</b>	<b>4.7</b>	<b>10.0</b>	<b>-70.6</b>	<b>367.9</b>	<b>-19.7</b>	<b>4.0</b>	<b>3.5</b>	<b>8.0</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
<b>Fortis, Inc. FTS CA</b>	<b>309 CAD</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>33.4</b>	<b>34.7</b>	<b>35.8</b>	<b>21.3</b>	<b>22.6</b>	<b>23.8</b>	<b>8.1</b>	<b>8.5</b>	<b>9.3</b>	<b>-2.1</b>	<b>-9.6</b>	<b>-7.4</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>165.6</b>	<b>163.2</b>	<b>166.3</b>	<b>58.9</b>	<b>58.7</b>	<b>59.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,475 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,580 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
<b>Fortis, Inc. FTS CA</b>	<b>6,399 CAD</b>	<b>2.02</b>	<b>0.63</b>	<b>0.77</b>	<b>-32.52</b>	<b>-34.08</b>	<b>-36.11</b>	<b>6.25</b>	<b>4.42</b>	<b>4.72</b>	<b>-0.45</b>	<b>-2.00</b>	<b>-1.58</b>	<b>68.0</b>	<b>67.2</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Grades
- ▶ Financial Health Grades

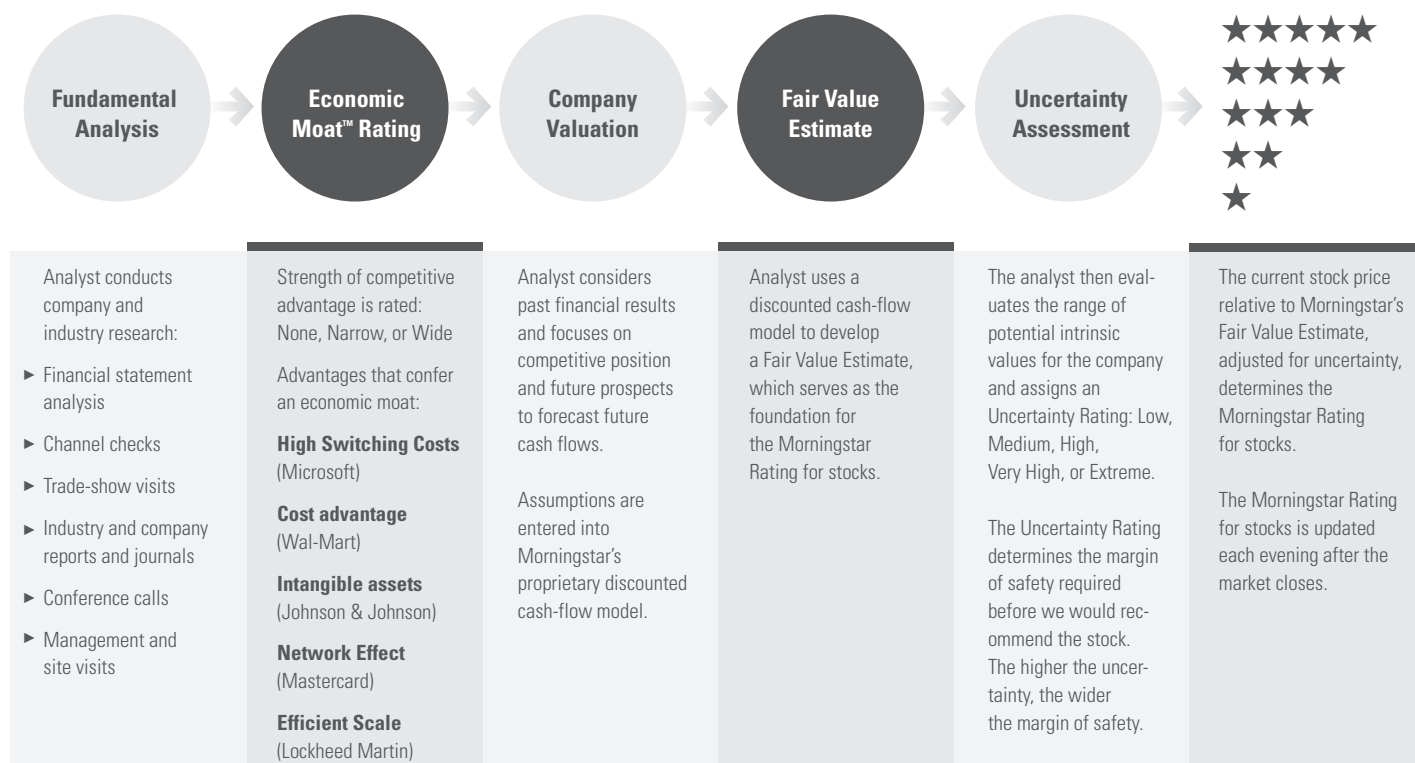
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

**Detailed Methodology Documents and Materials\***

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

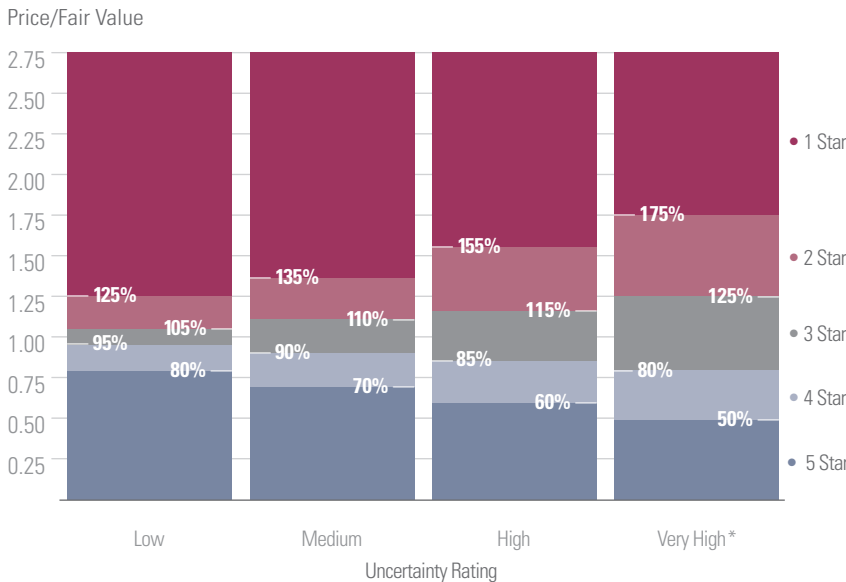
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

**Morningstar Margin of Safety and Star Rating Bands**



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

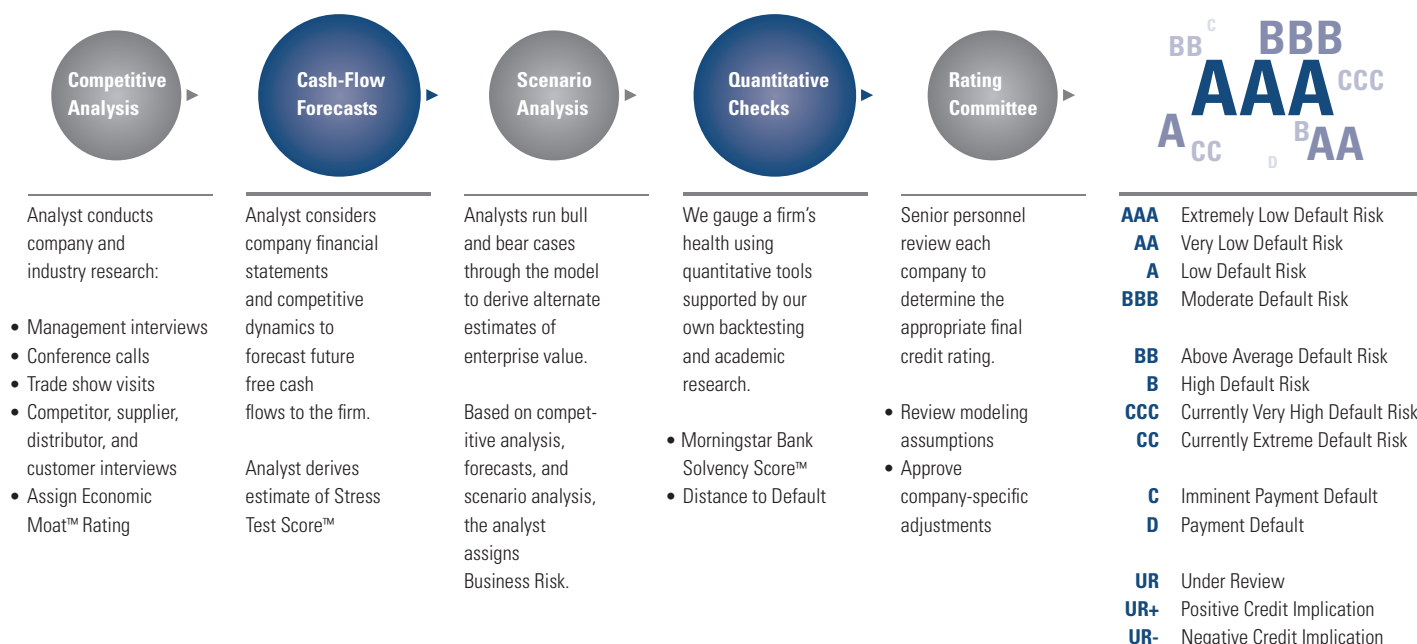
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings





# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Fortis Enters U.S. Market With Acquisition of CH Energy Group

See Page 2 for the full Analyst Note from 21 Feb 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 21 Feb 2012  
Estimates as of 03 Jan 2012  
Pricing data through 20 Feb 2012  
Rating updated as of 20 Feb 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	2
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	3
Moat Trend	4
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	8
Additional Information	
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

### Vital Statistics

Market Cap (CAD Mil)	6,204
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	1.5
YTD Total Return %	-0.7
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.13

### Valuation Summary and Forecasts

Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings	18.6	20.6	19.2	18.4
EV/EBITDA	10.4	10.8	9.8	9.1
EV/EBIT	15.8	16.8	15.4	14.0
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.1
Dividend Yield %	3.6	3.3	3.4	3.7

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue	3,637	3,664	3,814	3,950
Revenue YoY %	-6.8	0.7	4.1	3.6
EBIT	701	740	812	893
EBIT YoY %	0.1	5.6	9.7	10.1
Net Income, Adjusted	262	285	309	337
Net Income YoY %	6.9	8.8	8.3	9.2
Diluted EPS	1.54	1.65	1.71	1.79
Diluted EPS YoY %	-1.1	7.0	3.5	4.7
Free Cash Flow	-331	-274	-81	-377
Free Cash Flow YoY %	244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates  
Analyst Note:

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered \$65 per share for CH Energy, a 10.5% premium to the most recent close price.

The \$1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of \$3 billion to \$5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

### Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada

and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

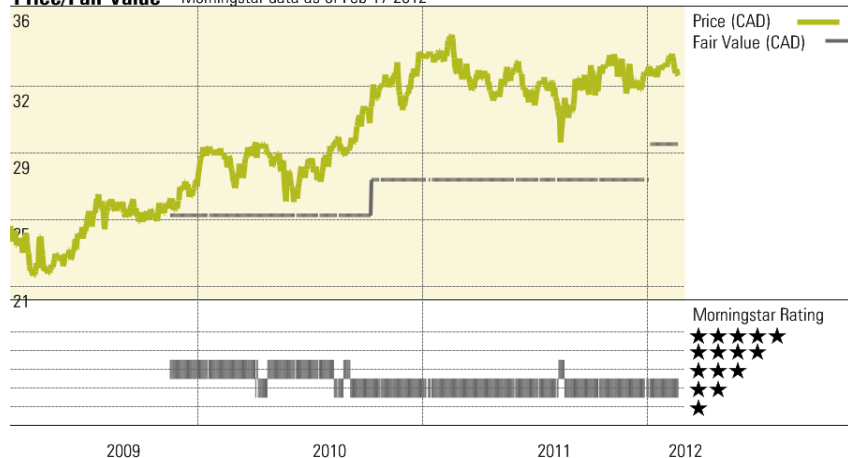
The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Feb 17 2012



the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a

medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

## Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

### Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

## Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings.
- ▶ With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

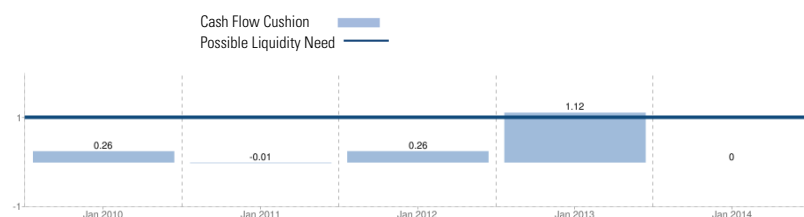
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Concentrated Holders

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

### Top 5 Sellers

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was \$4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

### Analyst Notes

#### Strong Customer Growth Generates Impressive 2011

##### Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted \$1.75 in EPS in 2011, higher than our own \$1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as \$5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to \$1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfoundland Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast		
					Dec 2011	Dec 2012	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	10.5	43.6	-6.8	0.7	4.1	3.6	—
EBIT	11.0	29.4	0.1	5.6	9.7	10.1	8.0
EBITDA	12.2	36.1	-3.9	8.0	10.7	7.6	6.8
Net Income	17.2	38.4	6.9	8.8	8.3	9.2	8.1
Diluted EPS	8.6	21.0	-1.1	7.0	3.5	4.7	5.0
Earnings Before Interest, after Tax	16.1	38.2	89.7	-40.3	-2.2	0.4	4.0
Free Cash Flow to the Firm	-135.9	-112.8	-45.5	-33.3	167.0	-158.3	52.6
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Profitability							
Operating margin %	19.1	17.9	19.3	20.2	21.3	22.6	23.5
EBITDA margin %	29.7	28.4	29.3	31.4	33.4	34.7	35.5
Net margin %	7.1	6.3	7.2	7.8	8.1	8.5	9.0
Free Cash Flow to the Firm margin %	2.8	4.2	2.5	1.6	4.2	-2.4	4.1
ROIC with Goodwill %	8.9	7.3	12.6	6.9	6.5	6.1	6.4
ROIC w/out Goodwill %	10.6	8.8	14.9	8.1	7.5	7.0	7.3
Return on Assets, pretax %	6.2	6.5	6.0	5.9	6.1	6.3	6.4
Return on Equity %	9.7	9.6	9.4	9.9	9.9	9.9	10.2
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Leverage							
Debt/Capital	0.62	0.62	0.63	0.61	0.59	0.59	0.59
Total Debt/EBITDA	5.26	—	5.55	5.24	4.91	4.78	4.89
EBITDA/Interest Expense	3.10	3.05	2.96	3.29	3.40	3.30	3.34

### Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	19.2	18.4
EV/EBITDA	10.4	10.8	9.8	9.1
EV/EBIT	15.8	16.8	15.4	14.0
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.1
Dividend Yield %	3.6	3.3	3.4	3.7

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,185</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
<b>Equity Value</b>	<b>5,068</b>	<b>—</b>	<b>28.67</b>
Projected Diluted Shares	187		
<b>Fair Value per Share (CAD)</b>	<b>29.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Total Revenue</b>	<b>3,903</b>	<b>3,637</b>	<b>3,664</b>	<b>3,814</b>	<b>3,950</b>
Cost of Goods Sold	2,112	1,799	1,686	1,737	1,763
<b>Gross Profit</b>	<b>1,791</b>	<b>1,838</b>	<b>1,978</b>	<b>2,078</b>	<b>2,188</b>
Selling, General & Administrative Expenses	743	773	828	846	860
Research & Development Expenses	0	0	0	0	0
Other Operating Expenses (Income)	0	0	0	0	0
Restructuring & Other Charges (Gains)	0	0	0	0	0
Depreciation Expense (if reported separately)	348	364	410	420	435
Amortization of Other Intangibles (if reported separately)	0	0	0	0	0
Amortization/Impairment of Goodwill	0	0	0	0	0
<b>Total Expenses</b>	<b>3,203</b>	<b>2,936</b>	<b>2,924</b>	<b>3,003</b>	<b>3,057</b>
<b>Operating Income (EBIT)</b>	<b>700</b>	<b>701</b>	<b>740</b>	<b>812</b>	<b>893</b>
Interest Expense	363	360	350	375	415
Interest & Other Income (Expense)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>337</b>	<b>341</b>	<b>390</b>	<b>437</b>	<b>478</b>
Income Tax Expense (Benefit)	65	49	67	85	93
<b>Income After Taxes</b>	<b>272</b>	<b>292</b>	<b>323</b>	<b>352</b>	<b>385</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	-10	-10
(Preferred Dividends)	-14	-18	-28	-33	-38
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>245</b>	<b>262</b>	<b>285</b>	<b>309</b>	<b>337</b>
Net Income (Loss) Excluding Charges	245	262	285	309	337
Diluted Shares Outstanding (Mil)	157	170	173	181	189
Diluted EPS Including Charges	1.56	1.54	1.65	1.71	1.79
Diluted EPS Excluding Charges	1.56	1.54	1.65	1.71	1.79
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>
<b>EBITDA without restructuring</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Assets</b>					
Excess Cash & Investments	0	0	0	251	0
Operating Cash & Equivalents	66	85	109	114	119
Accounts Receivable	681	595	655	523	541
Inventory	229	178	168	143	145
Other Short Term Operating Assets	174	268	272	270	280
<b>Total Current Assets</b>	<b>1,150</b>	<b>1,126</b>	<b>1,204</b>	<b>1,300</b>	<b>1,085</b>
Property Plant & Equipment, Net	7,367	7,687	8,202	8,994	9,772
Property Plant & Equipment, Gross	7,367	11,408	12,109	13,321	14,533
(Accumulated Depreciation)	0	-3,721	-3,907	-4,327	-4,761
Goodwill, Net	1,575	1,560	1,553	1,553	1,553
Other Intangibles	9	279	324	282	240
Other Long-Term Operating Assets	1,023	1,491	1,604	1,700	1,750
Deferred Tax Assets	54	17	16	20	20
Long-Term Non-Operating Assets, including Pension items	0	0	0	0	0
<b>Total Assets</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
<b>Liabilities</b>					
Accounts Payable	874	852	953	1,078	1,112
Short-Term Debt	650	639	414	500	500
Other Current Liabilities	173	103	150	150	150
<b>Total Current Liabilities</b>	<b>1,697</b>	<b>1,594</b>	<b>1,517</b>	<b>1,728</b>	<b>1,762</b>
Long-Term Debt	4,884	5,276	5,609	5,750	6,050
Incremental Debt Requirements	—	—	—	0	0
<b>Total Long-Term Debt</b>	<b>4,884</b>	<b>5,276</b>	<b>5,609</b>	<b>5,750</b>	<b>6,050</b>
Long-Term Operating Liabilities	678	731	775	810	810
Deferred Tax Liabilities	61	576	623	670	650
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>7,640</b>	<b>8,497</b>	<b>8,844</b>	<b>9,278</b>	<b>9,593</b>
<b>Preferred Stock</b>	<b>347</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>145</b>	<b>123</b>	<b>162</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	157	170	173	185	196
Additional Paid in Capital	2,301	2,338	2,417	2,776	2,895
Retained Earnings (Deficit)	634	763	804	903	1,013
(Treasury Stock)	0	0	0	0	0
Other Equity	-46	-78	-89	-89	-89
<b>Total Shareholders' Equity</b>	<b>3,046</b>	<b>3,193</b>	<b>3,305</b>	<b>3,774</b>	<b>4,015</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
Difference, from analyst adjustments and restatements	0	0	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	259	280	323	342	375
Depreciation Expense	399	317	368	420	435
Amortization of Other Intangibles	9	47	42	42	42
Impairment of Goodwill	0	0	0	0	0
Other Non-Cash Adjustments to Operating Income	38	9	-8	0	0
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	43	-20
<b>Cash from Operations</b>	<b>723</b>	<b>637</b>	<b>732</b>	<b>1,131</b>	<b>835</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	132	-19
(Increase) Decrease in Inventory	0	0	0	25	-2
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	2	-10
Increase (Decrease) in Accounts Payable	0	0	0	125	34
Increase (Decrease) in Other Current Liabilities	18	-16	7	0	0
<b>Cash from Investing</b>	<b>-854</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,273</b>	<b>-1,262</b>
(Capital Expenditures)	-819	-968	-1,006	-1,212	-1,212
(Acquisitions)	-22	-77	0	0	0
Asset Sales & Dispositions of Discontinued Operations	18	1	15	0	0
Other Investing Cash Flows (Outlays)	-31	-8	0	-61	-50
<b>Cash From Financing</b>	<b>196</b>	<b>394</b>	<b>283</b>	<b>398</b>	<b>181</b>
Common Stock (Purchase) or Sale	308	46	80	371	130
Common Stock (Dividends)	-162	-177	-193	-210	-227
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	-33	-38
Short Term Debt Issuance and (Retirement)	-378	-6	-48	86	0
Long Term Debt Issuance and (Retirement)	231	557	194	141	300
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	43	15
Other Financing Cash Flows (Outlays)	0	0	0	0	0
<b>Net Change in Cash</b>	<b>65</b>	<b>-21</b>	<b>24</b>	<b>256</b>	<b>-246</b>
Change in Cash on Balance Sheet	8	19	24	256	-246
Difference, from analyst adjustments and restatements	57	-40	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	13.6	13.4	7.9	9.3	8.9	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.5
TransAlta Corporation TAC USA	0.91	21.1	17.0	16.3	9.0	7.3	8.0	221.1	31.8	20.4	1.6	1.6	1.5	1.6	1.5	1.5
Average		16.1	15.3	14.9	8.5	8.3	8.5	122.9	31.8	20.4	1.6	1.7	1.6	1.5	1.6	1.5
<b>Fortis, Inc. FTS CA</b>	<b>1.13</b>	<b>19.2</b>	<b>18.4</b>	<b>16.8</b>	<b>9.8</b>	<b>9.1</b>	<b>8.6</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	3.9
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.8	5.9
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.8	4.9
<b>Fortis, Inc. FTS CA</b>	<b>13,850 CAD</b>	<b>6.5</b>	<b>6.1</b>	<b>6.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.3</b>	<b>9.9</b>	<b>9.9</b>	<b>10.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.6</b>	<b>3.4</b>	<b>3.7</b>	<b>4.0</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
<b>Fortis, Inc. FTS CA</b>	<b>3,814 CAD</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>9.7</b>	<b>10.1</b>	<b>8.7</b>	<b>3.5</b>	<b>4.7</b>	<b>10.0</b>	<b>-70.6</b>	<b>367.9</b>	<b>-19.7</b>	<b>4.0</b>	<b>3.5</b>	<b>8.0</b>



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
<b>Fortis, Inc. FTS CA</b>	<b>309 CAD</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>33.4</b>	<b>34.7</b>	<b>35.8</b>	<b>21.3</b>	<b>22.6</b>	<b>23.8</b>	<b>8.1</b>	<b>8.5</b>	<b>9.3</b>	<b>-2.1</b>	<b>-9.6</b>	<b>-7.4</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>165.6</b>	<b>163.2</b>	<b>166.3</b>	<b>58.9</b>	<b>58.7</b>	<b>59.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,445 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,674 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
<b>Fortis, Inc. FTS CA</b>	<b>6,204 CAD</b>	<b>2.02</b>	<b>0.63</b>	<b>0.77</b>	<b>-32.52</b>	<b>-34.08</b>	<b>-36.11</b>	<b>6.25</b>	<b>4.42</b>	<b>4.72</b>	<b>-0.45</b>	<b>-2.00</b>	<b>-1.58</b>	<b>68.0</b>	<b>67.2</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Grades
- ▶ Financial Health Grades

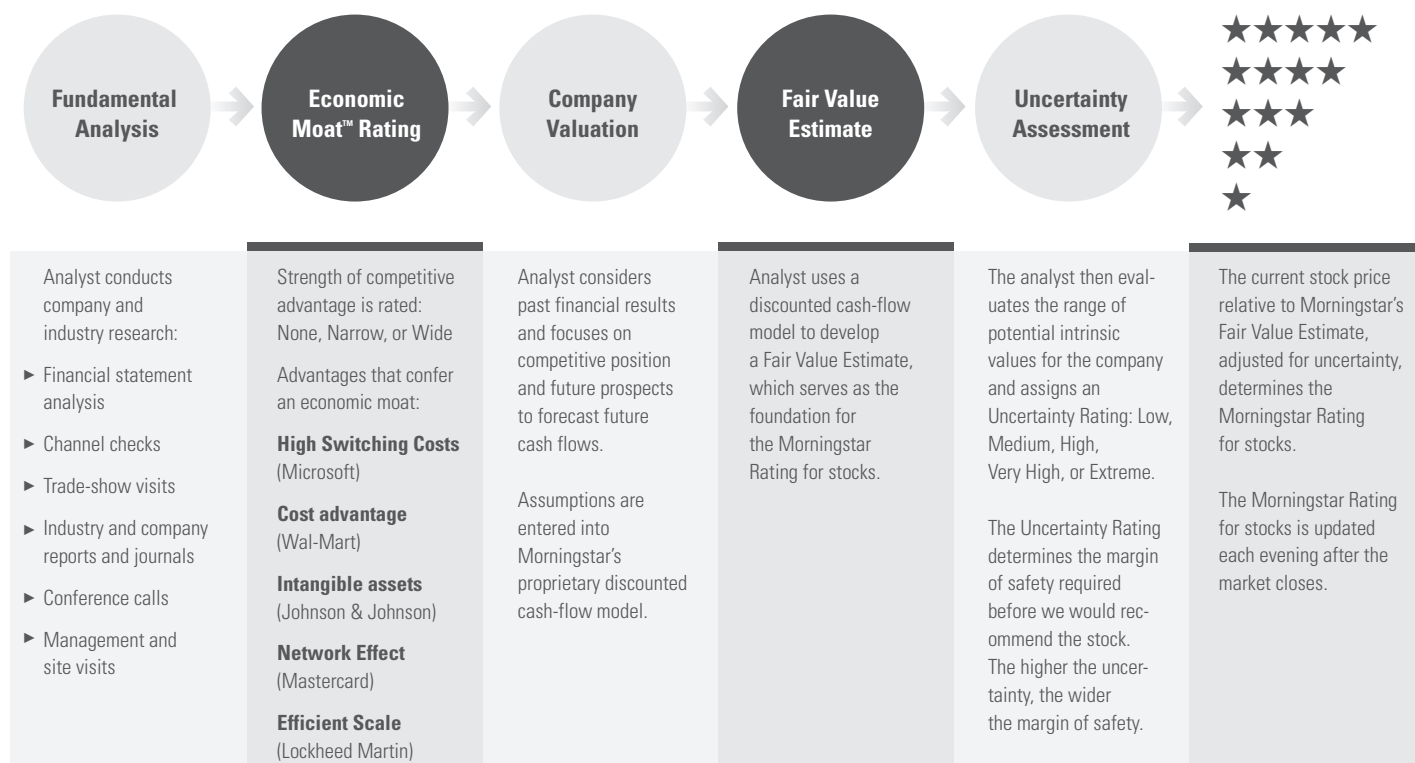
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

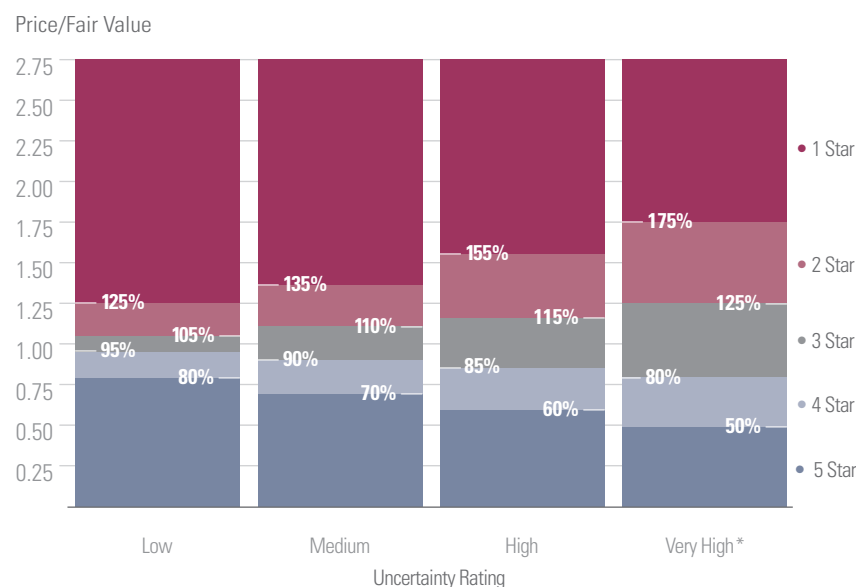
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

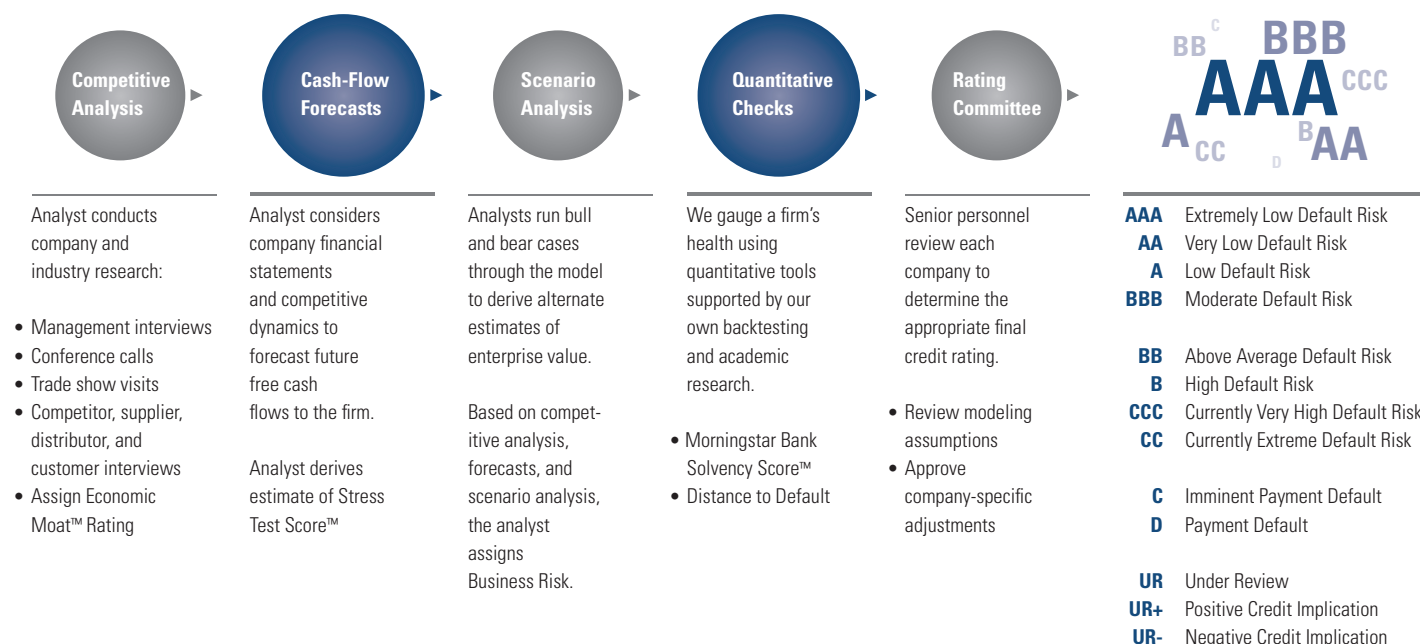
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Fortis Enters U.S. Market With Acquisition of CH Energy Group

See Page 2 for the full Analyst Note from 21 Feb 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 21 Feb 2012  
Estimates as of 03 Jan 2012  
Pricing data through 21 Feb 2012  
Rating updated as of 21 Feb 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	2
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	3
Moat Trend	4
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	8
Additional Information	
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

### Vital Statistics

Market Cap (CAD Mil)	6,115
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	-0.8
YTD Total Return %	-2.1
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.12

### Valuation Summary and Forecasts

Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings	18.6	20.6	18.9	18.1
EV/EBITDA	10.4	10.8	9.8	9.1
EV/EBIT	15.8	16.8	15.3	13.9
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.2
Dividend Yield %	3.6	3.3	3.4	3.7

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue	3,637	3,664	3,814	3,950
Revenue YoY %	-6.8	0.7	4.1	3.6
EBIT	701	740	812	893
EBIT YoY %	0.1	5.6	9.7	10.1
Net Income, Adjusted	262	285	309	337
Net Income YoY %	6.9	8.8	8.3	9.2
Diluted EPS	1.54	1.65	1.71	1.79
Diluted EPS YoY %	-1.1	7.0	3.5	4.7
Free Cash Flow	-331	-274	-81	-377
Free Cash Flow YoY %	244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates  
Analyst Note:

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered \$65 per share for CH Energy, a 10.5% premium to the most recent close price.

The \$1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of \$3 billion to \$5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

### Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada

and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Feb 21 2012



the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a

medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

## Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

### Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

## Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings.
- ▶ With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

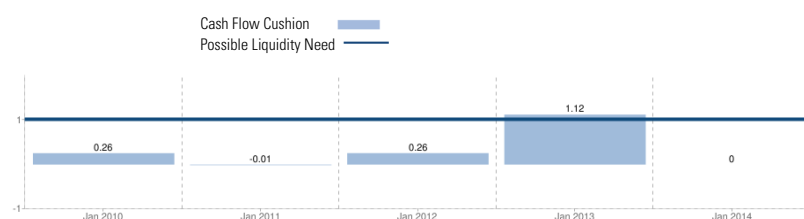
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Concentrated Holders

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

### Top 5 Sellers

	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

### Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was \$4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

### Analyst Notes

#### Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted \$1.75 in EPS in 2011, higher than our own \$1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as \$5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to \$1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfoundland Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast		
					Dec 2011	Dec 2012	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	10.5	43.6	-6.8	0.7	4.1	3.6	—
EBIT	11.0	29.4	0.1	5.6	9.7	10.1	8.0
EBITDA	12.2	36.1	-3.9	8.0	10.7	7.6	6.8
Net Income	17.2	38.4	6.9	8.8	8.3	9.2	8.1
Diluted EPS	8.6	21.0	-1.1	7.0	3.5	4.7	5.0
Earnings Before Interest, after Tax	16.1	38.2	89.7	-40.3	-2.2	0.4	4.0
Free Cash Flow to the Firm	-135.9	-112.8	-45.5	-33.3	167.0	-158.3	52.6
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Profitability							
Operating margin %	19.1	17.9	19.3	20.2	21.3	22.6	23.5
EBITDA margin %	29.7	28.4	29.3	31.4	33.4	34.7	35.5
Net margin %	7.1	6.3	7.2	7.8	8.1	8.5	9.0
Free Cash Flow to the Firm margin %	2.8	4.2	2.5	1.6	4.2	-2.4	4.1
ROIC with Goodwill %	8.9	7.3	12.6	6.9	6.5	6.1	6.4
ROIC w/out Goodwill %	10.6	8.8	14.9	8.1	7.5	7.0	7.3
Return on Assets, pretax %	6.2	6.5	6.0	5.9	6.1	6.3	6.4
Return on Equity %	9.7	9.6	9.4	9.9	9.9	9.9	10.2
	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Leverage							
Debt/Capital	0.62	0.62	0.63	0.61	0.59	0.59	0.59
Total Debt/EBITDA	5.26	—	5.55	5.24	4.91	4.78	4.89
EBITDA/Interest Expense	3.10	3.05	2.96	3.29	3.40	3.30	3.34

### Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	18.9	18.1
EV/EBITDA	10.4	10.8	9.8	9.1
EV/EBIT	15.8	16.8	15.3	13.9
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.2
Dividend Yield %	3.6	3.3	3.4	3.7

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,185</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
<b>Equity Value</b>	<b>5,068</b>	<b>—</b>	<b>28.67</b>
Projected Diluted Shares	187		
<b>Fair Value per Share (CAD)</b>	<b>29.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Total Revenue</b>	<b>3,903</b>	<b>3,637</b>	<b>3,664</b>	<b>3,814</b>	<b>3,950</b>
Cost of Goods Sold	2,112	1,799	1,686	1,737	1,763
<b>Gross Profit</b>	<b>1,791</b>	<b>1,838</b>	<b>1,978</b>	<b>2,078</b>	<b>2,188</b>
Selling, General & Administrative Expenses	743	773	828	846	860
Research & Development Expenses	0	0	0	0	0
Other Operating Expenses (Income)	0	0	0	0	0
Restructuring & Other Charges (Gains)	0	0	0	0	0
Depreciation Expense (if reported separately)	348	364	410	420	435
Amortization of Other Intangibles (if reported separately)	0	0	0	0	0
Amortization/Impairment of Goodwill	0	0	0	0	0
<b>Total Expenses</b>	<b>3,203</b>	<b>2,936</b>	<b>2,924</b>	<b>3,003</b>	<b>3,057</b>
<b>Operating Income (EBIT)</b>	<b>700</b>	<b>701</b>	<b>740</b>	<b>812</b>	<b>893</b>
Interest Expense	363	360	350	375	415
Interest & Other Income (Expense)	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>337</b>	<b>341</b>	<b>390</b>	<b>437</b>	<b>478</b>
Income Tax Expense (Benefit)	65	49	67	85	93
<b>Income After Taxes</b>	<b>272</b>	<b>292</b>	<b>323</b>	<b>352</b>	<b>385</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	-10	-10
(Preferred Dividends)	-14	-18	-28	-33	-38
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	0	0
<b>Net Income (Loss)</b>	<b>245</b>	<b>262</b>	<b>285</b>	<b>309</b>	<b>337</b>
Net Income (Loss) Excluding Charges	245	262	285	309	337
Diluted Shares Outstanding (Mil)	157	170	173	181	189
Diluted EPS Including Charges	1.56	1.54	1.65	1.71	1.79
Diluted EPS Excluding Charges	1.56	1.54	1.65	1.71	1.79
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>
<b>EBITDA without restructuring</b>	<b>1,108</b>	<b>1,065</b>	<b>1,150</b>	<b>1,273</b>	<b>1,370</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
<b>Assets</b>					
Excess Cash & Investments	0	0	0	251	0
Operating Cash & Equivalents	66	85	109	114	119
Accounts Receivable	681	595	655	523	541
Inventory	229	178	168	143	145
Other Short Term Operating Assets	174	268	272	270	280
<b>Total Current Assets</b>	<b>1,150</b>	<b>1,126</b>	<b>1,204</b>	<b>1,300</b>	<b>1,085</b>
Property Plant & Equipment, Net	7,367	7,687	8,202	8,994	9,772
Property Plant & Equipment, Gross	7,367	11,408	12,109	13,321	14,533
(Accumulated Depreciation)	0	-3,721	-3,907	-4,327	-4,761
Goodwill, Net	1,575	1,560	1,553	1,553	1,553
Other Intangibles	9	279	324	282	240
Other Long-Term Operating Assets	1,023	1,491	1,604	1,700	1,750
Deferred Tax Assets	54	17	16	20	20
Long-Term Non-Operating Assets, including Pension items	0	0	0	0	0
<b>Total Assets</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
<b>Liabilities</b>					
Accounts Payable	874	852	953	1,078	1,112
Short-Term Debt	650	639	414	500	500
Other Current Liabilities	173	103	150	150	150
<b>Total Current Liabilities</b>	<b>1,697</b>	<b>1,594</b>	<b>1,517</b>	<b>1,728</b>	<b>1,762</b>
Long-Term Debt	4,884	5,276	5,609	5,750	6,050
Incremental Debt Requirements	—	—	—	0	0
<b>Total Long-Term Debt</b>	<b>4,884</b>	<b>5,276</b>	<b>5,609</b>	<b>5,750</b>	<b>6,050</b>
Long-Term Operating Liabilities	678	731	775	810	810
Deferred Tax Liabilities	61	576	623	670	650
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>7,640</b>	<b>8,497</b>	<b>8,844</b>	<b>9,278</b>	<b>9,593</b>
<b>Preferred Stock</b>	<b>347</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>145</b>	<b>123</b>	<b>162</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	157	170	173	185	196
Additional Paid in Capital	2,301	2,338	2,417	2,776	2,895
Retained Earnings (Deficit)	634	763	804	903	1,013
(Treasury Stock)	0	0	0	0	0
Other Equity	-46	-78	-89	-89	-89
<b>Total Shareholders' Equity</b>	<b>3,046</b>	<b>3,193</b>	<b>3,305</b>	<b>3,774</b>	<b>4,015</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>11,178</b>	<b>12,160</b>	<b>12,903</b>	<b>13,850</b>	<b>14,419</b>
Difference, from analyst adjustments and restatements	0	0	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	Forecast	
				Dec 2011	Dec 2012
Net Income from Continuing Operations	259	280	323	342	375
Depreciation Expense	399	317	368	420	435
Amortization of Other Intangibles	9	47	42	42	42
Impairment of Goodwill	0	0	0	0	0
Other Non-Cash Adjustments to Operating Income	38	9	-8	0	0
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	43	-20
<b>Cash from Operations</b>	<b>723</b>	<b>637</b>	<b>732</b>	<b>1,131</b>	<b>835</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	132	-19
(Increase) Decrease in Inventory	0	0	0	25	-2
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	2	-10
Increase (Decrease) in Accounts Payable	0	0	0	125	34
Increase (Decrease) in Other Current Liabilities	18	-16	7	0	0
<b>Cash from Investing</b>	<b>-854</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,273</b>	<b>-1,262</b>
(Capital Expenditures)	-819	-968	-1,006	-1,212	-1,212
(Acquisitions)	-22	-77	0	0	0
Asset Sales & Dispositions of Discontinued Operations	18	1	15	0	0
Other Investing Cash Flows (Outlays)	-31	-8	0	-61	-50
<b>Cash From Financing</b>	<b>196</b>	<b>394</b>	<b>283</b>	<b>398</b>	<b>181</b>
Common Stock (Purchase) or Sale	308	46	80	371	130
Common Stock (Dividends)	-162	-177	-193	-210	-227
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	-33	-38
Short Term Debt Issuance and (Retirement)	-378	-6	-48	86	0
Long Term Debt Issuance and (Retirement)	231	557	194	141	300
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	43	15
Other Financing Cash Flows (Outlays)	0	0	0	0	0
<b>Net Change in Cash</b>	<b>65</b>	<b>-21</b>	<b>24</b>	<b>256</b>	<b>-246</b>
Change in Cash on Balance Sheet	8	19	24	256	-246
Difference, from analyst adjustments and restatements	57	-40	0	0	0

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	13.7	13.4	7.9	9.3	8.9	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.5
TransAlta Corporation TAC USA	0.91	21.1	17.1	16.4	9.0	7.4	8.1	221.1	32.2	20.7	1.6	1.6	1.5	1.6	1.6	1.5
Average		16.1	15.4	14.9	8.5	8.4	8.5	122.9	32.2	20.7	1.6	1.7	1.6	1.5	1.6	1.5
<b>Fortis, Inc. FTS CA</b>	<b>1.12</b>	<b>18.9</b>	<b>18.1</b>	<b>16.5</b>	<b>9.8</b>	<b>9.1</b>	<b>8.5</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	3.9
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.7	5.8
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.7	4.9
<b>Fortis, Inc. FTS CA</b>	<b>13,850 CAD</b>	<b>6.5</b>	<b>6.1</b>	<b>6.4</b>	<b>7.5</b>	<b>7.0</b>	<b>7.3</b>	<b>9.9</b>	<b>9.9</b>	<b>10.4</b>	<b>6.1</b>	<b>6.3</b>	<b>6.6</b>	<b>3.4</b>	<b>3.7</b>	<b>4.1</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
<b>Fortis, Inc. FTS CA</b>	<b>3,814 CAD</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>9.7</b>	<b>10.1</b>	<b>8.7</b>	<b>3.5</b>	<b>4.7</b>	<b>10.0</b>	<b>-70.6</b>	<b>367.9</b>	<b>-19.7</b>	<b>4.0</b>	<b>3.5</b>	<b>8.0</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
<b>Fortis, Inc. FTS CA</b>	<b>309 CAD</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>33.4</b>	<b>34.7</b>	<b>35.8</b>	<b>21.3</b>	<b>22.6</b>	<b>23.8</b>	<b>8.1</b>	<b>8.5</b>	<b>9.3</b>	<b>-2.1</b>	<b>-9.6</b>	<b>-7.4</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,250 CAD</b>	<b>165.6</b>	<b>163.2</b>	<b>166.3</b>	<b>58.9</b>	<b>58.7</b>	<b>59.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CF0 per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,525 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,710 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
<b>Fortis, Inc. FTS CA</b>	<b>6,115 CAD</b>	<b>2.02</b>	<b>0.63</b>	<b>0.77</b>	<b>-32.52</b>	<b>-34.08</b>	<b>-36.11</b>	<b>6.25</b>	<b>4.42</b>	<b>4.72</b>	<b>-0.45</b>	<b>-2.00</b>	<b>-1.58</b>	<b>68.0</b>	<b>67.2</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Grades
- ▶ Financial Health Grades

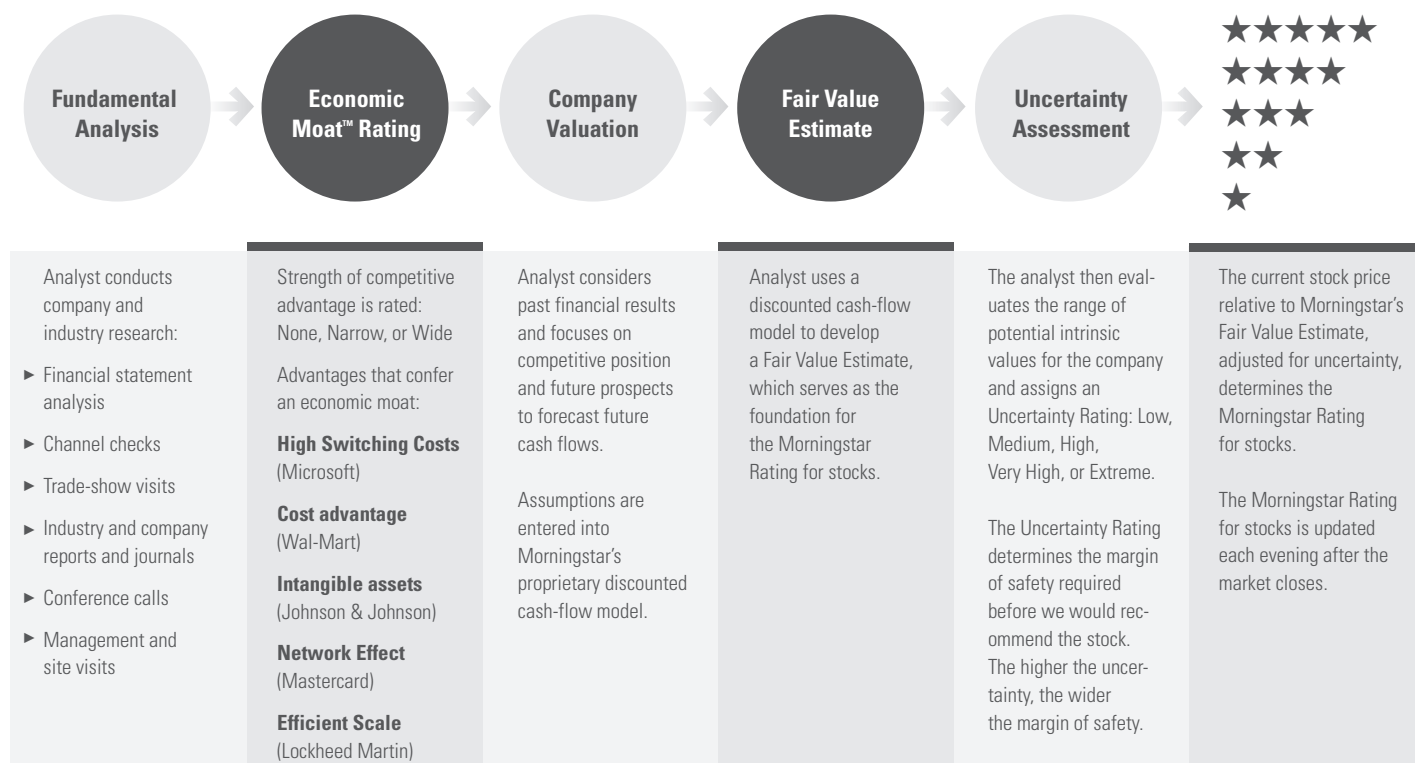
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

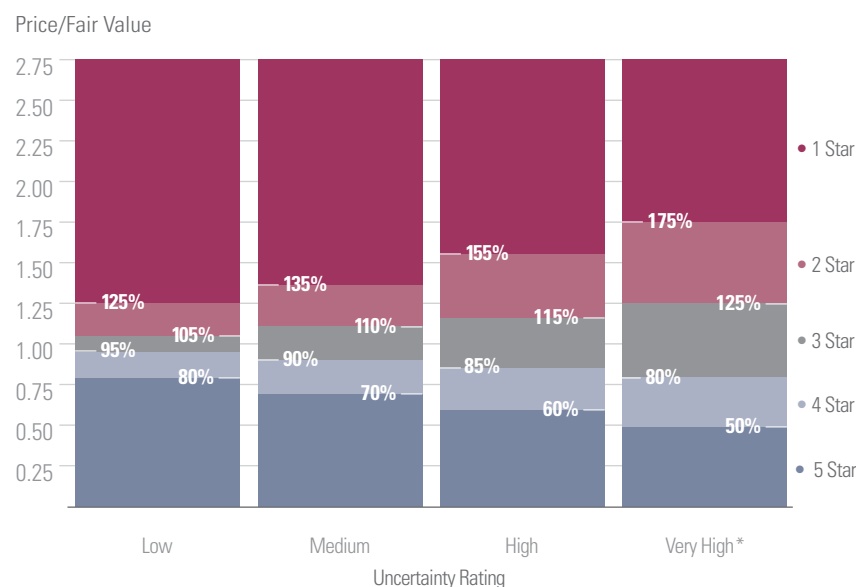
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.



# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

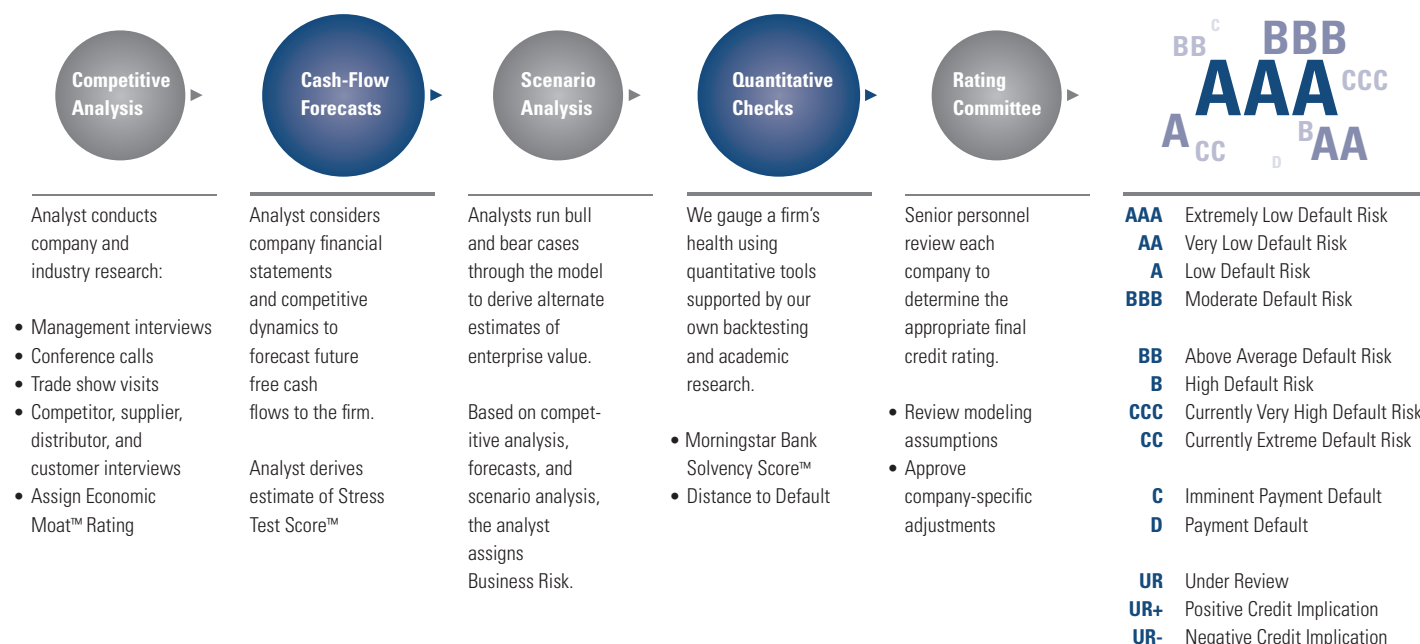
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Fortis Reports Flat First-Quarter Earnings

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 04 May 2012  
Estimates as of 02 May 2012  
Pricing data through 03 May 2012  
Rating updated as of 04 May 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 04 May 2012

Fortis Inc FTS posted slightly lower earnings per share of \$0.64 compared with \$0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay \$1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable \$3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a \$1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG. We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

### Vital Statistics

Market Cap (CAD Mil)	6,401
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	8.3
YTD Total Return %	2.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	5.7
Price/Fair Value	1.13

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.8	19.3	19.4	17.5
EV/EBITDA	10.4	10.3	9.7	9.0
EV/EBIT	16.8	16.6	15.2	13.8
Free Cash Flow Yield %	-3.9	-2.4	-2.7	-6.2
Dividend Yield %	3.3	2.4	3.6	3.8

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,914	4,077
Revenue YoY %	0.7	2.3	4.5	4.2
EBIT	740	766	846	930
EBIT YoY %	5.6	3.5	10.5	9.9
Net Income, Adjusted	285	318	335	377
Net Income YoY %	8.8	11.6	5.2	12.8
Diluted EPS	1.65	1.74	1.77	1.96
Diluted EPS YoY %	7.0	6.1	1.0	10.7
Free Cash Flow	-232	-151	-171	-396
Free Cash Flow YoY %	-18.3	-34.9	13.0	132.2

Source for forecasts in the data tables above: Morningstar Estimates

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast		5-Year Proj. CAGR
					Dec 2012	Dec 2013	
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	4.5	4.2	—
EBIT	3.1	0.1	5.6	3.5	10.5	9.9	7.9
EBITDA	3.4	-0.5	7.2	3.5	7.0	7.7	6.1
Net Income	9.1	6.9	8.8	11.6	5.2	12.8	7.6
Diluted EPS	3.9	-1.1	7.0	6.1	1.0	10.7	5.7
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-8.5	12.4	3.6
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	152.9	-136.8	24.8
Profitability							
Operating margin %	20.0	19.3	20.2	20.4	21.6	22.8	23.5
EBITDA margin %	32.0	30.6	32.5	32.9	33.8	34.9	35.5
Net margin %	7.8	7.2	7.8	8.5	8.6	9.3	9.6
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.2	-2.9	3.5
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.1	6.5	6.4
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.1	7.5	7.2
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.1	6.3	6.4
Return on Equity %	9.7	9.4	9.9	9.9	9.5	10.1	10.2
Leverage							
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.73	4.78	4.84
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.39	3.43	3.43

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.27	1.24	—	—
Price/Earnings	20.8	19.3	19.4	17.5
EV/EBITDA	10.4	10.3	9.7	9.0
EV/EBIT	16.8	16.6	15.2	13.8
Free Cash Flow Yield %	-3.9	-2.4	-2.7	-6.2
Dividend Yield %	3.3	2.4	3.6	3.8

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	28.1
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	588	5.1	3.07
Present Value Stage II	11,056	95.0	57.76
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,644</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	89	—	0.47
Debt	6,250	—	-31.05
Net balance sheet impact	-5,855	—	-30.59
Other Adjustments	-203	—	-1.06
<b>Equity Value</b>	<b>5,586</b>	<b>—</b>	<b>29.86</b>
Projected Diluted Shares	191		
<b>Fair Value per Share (CAD)</b>	<b>30.00</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
	3,637	3,664	3,747	Dec 2012	Dec 2013
<b>Total Revenue</b>				<b>3,914</b>	<b>4,077</b>
Cost of Goods Sold	1,799	1,686	1,697	1,749	1,792
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,165</b>	<b>2,285</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	431	448
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
<b>Total Expenses</b>	<b>2,936</b>	<b>2,924</b>	<b>2,981</b>	<b>3,067</b>	<b>3,147</b>
<b>Operating Income (EBIT)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>846</b>	<b>930</b>
Interest Expense	360	350	370	390	415
Interest & Other Income (Expense)	—	—	40	10	10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>466</b>	<b>525</b>
Income Tax Expense (Benefit)	49	67	80	89	100
<b>Income After Taxes</b>	<b>292</b>	<b>323</b>	<b>356</b>	<b>378</b>	<b>425</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
<b>Net Income (Loss)</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>335</b>	<b>377</b>
Net Income (Loss) Excluding Charges	262	285	318	335	377
Diluted Shares Outstanding (Mil)	170	173	182	190	193
Diluted EPS Including Charges	1.54	1.65	1.75	1.76	1.95
Diluted EPS Excluding Charges	1.54	1.65	1.74	1.77	1.96
Dividends Per Common Share	1.10	1.04	1.12	1.20	1.24
<b>EBITDA</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,321</b>	<b>1,423</b>
<b>EBITDA without restructuring</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,321</b>	<b>1,423</b>

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
<b>Assets</b>					
Excess Cash & Investments	—	—	—	141	107
Operating Cash & Equivalents	85	109	89	117	122
Accounts Receivable	595	655	644	536	558
Inventory	178	168	134	144	147
Other Short Term Operating Assets	268	272	253	270	280
<b>Total Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,208</b>	<b>1,215</b>
Property Plant & Equipment, Net	7,687	8,202	8,687	9,548	10,418
Property Plant & Equipment, Gross	11,408	12,109	13,013	14,305	15,623
(Accumulated Depreciation)	-3,721	-3,907	-4,326	-4,757	-5,205
Goodwill, Net	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	297	253
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Deferred Tax Assets	17	16	8	20	20
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,330</b>	<b>15,213</b>
<b>Liabilities</b>					
Accounts Payable	852	953	914	1,108	1,132
Short-Term Debt	639	414	265	400	400
Other Current Liabilities	103	150	141	141	141
<b>Total Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,649</b>	<b>1,673</b>
Long-Term Debt	5,276	5,609	5,679	5,850	6,400
Incremental Debt Requirements	—	—	—	—	—
<b>Total Long-Term Debt</b>	<b>5,276</b>	<b>5,609</b>	<b>5,679</b>	<b>5,850</b>	<b>6,400</b>
Long-Term Operating Liabilities	731	775	881	916	916
Deferred Tax Liabilities	576	623	685	700	725
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,435</b>	<b>10,034</b>
<b>Preferred Stock</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>123</b>	<b>162</b>	<b>208</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	170	173	173	185	196
Additional Paid in Capital	2,338	2,417	2,725	2,827	2,948
Retained Earnings (Deficit)	763	804	905	1,012	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Total Shareholders' Equity</b>	<b>3,193</b>	<b>3,305</b>	<b>3,877</b>	<b>4,098</b>	<b>4,367</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,330</b>	<b>15,213</b>
Difference, from analyst adjustments and restatements	—	—	—	—	—

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	280	323	356	369	416
Depreciation Expense	364	410	424	431	448
Amortization of Other Intangibles	47	42	44	44	44
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	3	25
<b>Cash from Operations</b>	<b>684</b>	<b>774</b>	<b>948</b>	<b>1,121</b>	<b>922</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	108	-22
(Increase) Decrease in Inventory	—	—	—	-10	-4
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	194	24
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
<b>Cash from Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	184	-50
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>156</b>	<b>418</b>
Common Stock (Purchase) or Sale	46	80	345	114	132
Common Stock (Dividends)	-177	-193	-151	-228	-240
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	-34	-39
Short Term Debt Issuance and (Retirement)	-6	-48	-343	135	—
Long Term Debt Issuance and (Retirement)	557	194	307	171	550
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	-3	15
Other Financing Cash Flows (Outlays)	—	—	—	—	—
<b>Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Change in Cash</b>	<b>26</b>	<b>66</b>	<b>24</b>	<b>169</b>	<b>-29</b>
Change in Cash on Balance Sheet	19	24	-20	169	-29
Difference, from analyst adjustments and restatements	7	42	44	—	—



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Fortis Reports Flat First-Quarter Earnings

See Page 2 for the full Analyst Note from 04 May 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 04 May 2012  
Estimates as of 02 May 2012  
Pricing data through 03 May 2012  
Rating updated as of 04 May 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	2
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	4
Moat Trend	4
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	8
Additional Information	
Morningstar Analyst Forecasts	10
Comparable Company Analysis	14
Methodology for Valuing Companies	16

### Analyst's Perspective 03 May 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has expanded into the U.S. market with the announced acquisition of CHEnergy in February 2012. Given the small size of the transaction, we expect the company to continue U.S. expansion after the transaction is complete. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- Trading at 18 times our 2012 earnings estimate as of May, we think the stock is overvalued.

### Vital Statistics

Market Cap (CAD Mil)	6,401
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	8.3
YTD Total Return %	2.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	5.7
Price/Fair Value	1.13

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.8	19.3	19.4	17.5
EV/EBITDA	10.4	10.3	9.7	9.0
EV/EBIT	16.8	16.6	15.2	13.8
Free Cash Flow Yield %	-3.9	-2.4	-2.7	-6.2
Dividend Yield %	3.3	2.4	3.6	3.8

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,914	4,077
Revenue YoY %	0.7	2.3	4.5	4.2
EBIT	740	766	846	930
EBIT YoY %	5.6	3.5	10.5	9.9
Net Income, Adjusted	285	318	335	377
Net Income YoY %	8.8	11.6	5.2	12.8
Diluted EPS	1.65	1.74	1.77	1.96
Diluted EPS YoY %	7.0	6.1	1.0	10.7
Free Cash Flow	-232	-151	-171	-396
Free Cash Flow YoY %	-18.3	-34.9	13.0	132.2

Source for forecasts in the data tables above: Morningstar Estimates

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

### Fortis Reports Flat First-Quarter Earnings 04 May 2012

Fortis Inc. FTS posted slightly lower earnings per share of \$0.64 compared with \$0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay \$1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable \$3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a \$1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG. We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

### Thesis 03 May 2012

Fortis manages electric and gas regulated utilities in Canada

and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

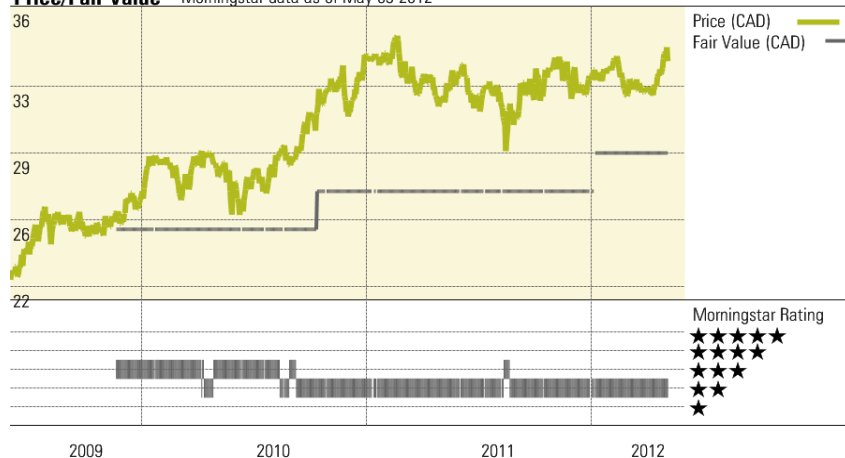
The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of May 03 2012



the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In February 2012, Fortis announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations. Given the relatively small size of CH Energy, we would look for Fortis to continue expansion through acquisitions after the CH Energy transaction is complete.

Given the high barriers to entry and regulated nature of

Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

## Valuation, Growth and Profitability 03 May 2012

We are increasing our fair value estimate to CAD 30 per share from CAD 29 per share after updating our five-year operating plan and incorporating the planned CH Energy merger. In accounting for the merger, we adjusted for certain tax and regulatory balance sheet items. We believe that the deal is only slightly value-dilutive for Fortis.

After the significant share dilution in 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%.

We use a 10.0% cost of equity and current credit spreads to arrive at a 7.1% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in EPS and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

### Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

### Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, rate base growth could increase at a 6% compound annual growth rate.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

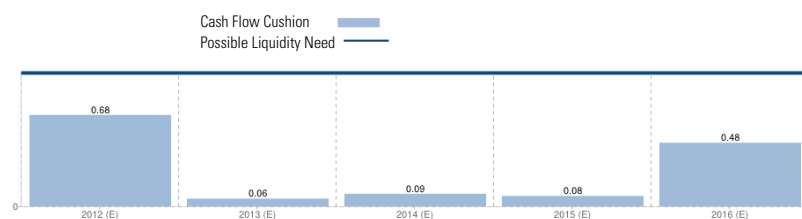
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	89	258	229	155	131
Adjusted Free Cash Flow	329	-110	19	154	392
Total Cash Available before Debt Service	305	39	51	89	280
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-390	-415	-435	-460	-485
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-446	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	89	2.6
Sum of 5-Year Adjusted Free Cash Flow	-98	-2.9
Sum of Cash and 5-Year Cash Generation	-9	-0.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	-9	-0.3
Sum of 5-Year Cash Commitments	-3,419	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	7	—	—
Cash Flow Cushion	10	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 3.0 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2012 and 2016, Fortis has CAD 6.0 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan in 2012-16. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

Concentrated Holders

NA		NA	NA	NA	NA
----	--	----	----	----	----

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Top 5 Sellers

NA		NA	NA	NA	NA
----	--	----	----	----	----

### Stewardship: 03 May 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Analyst Notes

### Fortis Reports Flat First-Quarter Earnings 04 May 2012

Fortis Inc. FTS posted slightly lower earnings per share of \$0.64 compared with \$0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay \$1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable \$3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a \$1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG. We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

### Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered \$65 per share for CH Energy, a 10.5% premium to the most recent close price.

The \$1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of \$3 billion to \$5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

### Analyst Notes

#### Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted \$1.75 in EPS in 2011, higher than our own \$1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as \$5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to \$1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfoundland Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast		5-Year Proj. CAGR
					Dec 2012	Dec 2013	
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	4.5	4.2	—
EBIT	3.1	0.1	5.6	3.5	10.5	9.9	7.9
EBITDA	3.4	-0.5	7.2	3.5	7.0	7.7	6.1
Net Income	9.1	6.9	8.8	11.6	5.2	12.8	7.6
Diluted EPS	3.9	-1.1	7.0	6.1	1.0	10.7	5.7
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-8.5	12.4	3.6
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	152.9	-136.8	24.8
Profitability							
Operating margin %	20.0	19.3	20.2	20.4	21.6	22.8	23.5
EBITDA margin %	32.0	30.6	32.5	32.9	33.8	34.9	35.5
Net margin %	7.8	7.2	7.8	8.5	8.6	9.3	9.6
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.2	-2.9	3.5
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.1	6.5	6.4
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.1	7.5	7.2
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.1	6.3	6.4
Return on Equity %	9.7	9.4	9.9	9.9	9.5	10.1	10.2
Leverage							
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.73	4.78	4.84
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.39	3.43	3.43

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.27	1.24	—	—
Price/Earnings	20.8	19.3	19.4	17.5
EV/EBITDA	10.4	10.3	9.7	9.0
EV/EBIT	16.8	16.6	15.2	13.8
Free Cash Flow Yield %	-3.9	-2.4	-2.7	-6.2
Dividend Yield %	3.3	2.4	3.6	3.8

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	28.1
Perpetuity Year	15

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	588	5.1	3.07
Present Value Stage II	11,056	95.0	57.76
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,644</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	89	—	0.47
Debt	6,250	—	-31.05
Net balance sheet impact	-5,855	—	-30.59
Other Adjustments	-203	—	-1.06
<b>Equity Value</b>	<b>5,586</b>	<b>—</b>	<b>29.86</b>
Projected Diluted Shares	191		
<b>Fair Value per Share (CAD)</b>	<b>30.00</b>		

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
	3,637	3,664	3,747	Dec 2012	Dec 2013
<b>Total Revenue</b>				<b>3,914</b>	<b>4,077</b>
Cost of Goods Sold	1,799	1,686	1,697	1,749	1,792
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,165</b>	<b>2,285</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	431	448
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
<b>Total Expenses</b>	<b>2,936</b>	<b>2,924</b>	<b>2,981</b>	<b>3,067</b>	<b>3,147</b>
<b>Operating Income (EBIT)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>846</b>	<b>930</b>
Interest Expense	360	350	370	390	415
Interest & Other Income (Expense)	—	—	40	10	10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>466</b>	<b>525</b>
Income Tax Expense (Benefit)	49	67	80	89	100
<b>Income After Taxes</b>	<b>292</b>	<b>323</b>	<b>356</b>	<b>378</b>	<b>425</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
<b>Net Income (Loss)</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>335</b>	<b>377</b>
Net Income (Loss) Excluding Charges	262	285	318	335	377
Diluted Shares Outstanding (Mil)	170	173	182	190	193
Diluted EPS Including Charges	1.54	1.65	1.75	1.76	1.95
Diluted EPS Excluding Charges	1.54	1.65	1.74	1.77	1.96
Dividends Per Common Share	1.10	1.04	1.12	1.20	1.24
<b>EBITDA</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,321</b>	<b>1,423</b>
<b>EBITDA without restructuring</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,321</b>	<b>1,423</b>

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
<b>Assets</b>					
Excess Cash & Investments	—	—	—	141	107
Operating Cash & Equivalents	85	109	89	117	122
Accounts Receivable	595	655	644	536	558
Inventory	178	168	134	144	147
Other Short Term Operating Assets	268	272	253	270	280
<b>Total Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,208</b>	<b>1,215</b>
Property Plant & Equipment, Net	7,687	8,202	8,687	9,548	10,418
Property Plant & Equipment, Gross	11,408	12,109	13,013	14,305	15,623
(Accumulated Depreciation)	-3,721	-3,907	-4,326	-4,757	-5,205
Goodwill, Net	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	297	253
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Deferred Tax Assets	17	16	8	20	20
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,330</b>	<b>15,213</b>
<b>Liabilities</b>					
Accounts Payable	852	953	914	1,108	1,132
Short-Term Debt	639	414	265	400	400
Other Current Liabilities	103	150	141	141	141
<b>Total Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,649</b>	<b>1,673</b>
Long-Term Debt	5,276	5,609	5,679	5,850	6,400
Incremental Debt Requirements	—	—	—	—	—
<b>Total Long-Term Debt</b>	<b>5,276</b>	<b>5,609</b>	<b>5,679</b>	<b>5,850</b>	<b>6,400</b>
Long-Term Operating Liabilities	731	775	881	916	916
Deferred Tax Liabilities	576	623	685	700	725
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,435</b>	<b>10,034</b>
<b>Preferred Stock</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>123</b>	<b>162</b>	<b>208</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	170	173	173	185	196
Additional Paid in Capital	2,338	2,417	2,725	2,827	2,948
Retained Earnings (Deficit)	763	804	905	1,012	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Total Shareholders' Equity</b>	<b>3,193</b>	<b>3,305</b>	<b>3,877</b>	<b>4,098</b>	<b>4,367</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,330</b>	<b>15,213</b>
Difference, from analyst adjustments and restatements	—	—	—	—	—

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	280	323	356	369	416
Depreciation Expense	364	410	424	431	448
Amortization of Other Intangibles	47	42	44	44	44
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	3	25
<b>Cash from Operations</b>	<b>684</b>	<b>774</b>	<b>948</b>	<b>1,121</b>	<b>922</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	108	-22
(Increase) Decrease in Inventory	—	—	—	-10	-4
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	194	24
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
<b>Cash from Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	184	-50
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>156</b>	<b>418</b>
Common Stock (Purchase) or Sale	46	80	345	114	132
Common Stock (Dividends)	-177	-193	-151	-228	-240
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	-34	-39
Short Term Debt Issuance and (Retirement)	-6	-48	-343	135	—
Long Term Debt Issuance and (Retirement)	557	194	307	171	550
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	-3	15
Other Financing Cash Flows (Outlays)	—	—	—	—	—
<b>Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Change in Cash</b>	<b>26</b>	<b>66</b>	<b>24</b>	<b>169</b>	<b>-29</b>
Change in Cash on Balance Sheet	19	24	-20	169	-29
Difference, from analyst adjustments and restatements	7	42	44	—	—

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.18	—	14.1	13.2	—	9.5	8.7	—	NM	-361.3	—	1.6	1.5	—	1.6	1.5
TransAlta Corporation TAC USA	0.71	—	12.7	12.0	—	7.2	6.9	—	16.0	12.4	—	1.2	1.2	—	1.2	1.1
Average		—	13.4	12.6	—	8.4	7.8	—	16.0	-174.5	—	1.4	1.4	—	1.4	1.3
<b>Fortis, Inc. FTS CA</b>	<b>1.17</b>	<b>19.3</b>	<b>19.4</b>	<b>17.5</b>	<b>10.3</b>	<b>9.7</b>	<b>9.0</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	— USD	6.9	6.7	6.4	6.9	6.7	6.4	12.2	11.5	12.2	5.7	5.5	6.0	—	3.7	3.9
TransAlta Corporation TAC USA	— CAD	5.7	6.0	6.1	6.1	6.3	6.5	10.6	11.0	11.2	6.1	5.8	6.0	—	7.5	7.6
Average		6.3	6.4	6.3	6.5	6.5	6.5	11.4	11.3	11.7	5.9	5.7	6.0	—	5.6	5.8
<b>Fortis, Inc. FTS CA</b>	<b>13,562 CAD</b>	<b>7.0</b>	<b>6.1</b>	<b>6.5</b>	<b>8.1</b>	<b>7.1</b>	<b>7.5</b>	<b>9.9</b>	<b>9.5</b>	<b>10.1</b>	<b>5.8</b>	<b>6.1</b>	<b>6.3</b>	<b>2.4</b>	<b>3.6</b>	<b>3.8</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	16,158 USD	5.5	2.0	5.6	-1.0	4.9	11.3	-6.7	1.8	7.1	-326.6	13.2	-96.8	10.9	5.5	5.5
TransAlta Corporation TAC USA	2,999 CAD	6.4	1.9	4.3	25.3	-5.9	4.5	21.7	3.6	6.1	593.4	55.8	29.5	22.2	1.0	0.9
Average		6.0	2.0	5.0	12.2	-0.5	7.9	7.5	2.7	6.6	133.4	34.5	-33.7	16.6	3.3	3.2
<b>Fortis, Inc. FTS CA</b>	<b>3,747 CAD</b>	<b>2.3</b>	<b>4.5</b>	<b>4.2</b>	<b>3.5</b>	<b>10.5</b>	<b>9.9</b>	<b>6.1</b>	<b>1.0</b>	<b>10.7</b>	<b>-34.9</b>	<b>13.0</b>	<b>132.2</b>	<b>-25.6</b>	<b>44.6</b>	<b>3.5</b>



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,863 USD	56.9	57.8	59.5	31.5	32.1	33.4	19.6	19.8	21.6	11.5	11.5	11.7	-12.4	-13.8	-0.4
TransAlta Corporation TAC USA	270 CAD	62.5	57.6	57.6	39.8	35.7	35.7	20.4	19.2	19.2	9.0	9.2	9.5	4.9	7.4	9.2
Average		59.7	57.7	58.6	35.7	33.9	34.6	20.0	19.5	20.4	10.3	10.4	10.6	-3.8	-3.2	4.4
<b>Fortis, Inc. FTS CA</b>	<b>318 CAD</b>	<b>54.7</b>	<b>55.3</b>	<b>56.0</b>	<b>32.9</b>	<b>33.8</b>	<b>34.9</b>	<b>20.4</b>	<b>21.6</b>	<b>22.8</b>	<b>8.5</b>	<b>8.6</b>	<b>9.3</b>	<b>-4.0</b>	<b>-4.4</b>	<b>-9.7</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	23,708 USD	153.9	159.3	159.7	60.6	61.4	61.5	4.7	4.4	4.4	4.7	4.9	4.7	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,326 CAD	148.4	139.3	132.2	57.4	56.0	54.7	5.7	5.2	5.4	3.6	3.9	3.6	3.4	3.4	3.3
Average		151.2	149.3	146.0	59.0	58.7	58.1	5.2	4.8	4.9	4.2	4.4	4.2	3.6	3.6	3.5
<b>Fortis, Inc. FTS CA</b>	<b>5,944 CAD</b>	<b>153.3</b>	<b>152.5</b>	<b>155.7</b>	<b>57.1</b>	<b>57.1</b>	<b>57.8</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>4.8</b>	<b>4.7</b>	<b>4.8</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CF0 per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	26,526 USD	0.70	0.61	0.47	-55.55	-60.71	-64.64	9.69	10.37	10.53	-4.77	-5.39	-0.17	51.1	54.0	51.0
TransAlta Corporation TAC USA	3,688 USD	0.41	0.28	0.27	-19.16	-18.68	-18.20	3.37	4.04	3.92	0.66	1.02	1.31	101.7	96.1	91.3
Average		0.6	0.4	0.4	-37.4	-39.7	-41.4	6.5	7.2	7.2	-2.1	-2.2	0.6	76.4	75.1	71.2
<b>Fortis, Inc. FTS CA</b>	<b>6,401 CAD</b>	<b>0.49</b>	<b>1.36</b>	<b>1.19</b>	<b>-32.17</b>	<b>-31.59</b>	<b>-34.01</b>	<b>5.21</b>	<b>5.91</b>	<b>4.77</b>	<b>-0.83</b>	<b>-0.90</b>	<b>-2.05</b>	<b>47.5</b>	<b>68.0</b>	<b>63.6</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

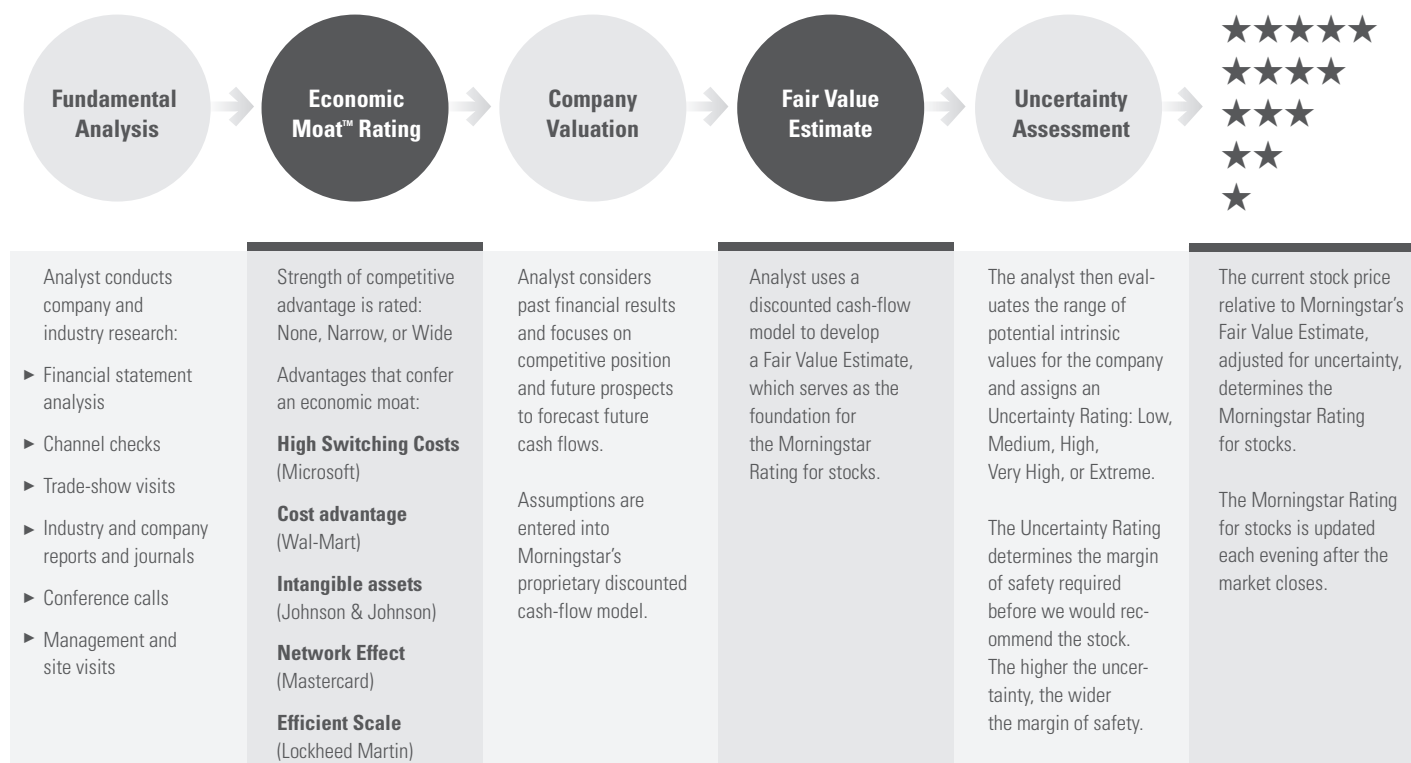
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

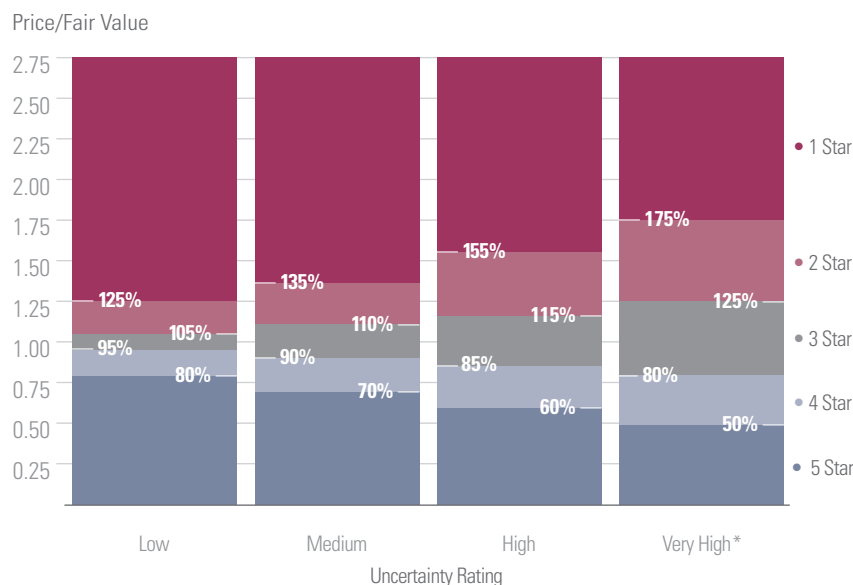
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

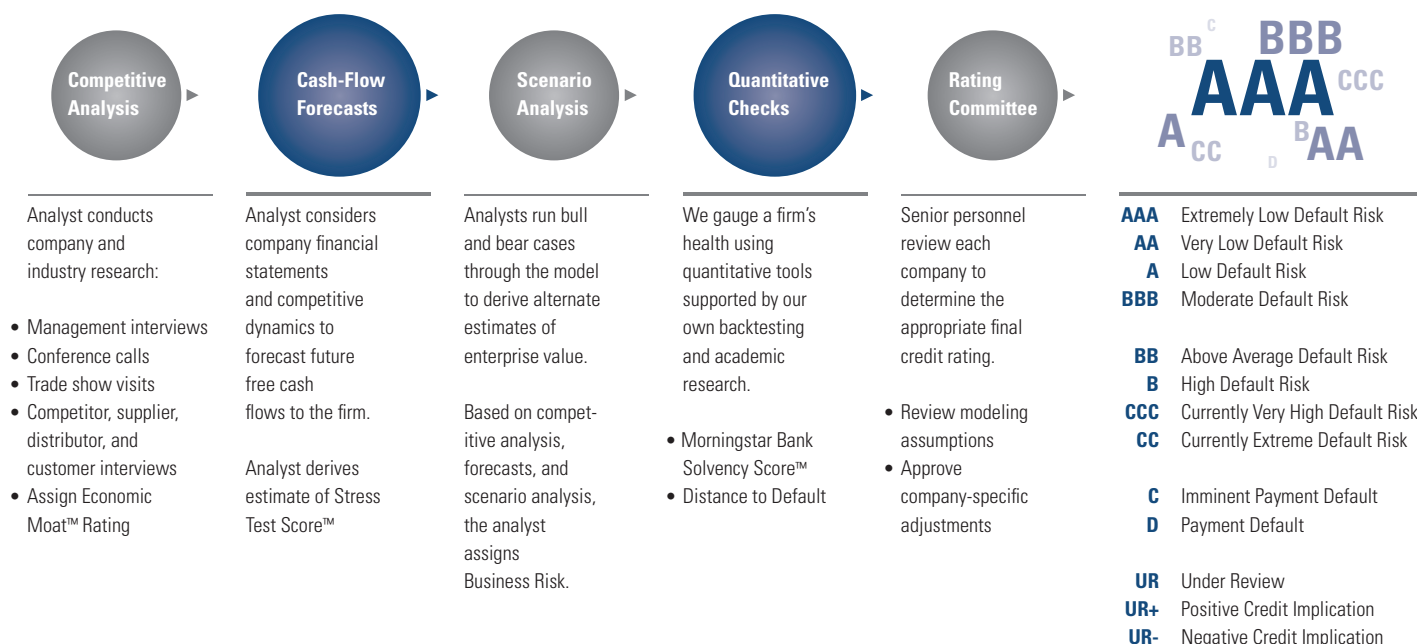
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Regulated Electric Utilities Drive Fortis' Second-Quarter Results

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 02 Aug 2012  
Estimates as of 31 Jul 2012  
Pricing data through 01 Aug 2012  
Rating updated as of 01 Aug 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	3

### Analyst Note 02 Aug 2012

Fortis, Inc FTS posted slightly higher EPS of \$0.33 compared with \$0.32 in the year-ago quarter. The comparison is complicated by the mid-2011 equity issuance offering, which increased outstanding shares 7%. The company will pay \$1.20 per share in dividends, up 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our \$30 per share fair value estimate and forecast 4% EPS growth in 2012.

The company's regulated electric utilities earnings increased \$9 million, up 20% from the year-ago quarter. Fortis Alberta accounted for the majority of the increase as the company continues to expand energy infrastructure and began to reap the benefits from prior transmission investments. Pending regulatory decisions are expected for Fortis BC Electric in the third quarter.

Earnings at the company's regulated gas utilities declined \$2 million, down 13% from the comparable 2011 quarter. A decline in customer additions and lower allowance for funds during construction negatively affected earnings. At the company's Belize unit, higher rainfall increased production with a favorable \$3 million benefit to the company's bottom line. Earnings were flat at Fortis' nonregulated generation and property units.

The company continues to progress through regulatory approvals for its announced \$1.5 billion acquisition of CH Energy CHG. To date, the company has received approval from the U.S. Federal Energy Regulatory Commission and the Committee on Foreign Investment. An application was filed in April 2012 with the New York State Public Service Commission, with a decision forecast in the third quarter. Shareholders approved the transaction in June 2012. Company management is targeting closing the transaction in the first quarter of 2013, and expects CH Energy to be

### Vital Statistics

Market Cap (CAD Mil)	6,301
52-Week High (CAD)	34.98
52-Week Low (CAD)	28.24
52-Week Total Return %	8.5
YTD Total Return %	1.2
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.7
5-Yr Forward EPS CAGR %	6.4
Price/Fair Value	1.11

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.8	19.3	18.3	16.6
EV/EBITDA	10.4	10.3	10.0	9.3
EV/EBIT	16.8	16.6	15.5	14.1
Free Cash Flow Yield %	-3.9	-2.4	-2.6	-6.1
Dividend Yield %	3.3	2.4	3.5	3.7

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,926	4,081
Revenue YoY %	0.7	2.3	4.8	4.0
EBIT	740	766	865	951
EBIT YoY %	5.6	3.5	13.0	9.9
Net Income, Adjusted	285	318	348	392
Net Income YoY %	8.8	11.6	9.4	12.6
Diluted EPS	1.63	1.73	1.81	2.00
Diluted EPS YoY %	7.0	6.1	4.9	10.5
Free Cash Flow	-232	-151	-163	-385
Free Cash Flow YoY %	-18.3	-34.9	8.0	136.5

Source for forecasts in the data tables above: Morningstar Estimates

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2011.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

accretive to earnings immediately. We continue to believe the transaction is slightly value-dilutive for Fortis shareholders, and estimate an 85% probability of the transaction closing.



# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast		5-Year Proj. CAGR
					Dec 2012	Dec 2013	
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	4.8	4.0	—
EBIT	3.1	0.1	5.6	3.5	13.0	9.9	8.4
EBITDA	3.4	-0.5	7.2	3.5	8.7	7.7	6.4
Net Income	9.1	6.9	8.8	11.6	9.4	12.6	8.4
Diluted EPS	3.9	-1.1	7.0	6.1	4.9	10.5	6.4
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-7.1	12.4	3.9
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	157.4	-133.5	25.3
	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Profitability							
Operating Margin %	20.0	19.3	20.2	20.4	22.0	23.3	24.0
EBITDA Margin %	32.0	30.6	32.5	32.9	34.2	35.4	36.1
Net Margin %	7.8	7.2	7.8	8.5	8.9	9.6	9.9
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.3	-2.7	3.7
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.2	6.6	6.5
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.2	7.6	7.3
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.2	6.4	6.5
Return on Equity %	9.7	9.4	9.9	9.9	9.8	10.3	10.4
	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Leverage							
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.66	4.71	4.76
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.44	3.48	3.48

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.26	1.24	—	—
Price/Earnings	20.8	19.3	18.3	16.6
EV/EBITDA	10.4	10.3	10.0	9.3
EV/EBIT	16.8	16.6	15.5	14.1
Free Cash Flow Yield %	-3.9	-2.4	-2.6	-6.1
Dividend Yield %	3.3	2.4	3.5	3.7

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.3
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	26.4
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	617	5.3	3.22
Present Value Stage II	10,954	94.7	57.18
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,571</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	89	—	0.46
Debt	6,250	—	-31.03
Net balance sheet impact	-5,855	—	-30.56
Other Adjustments	-203	—	-1.06
<b>Equity Value</b>	<b>5,513</b>	<b>—</b>	<b>29.48</b>
Projected Diluted Shares	192		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
	3,637	3,664	3,747	Dec 2012	Dec 2013
<b>Total Revenue</b>				<b>3,926</b>	<b>4,081</b>
Cost of Goods Sold	1,799	1,686	1,697	1,740	1,775
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,186</b>	<b>2,306</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	432	449
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
<b>Total Expenses</b>	<b>2,936</b>	<b>2,924</b>	<b>2,981</b>	<b>3,060</b>	<b>3,130</b>
<b>Operating Income (EBIT)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>865</b>	<b>951</b>
Interest Expense	360	350	370	390	415
Interest & Other Income (Expense)	—	—	40	10	10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>485</b>	<b>546</b>
Income Tax Expense (Benefit)	49	67	80	95	106
<b>Income After Taxes</b>	<b>292</b>	<b>323</b>	<b>356</b>	<b>391</b>	<b>440</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
<b>Net Income (Loss)</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>348</b>	<b>392</b>
Net Income (Loss) Excluding Charges	262	285	318	348	392
Diluted Shares Outstanding (Mil)	170	173	182	190	193
Diluted EPS Including Charges	1.54	1.65	1.75	1.83	2.02
Diluted EPS Excluding Charges	1.52	1.63	1.73	1.81	2.00
Dividends Per Common Share	—	—	—	—	—
<b>EBITDA</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,341</b>	<b>1,444</b>
<b>EBITDA without restructuring</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,341</b>	<b>1,444</b>

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
<b>Assets</b>					
Excess Cash & Investments	—	—	—	160	145
Operating Cash & Equivalents	85	109	89	118	122
Accounts Receivable	595	655	644	538	559
Inventory	178	168	134	143	146
Other Short Term Operating Assets	268	272	253	270	280
<b>Total Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,229</b>	<b>1,253</b>
Property Plant & Equipment, Net	7,687	8,202	8,687	9,547	10,416
Property Plant & Equipment, Gross	11,408	12,109	13,013	14,305	15,623
(Accumulated Depreciation)	-3,721	-3,907	-4,326	-4,758	-5,207
Goodwill, Net	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	297	253
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Deferred Tax Assets	17	16	8	20	20
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,350</b>	<b>15,249</b>
<b>Liabilities</b>					
Accounts Payable	852	953	914	1,102	1,120
Short-Term Debt	639	414	265	400	400
Other Current Liabilities	103	150	141	141	141
<b>Total Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,643</b>	<b>1,661</b>
Long-Term Debt	5,276	5,609	5,679	5,850	6,400
Incremental Debt Requirements	—	—	—	—	—
<b>Total Long-Term Debt</b>	<b>5,276</b>	<b>5,609</b>	<b>5,679</b>	<b>5,850</b>	<b>6,400</b>
Long-Term Operating Liabilities	731	775	881	916	916
Deferred Tax Liabilities	576	623	685	700	725
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,429</b>	<b>10,022</b>
<b>Preferred Stock</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>123</b>	<b>162</b>	<b>208</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	170	173	173	185	196
Additional Paid in Capital	2,338	2,417	2,725	2,832	2,953
Retained Earnings (Deficit)	763	804	905	1,033	1,192
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Total Shareholders' Equity</b>	<b>3,193</b>	<b>3,305</b>	<b>3,877</b>	<b>4,124</b>	<b>4,415</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,350</b>	<b>15,249</b>
Difference, from analyst adjustments and restatements	—	—	—	—	—

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	280	323	356	382	431
Depreciation Expense	364	410	424	432	449
Amortization of Other Intangibles	47	42	44	44	44
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	3	25
<b>Cash from Operations</b>	<b>684</b>	<b>774</b>	<b>948</b>	<b>1,129</b>	<b>932</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	106	-21
(Increase) Decrease in Inventory	—	—	—	-9	-3
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	188	18
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
<b>Cash from Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	184	-50
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>168</b>	<b>425</b>
Common Stock (Purchase) or Sale	46	80	345	119	132
Common Stock (Dividends)	-177	-193	-151	-220	-232
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	-34	-39
Short Term Debt Issuance and (Retirement)	-6	-48	-343	135	—
Long Term Debt Issuance and (Retirement)	557	194	307	171	550
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	-3	15
Other Financing Cash Flows (Outlays)	—	—	—	—	—
<b>Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Change in Cash</b>	<b>26</b>	<b>66</b>	<b>24</b>	<b>189</b>	<b>-10</b>
Change in Cash on Balance Sheet	19	24	-20	189	-10
Difference, from analyst adjustments and restatements	7	42	44	—	—

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Regulated Electric Utilities Drive Fortis' Second-Quarter Results

See Page 2 for the full Analyst Note from 02 Aug 2012

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 02 Aug 2012  
Estimates as of 31 Jul 2012  
Pricing data through 01 Aug 2012  
Rating updated as of 01 Aug 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	2
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	4
Economic Moat	4
Moat Trend	4
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	8
Additional Information	-
Morningstar Analyst Forecasts	10
Comparable Company Analysis	14
Methodology for Valuing Companies	16

### Analyst's Perspective 31 Jul 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has expanded into the U.S. market with the announced acquisition of CH Energy in February 2012. Given the small size of the transaction, we expect the company to continue U.S. expansion after the transaction is complete. We forecast normalized earnings can grow at 5% annually through 2016. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- Trading at 18 times our 2012 earnings estimate as of early August, we think the stock is overvalued.

### Vital Statistics

Market Cap (CAD Mil)	6,301
52-Week High (CAD)	34.98
52-Week Low (CAD)	28.24
52-Week Total Return %	8.5
YTD Total Return %	1.2
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.7
5-Yr Forward EPS CAGR %	6.4
Price/Fair Value	1.11

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.8	19.3	18.3	16.6
EV/EBITDA	10.4	10.3	10.0	9.3
EV/EBIT	16.8	16.6	15.5	14.1
Free Cash Flow Yield %	-3.9	-2.4	-2.6	-6.1
Dividend Yield %	3.3	2.4	3.5	3.7

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,926	4,081
Revenue YoY %	0.7	2.3	4.8	4.0
EBIT	740	766	865	951
EBIT YoY %	5.6	3.5	13.0	9.9
Net Income, Adjusted	285	318	348	392
Net Income YoY %	8.8	11.6	9.4	12.6
Diluted EPS	1.63	1.73	1.81	2.00
Diluted EPS YoY %	7.0	6.1	4.9	10.5
Free Cash Flow	-232	-151	-163	-385
Free Cash Flow YoY %	-18.3	-34.9	8.0	136.5

Source for forecasts in the data tables above: Morningstar Estimates

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2011.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

### Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

#### Regulated Electric Utilities Drive Fortis' Second-Quarter Results 02 Aug 2012

Fortis, Inc FTS posted slightly higher EPS of \$0.33 compared with \$0.32 in the year-ago quarter. The comparison is complicated by the mid-2011 equity issuance offering, which increased outstanding shares 7%. The company will pay \$1.20 per share in dividends, up 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our \$30 per share fair value estimate and forecast 4% EPS growth in 2012.

The company's regulated electric utilities earnings increased \$9 million, up 20% from the year-ago quarter. Fortis Alberta accounted for the majority of the increase as the company continues to expand energy infrastructure and began to reap the benefits from prior transmission investments. Pending regulatory decisions are expected for Fortis BC Electric in the third quarter.

Earnings at the company's regulated gas utilities declined \$2 million, down 13% from the comparable 2011 quarter. A decline in customer additions and lower allowance for funds during construction negatively affected earnings. At the company's Belize unit, higher rainfall increased production with a favorable \$3 million benefit to the company's bottom line. Earnings were flat at Fortis' nonregulated generation and property units.

The company continues to progress through regulatory approvals for its announced \$1.5 billion acquisition of CH Energy CHG. To date, the company has received approval from the U.S. Federal Energy Regulatory Commission and the Committee on Foreign Investment. An application was filed in April 2012 with the New York State Public Service Commission, with a decision forecast in the third quarter. Shareholders approved the transaction in June 2012. Company management is targeting closing the transaction in the first quarter of 2013, and expects CH Energy to be accretive to earnings immediately. We continue to believe

the transaction is slightly value-dilutive for Fortis shareholders, and estimate an 85% probability of the transaction closing.

#### Thesis 31 Jul 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2016, as the healthier Canadian economy drives usage and customer growth to support its CAD 6.0 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25% after a series of rate increases in 2011. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated



recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In February 2012, Fortis announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the

U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

To date, the company has received approval from the U.S. Federal Energy Regulatory Commission and the Committee on Foreign Investment. An application was filed in April 2012 with the New York State Public Service Commission, with a decision forecast in the third quarter. Shareholders approved the transaction in June 2012.

Company management is targeting closing the transaction in the first quarter of 2013, and expects CH Energy to be accretive to earnings immediately. We forecast the transaction is slightly dilutive for Fortis shareholders, and estimate a high 85% probability of the transaction closing. Given the relatively small size of CH Energy, we would look for Fortis to continue expansion through acquisitions after the CH Energy transaction is complete.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

## Valuation, Growth and Profitability 31 Jul 2012

We are reaffirming our CAD 30 per share fair value estimate after updating our five-year forecasts following the company's second-quarter earnings release. In accounting for the CH Energy acquisition, we adjusted for certain tax and regulatory balance sheet items. We believe the deal is slightly value-dilutive for Fortis.

After the significant share dilution in 2011, we forecast 4% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%.

We use a 10.0% cost of equity and current credit spreads to arrive at a 7.1% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in EPS and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with

all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, Fortis' rate base could grow 6% annually.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

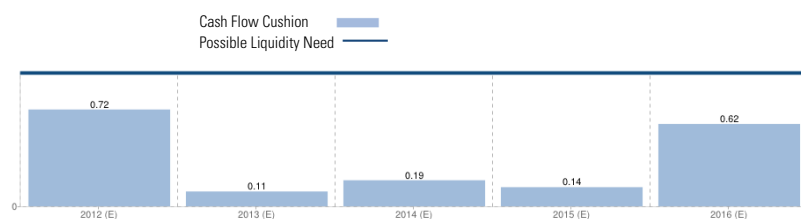
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	89	278	268	213	195
Adjusted Free Cash Flow	335	-101	28	162	400
Total Cash Available before Debt Service	323	76	107	165	362
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-390	-415	-435	-460	-485
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-446	-684	-549	-1,152	-588

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	89	2.6
Sum of 5-Year Adjusted Free Cash Flow	-11	-0.3
Sum of Cash and 5-Year Cash Generation	78	2.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	78	2.3
Sum of 5-Year Cash Commitments	-3,419	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	10	—	—
Solvency Score	8	—	—
Distance to Default	3	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 3.0 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Between 2012 and 2016, Fortis has CAD 6.0 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue additional equity in 2012 to accommodate employee stock purchase plans and the CH Energy acquisition.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan in 2012-16. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75 B		3.30	1.58	-200	30 Apr 2012
BMO Dividend	★★★★	1.37	2.19	208	30 Jun 2012
iShares S&P/TSX 60 Index	★★★★★	1.14	0.60	188	30 Jun 2012
RBC Canadian Dividend GIF	★★★★	1.00	0.46	—	31 Mar 2012
Fidelity Dividend Plus Series F	★★★★★	1.00	3.70	75	31 Mar 2012

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund		0.24	21.58	7	30 Jun 2012
BMO Equal Weight Utilities Index ETF		0.27	7.43	32	30 Jun 2012
AGF Monthly High Income Class V		—	7.02	9	30 Jun 2012
Utility Corp		0.06	6.99	—	30 Jun 2012

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Undrly LGIM World (ex-UK) Eq IdxGH G Pen		0.02	0.02	594	31 Mar 2012
BMO Dividend	★★★★	1.37	2.19	208	30 Jun 2012
iShares S&P/TSX 60 Index	★★★★★	1.14	0.60	188	30 Jun 2012
IG FI Canadian Equity B	★★★★	0.09	0.67	166	31 Mar 2012
Fidelity Dividend Plus Series F	★★★★★	1.00	3.70	75	31 Mar 2012

#### Top 5 Sellers

Undrly L&G Pen PMC GIB Eq 60:40 Idx		—	0.01	-583	31 Mar 2012
Undrly L&G Pen PMC Consensus Idx		—	0.01	-583	31 Mar 2012
IG/GWL Dividend GIF 75/75 B		3.30	1.58	-200	30 Apr 2012
RBC Private Canadian Equity Pool Sr F	★★★★★	0.02	0.51	-78	31 Mar 2012
iShares S&P/TSX Can Div Aristocrats Adv	★★★★	0.22	1.79	-67	30 Jun 2012

### Stewardship: 31 Jul 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Analyst Notes

### Regulated Electric Utilities Drive Fortis' Second-Quarter Results 02 Aug 2012

Fortis, Inc FTS posted slightly higher EPS of \$0.33 compared with \$0.32 in the year-ago quarter. The comparison is complicated by the mid-2011 equity issuance offering, which increased outstanding shares 7%. The company will pay \$1.20 per share in dividends, up 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our \$30 per share fair value estimate and forecast 4% EPS growth in 2012.

The company's regulated electric utilities earnings increased \$9 million, up 20% from the year-ago quarter. Fortis Alberta accounted for the majority of the increase as the company continues to expand energy infrastructure and began to reap the benefits from prior transmission investments. Pending regulatory decisions are expected for Fortis BC Electric in the third quarter.

Earnings at the company's regulated gas utilities declined \$2 million, down 13% from the comparable 2011 quarter. A decline in customer additions and lower allowance for funds during construction negatively affected earnings. At the company's Belize unit, higher rainfall increased production with a favorable \$3 million benefit to the company's bottom line. Earnings were flat at Fortis' nonregulated generation and property units.

The company continues to progress through regulatory approvals for its announced \$1.5 billion acquisition of CH Energy CHG. To date, the company has received approval from the U.S. Federal Energy Regulatory Commission and the Committee on Foreign Investment. An application was filed in April 2012 with the New York State Public Service Commission, with a decision forecast in the third quarter. Shareholders approved the transaction in June 2012. Company management is targeting closing the transaction in the first quarter of 2013, and expects CH Energy to be

accretive to earnings immediately. We continue to believe the transaction is slightly value-dilutive for Fortis shareholders, and estimate an 85% probability of the transaction closing.

### Fortis Reports Flat First-Quarter Earnings 04 May 2012

Fortis Inc FTS posted slightly lower earnings per share of \$0.64 compared with \$0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay \$1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable \$3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a \$1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG. We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Analyst Notes

a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

### Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered \$65 per share for CH Energy, a 10.5% premium to the most recent close price.

The \$1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of \$3 billion to \$5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the

### Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted \$1.75 in EPS in 2011, higher than our own \$1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as \$5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to \$1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast		5-Year Proj. CAGR
					Dec 2012	Dec 2013	
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	4.8	4.0	—
EBIT	3.1	0.1	5.6	3.5	13.0	9.9	8.4
EBITDA	3.4	-0.5	7.2	3.5	8.7	7.7	6.4
Net Income	9.1	6.9	8.8	11.6	9.4	12.6	8.4
Diluted EPS	3.9	-1.1	7.0	6.1	4.9	10.5	6.4
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-7.1	12.4	3.9
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	157.4	-133.5	25.3
	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Profitability							
Operating Margin %	20.0	19.3	20.2	20.4	22.0	23.3	24.0
EBITDA Margin %	32.0	30.6	32.5	32.9	34.2	35.4	36.1
Net Margin %	7.8	7.2	7.8	8.5	8.9	9.6	9.9
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.3	-2.7	3.7
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.2	6.6	6.5
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.2	7.6	7.3
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.2	6.4	6.5
Return on Equity %	9.7	9.4	9.9	9.9	9.8	10.3	10.4
	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Leverage							
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.66	4.71	4.76
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.44	3.48	3.48

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.26	1.24	—	—
Price/Earnings	20.8	19.3	18.3	16.6
EV/EBITDA	10.4	10.3	10.0	9.3
EV/EBIT	16.8	16.6	15.5	14.1
Free Cash Flow Yield %	-3.9	-2.4	-2.6	-6.1
Dividend Yield %	3.3	2.4	3.5	3.7

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.3
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	26.4
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	617	5.3	3.22
Present Value Stage II	10,954	94.7	57.18
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,571</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	89	—	0.46
Debt	6,250	—	-31.03
Net balance sheet impact	-5,855	—	-30.56
Other Adjustments	-203	—	-1.06
<b>Equity Value</b>	<b>5,513</b>	<b>—</b>	<b>29.48</b>

Projected Diluted Shares	192
<b>Fair Value per Share (CAD)</b>	<b>—</b>

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
	3,637	3,664	3,747	Dec 2012	Dec 2013
<b>Total Revenue</b>				<b>3,926</b>	<b>4,081</b>
Cost of Goods Sold	1,799	1,686	1,697	1,740	1,775
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,186</b>	<b>2,306</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	432	449
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
<b>Total Expenses</b>	<b>2,936</b>	<b>2,924</b>	<b>2,981</b>	<b>3,060</b>	<b>3,130</b>
<b>Operating Income (EBIT)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>865</b>	<b>951</b>
Interest Expense	360	350	370	390	415
Interest & Other Income (Expense)	—	—	40	10	10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>485</b>	<b>546</b>
Income Tax Expense (Benefit)	49	67	80	95	106
<b>Income After Taxes</b>	<b>292</b>	<b>323</b>	<b>356</b>	<b>391</b>	<b>440</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
<b>Net Income (Loss)</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>348</b>	<b>392</b>
Net Income (Loss) Excluding Charges	262	285	318	348	392
Diluted Shares Outstanding (Mil)	170	173	182	190	193
Diluted EPS Including Charges	1.54	1.65	1.75	1.83	2.02
Diluted EPS Excluding Charges	1.52	1.63	1.73	1.81	2.00
Dividends Per Common Share	—	—	—	—	—
<b>EBITDA</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,341</b>	<b>1,444</b>
<b>EBITDA without restructuring</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,341</b>	<b>1,444</b>

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
<b>Assets</b>					
Excess Cash & Investments	—	—	—	160	145
Operating Cash & Equivalents	85	109	89	118	122
Accounts Receivable	595	655	644	538	559
Inventory	178	168	134	143	146
Other Short Term Operating Assets	268	272	253	270	280
<b>Total Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,229</b>	<b>1,253</b>
Property Plant & Equipment, Net	7,687	8,202	8,687	9,547	10,416
Property Plant & Equipment, Gross	11,408	12,109	13,013	14,305	15,623
(Accumulated Depreciation)	-3,721	-3,907	-4,326	-4,758	-5,207
Goodwill, Net	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	297	253
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Deferred Tax Assets	17	16	8	20	20
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,350</b>	<b>15,249</b>
<b>Liabilities</b>					
Accounts Payable	852	953	914	1,102	1,120
Short-Term Debt	639	414	265	400	400
Other Current Liabilities	103	150	141	141	141
<b>Total Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,643</b>	<b>1,661</b>
Long-Term Debt	5,276	5,609	5,679	5,850	6,400
Incremental Debt Requirements	—	—	—	—	—
<b>Total Long-Term Debt</b>	<b>5,276</b>	<b>5,609</b>	<b>5,679</b>	<b>5,850</b>	<b>6,400</b>
Long-Term Operating Liabilities	731	775	881	916	916
Deferred Tax Liabilities	576	623	685	700	725
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,429</b>	<b>10,022</b>
<b>Preferred Stock</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>123</b>	<b>162</b>	<b>208</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	170	173	173	185	196
Additional Paid in Capital	2,338	2,417	2,725	2,832	2,953
Retained Earnings (Deficit)	763	804	905	1,033	1,192
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Total Shareholders' Equity</b>	<b>3,193</b>	<b>3,305</b>	<b>3,877</b>	<b>4,124</b>	<b>4,415</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,350</b>	<b>15,249</b>
Difference, from analyst adjustments and restatements	—	—	—	—	—

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	280	323	356	382	431
Depreciation Expense	364	410	424	432	449
Amortization of Other Intangibles	47	42	44	44	44
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	3	25
<b>Cash from Operations</b>	<b>684</b>	<b>774</b>	<b>948</b>	<b>1,129</b>	<b>932</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	106	-21
(Increase) Decrease in Inventory	—	—	—	-9	-3
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	188	18
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
<b>Cash from Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	184	-50
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>168</b>	<b>425</b>
Common Stock (Purchase) or Sale	46	80	345	119	132
Common Stock (Dividends)	-177	-193	-151	-220	-232
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	-34	-39
Short Term Debt Issuance and (Retirement)	-6	-48	-343	135	—
Long Term Debt Issuance and (Retirement)	557	194	307	171	550
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	-3	15
Other Financing Cash Flows (Outlays)	—	—	—	—	—
<b>Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Change in Cash</b>	<b>26</b>	<b>66</b>	<b>24</b>	<b>189</b>	<b>-10</b>
Change in Cash on Balance Sheet	19	24	-20	189	-10
Difference, from analyst adjustments and restatements	7	42	44	—	—

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	13.3	15.5	14.1	9.2	10.0	9.2	547.3	NM	32.8	1.7	1.9	1.8	1.7	1.9	1.8
TransAlta Corporation TAC USA	0.70	20.2	16.3	15.6	8.1	7.1	6.9	19.5	8.9	24.5	1.7	1.3	1.3	1.8	1.4	1.2
Average		16.8	15.9	14.9	8.7	8.6	8.1	283.4	8.9	28.7	1.7	1.6	1.6	1.8	1.7	1.5
<b>Fortis, Inc. FTS CA</b>	<b>1.11</b>	<b>19.3</b>	<b>18.3</b>	<b>16.6</b>	<b>10.3</b>	<b>10.0</b>	<b>9.3</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	57,188 USD	8.3	6.2	6.8	8.3	6.2	6.8	13.1	12.3	12.8	6.1	6.0	6.3	3.6	3.4	3.7
TransAlta Corporation TAC USA	9,760 CAD	6.1	6.8	5.3	6.4	7.2	5.6	12.3	9.8	10.1	6.8	5.6	5.8	4.1	7.5	7.6
Average		7.2	6.5	6.1	7.4	6.7	6.2	12.7	11.1	11.5	6.5	5.8	6.1	3.9	5.5	5.7
<b>Fortis, Inc. FTS CA</b>	<b>13,562 CAD</b>	<b>7.0</b>	<b>6.2</b>	<b>6.6</b>	<b>8.1</b>	<b>7.2</b>	<b>7.6</b>	<b>9.9</b>	<b>9.8</b>	<b>10.3</b>	<b>5.8</b>	<b>6.2</b>	<b>6.4</b>	<b>2.4</b>	<b>3.5</b>	<b>3.7</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,341 USD	0.2	3.4	5.7	4.2	5.9	10.0	-3.1	-1.2	10.4	-94.7	-5,580.7	-135.3	10.2	9.8	10.0
TransAlta Corporation TAC USA	2,663 CAD	-5.5	-4.4	9.4	33.2	-16.7	3.0	36.8	-31.3	4.6	NM	61.9	-63.6	-12.8	34.8	0.5
Average		-2.7	-0.5	7.6	18.7	-5.4	6.5	16.9	-16.3	7.5	-94.7	-2,759.4	-99.5	-1.3	22.3	5.3
<b>Fortis, Inc. FTS CA</b>	<b>3,747 CAD</b>	<b>2.3</b>	<b>4.8</b>	<b>4.0</b>	<b>3.5</b>	<b>13.0</b>	<b>9.9</b>	<b>6.1</b>	<b>4.9</b>	<b>10.5</b>	<b>-34.9</b>	<b>8.0</b>	<b>136.5</b>	<b>-25.6</b>	<b>39.8</b>	<b>3.5</b>

## Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,923 USD	59.2	61.3	61.8	34.4	34.2	35.2	22.0	22.6	23.5	12.5	12.0	12.6	0.3	-16.3	5.4
TransAlta Corporation TAC USA	302 CAD	64.4	64.0	61.5	41.0	42.7	39.9	24.9	21.7	20.4	11.4	8.3	8.0	9.1	15.3	5.1
Average		61.8	62.7	61.7	37.7	38.5	37.6	23.5	22.2	22.0	12.0	10.2	10.3	4.7	-0.5	5.3
<b>Fortis, Inc. FTS CA</b>	<b>318 CAD</b>	<b>54.7</b>	<b>55.7</b>	<b>56.5</b>	<b>32.9</b>	<b>34.2</b>	<b>35.4</b>	<b>20.4</b>	<b>22.0</b>	<b>23.3</b>	<b>8.5</b>	<b>8.9</b>	<b>9.6</b>	<b>-4.0</b>	<b>-4.2</b>	<b>-9.5</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	22,967 USD	153.7	165.8	160.5	60.6	62.4	61.6	5.1	4.7	4.8	4.4	4.9	4.6	3.8	3.9	3.8
TransAlta Corporation TAC USA	4,037 CAD	149.1	153.7	148.7	55.3	58.1	57.3	5.1	4.9	5.0	3.7	3.8	3.7	3.6	3.6	3.6
Average		151.4	159.8	154.6	58.0	60.3	59.5	5.1	4.8	4.9	4.1	4.4	4.2	3.7	3.8	3.7
<b>Fortis, Inc. FTS CA</b>	<b>5,944 CAD</b>	<b>153.3</b>	<b>151.6</b>	<b>154.0</b>	<b>57.1</b>	<b>57.0</b>	<b>57.6</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>4.8</b>	<b>4.7</b>	<b>4.7</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CF0 per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	29,838 USD	0.90	0.50	1.78	-53.91	-62.29	-62.72	9.72	9.03	10.58	0.11	-6.14	2.17	47.8	53.2	53.0
TransAlta Corporation TAC USA	3,476 USD	0.22	0.46	0.24	-17.96	-17.89	-17.77	3.13	4.49	3.80	1.09	1.73	0.63	65.9	123.9	119.0
Average		0.6	0.5	1.0	-35.9	-40.1	-40.2	6.4	6.8	7.2	0.6	-2.2	1.4	56.9	88.6	86.0
<b>Fortis, Inc. FTS CA</b>	<b>6,301 CAD</b>	<b>0.49</b>	<b>1.46</b>	<b>1.38</b>	<b>-32.17</b>	<b>-31.47</b>	<b>-33.78</b>	<b>5.21</b>	<b>5.95</b>	<b>4.82</b>	<b>-0.83</b>	<b>-0.86</b>	<b>-1.99</b>	<b>47.5</b>	<b>63.3</b>	<b>59.3</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

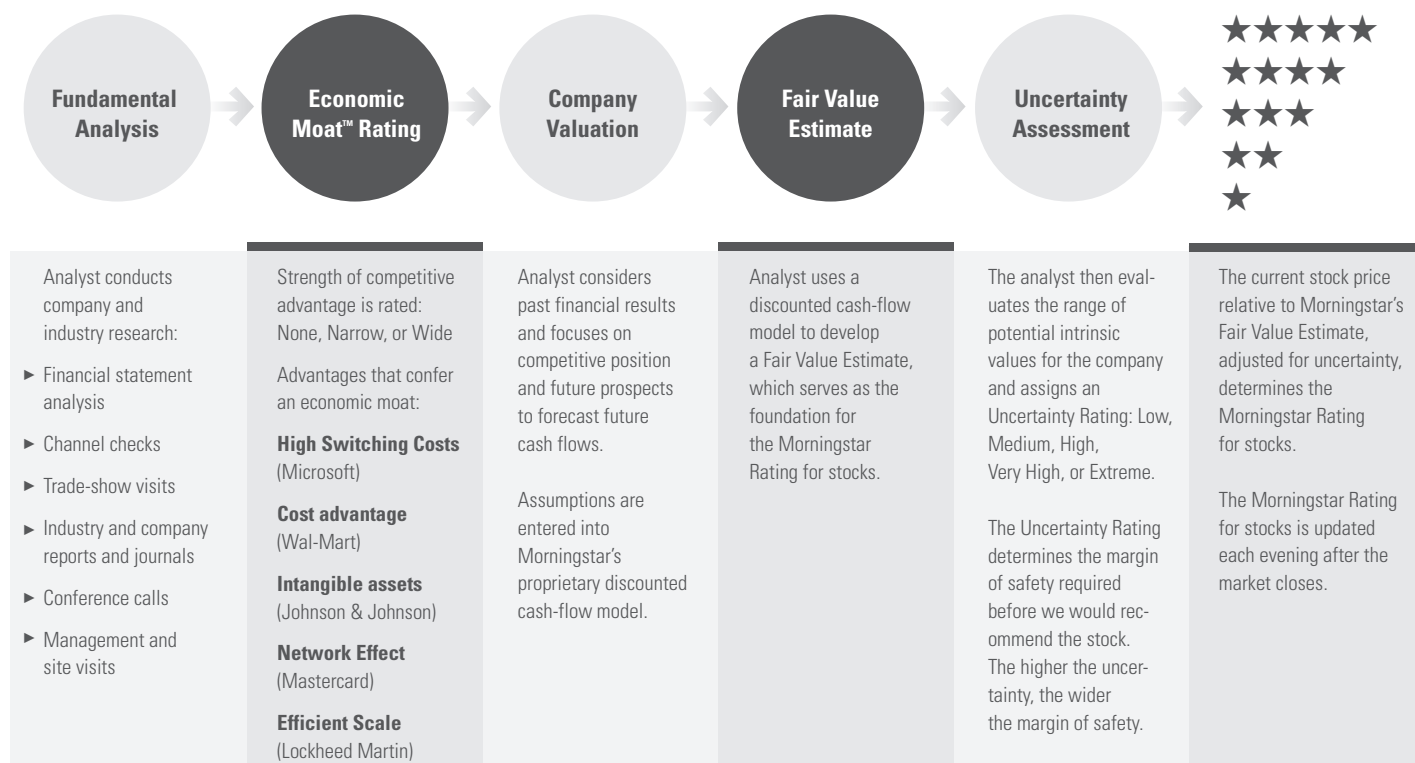
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

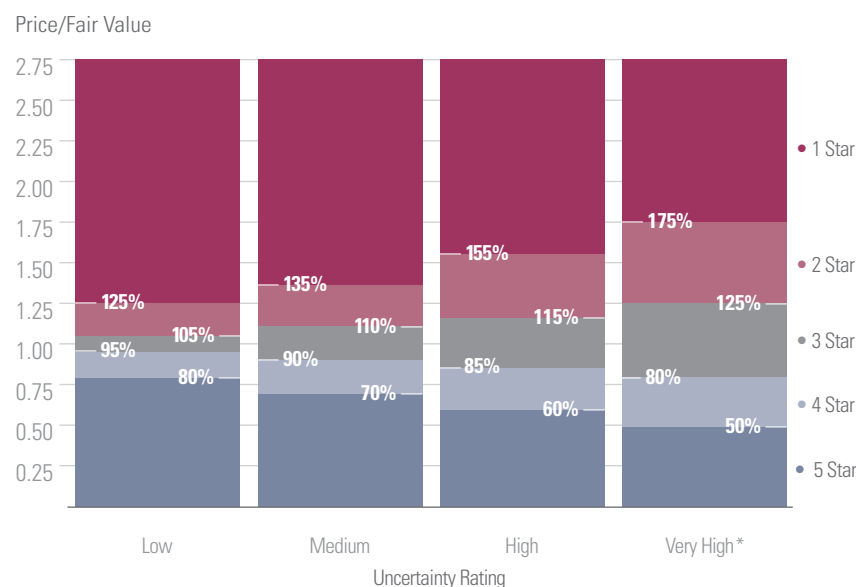
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.



# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

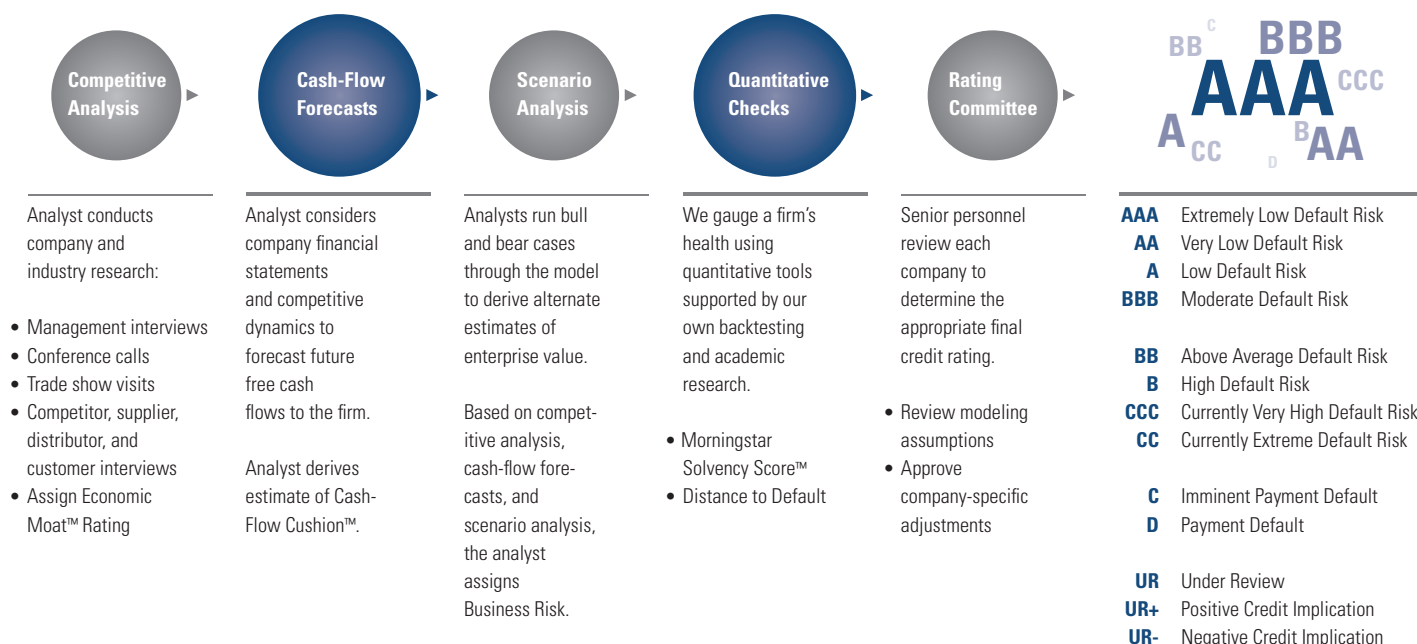
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.77 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Fortis Reports Lower Third-Quarter Earnings on Acquisition Expenses

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

**Analyst Note** 01 Nov 2012

Fortis, Inc. FTS posted EPS of \$0.24 in the third quarter, down from \$0.30 in the year-ago quarter. The company will pay \$1.20 per share in dividends in 2012, up 3.4% from 2011. We are reaffirming our \$30 per share fair value estimate and 2012 EPS estimate.

The primary analyst covering this company does not own its stock.

Research as of 01 Nov 2012  
Estimates as of 31 Jul 2012  
Pricing data through 31 Oct 2012  
Rating updated as of 31 Oct 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	3

The company incurred \$10 million in acquisition-related expenses for its \$1.5 billion CH Energy Group purchase, which it announced in February 2012. Fortis awaits New York State Public Service Commission approval. It already has received approvals from shareholders, the Federal Energy Commission, and the Committee on Foreign Investment. We continue to estimate an 85% probability of closing and forecast the transaction will be slightly value-dilutive for Fortis shareholders, included in our fair value estimate.

The company's regulated Canadian Electric Utilities increased earnings 26% from the year-ago quarter, aided by stronger transmission revenue and returns from infrastructure investments offset by lower allowed returns on equity. In a low-usage quarter for gas, the company's regulated gas unit lost \$6 million compared to a \$4 million loss in the year-ago period primarily related to revenue recognition for seasonal gas consumption and lower customer additions. The company's non-regulated generation unit showed weakness from lower hydroelectric generation from reduced water levels.

The company has continued to progress through a busy 2012 regulatory calendar, receiving regulatory decisions at FortisBC Energy, Fortis Alberta, and FortisBC Electric. We expect the company will receive additional decisions at Fortis Alberta and Newfoundland Power before year's end. Allowed revenue increases are vital in allowing the company to earn competitive returns on the company's

### Vital Statistics

Market Cap (CAD Mil)	6,439
52-Week High (CAD)	34.98
52-Week Low (CAD)	31.32
52-Week Total Return %	3.7
YTD Total Return %	3.9
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.7
5-Yr Forward EPS CAGR %	6.4
Price/Fair Value	1.13

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.8	19.3	18.6	16.9
EV/EBITDA	10.4	10.3	10.1	9.4
EV/EBIT	16.8	16.6	15.7	14.3
Free Cash Flow Yield %	-3.9	-2.4	-2.5	-6.0
Dividend Yield %	3.3	2.4	3.4	3.6

### Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,926	4,081
Revenue YoY %	0.7	2.3	4.8	4.0
EBIT	740	766	865	951
EBIT YoY %	5.6	3.5	13.0	9.9
Net Income, Adjusted	285	318	348	392
Net Income YoY %	8.8	11.6	9.4	12.6
Diluted EPS	1.63	1.73	1.81	2.00
Diluted EPS YoY %	7.0	6.1	4.9	10.5
Free Cash Flow	-232	-151	-163	-385
Free Cash Flow YoY %	-18.3	-34.9	8.0	136.5

Source for forecasts in the data tables above: Morningstar Estimates

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2011.

## Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.77 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

planned five-year \$5.5 billion capital program through 2016,  
of which it plans to spend \$1.3 billion in 2012.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.77 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast		5-Year Proj. CAGR
					Dec 2012	Dec 2013	
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	4.8	4.0	—
EBIT	3.1	0.1	5.6	3.5	13.0	9.9	8.4
EBITDA	3.4	-0.5	7.2	3.5	8.7	7.7	6.4
Net Income	9.1	6.9	8.8	11.6	9.4	12.6	8.4
Diluted EPS	3.9	-1.1	7.0	6.1	4.9	10.5	6.4
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-7.1	12.4	3.9
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	157.4	-133.5	25.3
Profitability							
Operating Margin %	20.0	19.3	20.2	20.4	22.0	23.3	24.0
EBITDA Margin %	32.0	30.6	32.5	32.9	34.2	35.4	36.1
Net Margin %	7.8	7.2	7.8	8.5	8.9	9.6	9.9
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.3	-2.7	3.7
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.2	6.6	6.5
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.2	7.6	7.3
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.2	6.4	6.5
Return on Equity %	9.7	9.4	9.9	9.9	9.8	10.3	10.4
Leverage							
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.66	4.71	4.76
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.44	3.48	3.48

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.26	1.24	—	—
Price/Earnings	20.8	19.3	18.6	16.9
EV/EBITDA	10.4	10.3	10.1	9.4
EV/EBIT	16.8	16.6	15.7	14.3
Free Cash Flow Yield %	-3.9	-2.4	-2.5	-6.0
Dividend Yield %	3.3	2.4	3.4	3.6

### Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.3
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	26.4
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	617	5.3	3.22
Present Value Stage II	10,954	94.7	57.18
Present Value of the Perpetuity	—	—	—
<b>Total Firm Value</b>	<b>11,571</b>	<b>100.0</b>	<b>—</b>
Cash and Equivalents	89	—	0.46
Debt	6,250	—	-31.03
Net balance sheet impact	-5,855	—	-30.56
Other Adjustments	-203	—	-1.06
<b>Equity Value</b>	<b>5,513</b>	<b>—</b>	<b>29.48</b>

Projected Diluted Shares 192

**Fair Value per Share (CAD)** —

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.77 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
	3,637	3,664	3,747	Dec 2012	Dec 2013
<b>Total Revenue</b>				<b>3,926</b>	<b>4,081</b>
Cost of Goods Sold	1,799	1,686	1,697	1,740	1,775
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,186</b>	<b>2,306</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	432	449
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
<b>Total Expenses</b>	<b>2,936</b>	<b>2,924</b>	<b>2,981</b>	<b>3,060</b>	<b>3,130</b>
<b>Operating Income (EBIT)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>865</b>	<b>951</b>
Interest Expense	360	350	370	390	415
Interest & Other Income (Expense)	—	—	40	10	10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>485</b>	<b>546</b>
Income Tax Expense (Benefit)	49	67	80	95	106
<b>Income After Taxes</b>	<b>292</b>	<b>323</b>	<b>356</b>	<b>391</b>	<b>440</b>
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
<b>Net Income (Loss)</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>348</b>	<b>392</b>
Net Income (Loss) Excluding Charges	262	285	318	348	392
Diluted Shares Outstanding (Mil)	170	173	182	190	193
Diluted EPS Including Charges	1.54	1.65	1.75	1.83	2.02
Diluted EPS Excluding Charges	1.52	1.63	1.73	1.81	2.00
Dividends Per Common Share	—	—	—	—	—
<b>EBITDA</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,341</b>	<b>1,444</b>
<b>EBITDA without restructuring</b>	<b>1,112</b>	<b>1,192</b>	<b>1,234</b>	<b>1,341</b>	<b>1,444</b>

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.77 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
<b>Assets</b>					
Excess Cash & Investments	—	—	—	160	145
Operating Cash & Equivalents	85	109	89	118	122
Accounts Receivable	595	655	644	538	559
Inventory	178	168	134	143	146
Other Short Term Operating Assets	268	272	253	270	280
<b>Total Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,229</b>	<b>1,253</b>
Property Plant & Equipment, Net	7,687	8,202	8,687	9,547	10,416
Property Plant & Equipment, Gross	11,408	12,109	13,013	14,305	15,623
(Accumulated Depreciation)	-3,721	-3,907	-4,326	-4,758	-5,207
Goodwill, Net	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	297	253
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Deferred Tax Assets	17	16	8	20	20
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,350</b>	<b>15,249</b>
<b>Liabilities</b>					
Accounts Payable	852	953	914	1,102	1,120
Short-Term Debt	639	414	265	400	400
Other Current Liabilities	103	150	141	141	141
<b>Total Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,643</b>	<b>1,661</b>
Long-Term Debt	5,276	5,609	5,679	5,850	6,400
Incremental Debt Requirements	—	—	—	—	—
<b>Total Long-Term Debt</b>	<b>5,276</b>	<b>5,609</b>	<b>5,679</b>	<b>5,850</b>	<b>6,400</b>
Long-Term Operating Liabilities	731	775	881	916	916
Deferred Tax Liabilities	576	623	685	700	725
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,429</b>	<b>10,022</b>
<b>Preferred Stock</b>	<b>347</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>
<b>Minority Interest</b>	<b>123</b>	<b>162</b>	<b>208</b>	<b>205</b>	<b>220</b>
<b>Shareholders' Equity</b>					
Common Stock	170	173	173	185	196
Additional Paid in Capital	2,338	2,417	2,725	2,832	2,953
Retained Earnings (Deficit)	763	804	905	1,033	1,192
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Total Shareholders' Equity</b>	<b>3,193</b>	<b>3,305</b>	<b>3,877</b>	<b>4,124</b>	<b>4,415</b>
<b>Total Liabilities + Shareholders' Equity</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,350</b>	<b>15,249</b>
Difference, from analyst adjustments and restatements	—	—	—	—	—



# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.77 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	280	323	356	382	431
Depreciation Expense	364	410	424	432	449
Amortization of Other Intangibles	47	42	44	44	44
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	3	25
<b>Cash from Operations</b>	<b>684</b>	<b>774</b>	<b>948</b>	<b>1,129</b>	<b>932</b>
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	106	-21
(Increase) Decrease in Inventory	—	—	—	-9	-3
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	188	18
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
<b>Cash from Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	184	-50
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>168</b>	<b>425</b>
Common Stock (Purchase) or Sale	46	80	345	119	132
Common Stock (Dividends)	-177	-193	-151	-220	-232
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	-34	-39
Short Term Debt Issuance and (Retirement)	-6	-48	-343	135	—
Long Term Debt Issuance and (Retirement)	557	194	307	171	550
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	-3	15
Other Financing Cash Flows (Outlays)	—	—	—	—	—
<b>Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Change in Cash</b>	<b>26</b>	<b>66</b>	<b>24</b>	<b>189</b>	<b>-10</b>
Change in Cash on Balance Sheet	19	24	-20	189	-10
Difference, from analyst adjustments and restatements	7	42	44	—	—

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis' stable of regulated utilities supports its dividend yield.

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 23 Jan 2013  
Estimates as of 22 Jan 2013  
Pricing data as of 23 Jan 2013 14:48  
Rating updated as of 23 Jan 2013 14:48

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	-
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	8
Additional Information	-
Morningstar Analyst Forecasts	10
Comparable Company Analysis	14
Methodology for Valuing Companies	16

### Analyst's Perspective 23 Jan 2013

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions but with slightly lower allowed returns on equity than their U.S. counterparts. In addition to organic growth, company management expanded into the U.S. market with the announced acquisition of CH Energy in February 2012. Given the small size of the transaction, we expect the company to continue U.S. expansion after the transaction is complete. We forecast normalized earnings can grow at 5% annually through 2016. At a 2.6% dividend yield and trading at 18 times our 2013 earnings forecast, Fortis looks overvalued to us.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- Trading at 18 times our 2013 earnings estimate as of mid-January, the stock looks overvalued to us.

### Vital Statistics

Market Cap (CAD Mil)	6,559
52-Week High (CAD)	34.98
52-Week Low (CAD)	31.70
52-Week Total Return %	7.0
YTD Total Return %	0.5
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	2.7
5-Yr Forward EPS CAGR %	4.4
Price/Fair Value	1.15

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.5	19.0	19.9	18.1
EV/EBITDA	10.9	10.5	10.7	9.9
EV/EBIT	16.9	16.3	16.2	14.9
Free Cash Flow Yield %	-4.6	-3.2	-8.4	-6.6
Dividend Yield %	3.2	2.5	2.6	2.7

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,747	3,898
Revenue YoY %	0.7	2.3	—	4.1
EBIT	740	766	852	929
EBIT YoY %	5.6	3.5	11.3	9.0
Net Income, Adjusted	285	318	327	363
Net Income YoY %	8.8	11.6	2.9	10.9
Diluted EPS	1.66	1.76	1.73	1.90
Diluted EPS YoY %	7.0	6.1	-1.9	9.9
Free Cash Flow	21	39	-58	-150
Free Cash Flow YoY %	-119.6	89.0	-247.7	156.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2011.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the past four decades.

### Thesis 23 Jan 2013

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited about the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2016, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 6.0 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utilities in Belize and the Caribbean. While the allowed returns can be significantly higher than for the Canadian operations, these operations have a much higher risk profile as well. In the summer of 2011, the government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest in expanding operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would probably be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenue offsets holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

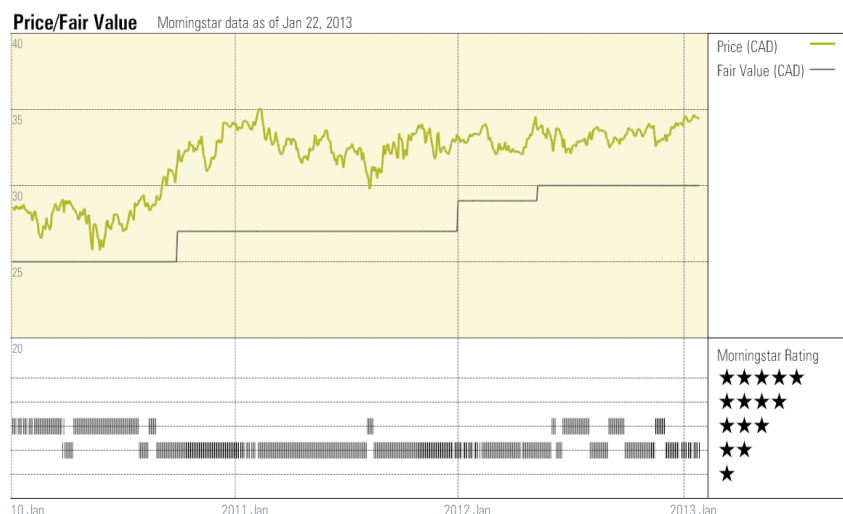
Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In 2012, Fortis announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

To date, the company has received approval from shareholders, the U.S. Federal Energy Regulatory Commission, the Committee on Foreign Investment, and the New York Public Service Commission. Management is targeting closing the transaction in March and expects CH Energy to be accretive to earnings immediately. We forecast the transaction will be slightly dilutive for Fortis shareholders and estimate a high 85% probability of the transaction closing. Given the relatively small size of CH Energy, we would look for Fortis to continue expansion through acquisitions after this transaction is complete.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to sell its noncore assets.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



## Valuation, Growth and Profitability 23 Jan 2013

We are increasing our fair value estimate to CAD 31 per share from CAD 30 to account for time-value appreciation. We also lowered our cost of capital assumption from 7.1% to 6.2% to reflect current market conditions but cut our perpetuity growth rate assumption, resulting in no net impact on our fair value estimate. In accounting for the CH Energy acquisition, we adjusted for certain tax and regulatory balance sheet items. We believe the deal is slightly value-dilutive for Fortis.

We forecast 6% annual earnings growth through 2016 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 6.0 billion at the utilities through 2016, leading to annualized rate base growth of 6%.

We use an 8.0% cost of equity and current credit spreads to arrive at a 6.2% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 basis points lower than our 2013 estimate, our earnings per share would fall 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in EPS and fair value if energy growth is 50 basis points higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100-basis-point decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by about CAD 3.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, Fortis' rate base could grow 6% annually.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions in Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than the U.S. does.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★

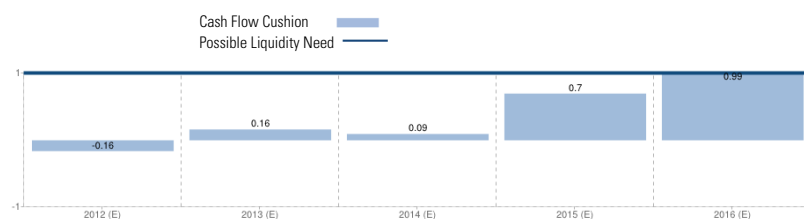
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	89	360	228	874	437
Adjusted Available Cash Flow	-160	-249	-172	-58	159
Total Cash Available before Debt Service	-71	110	56	816	595
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-383	-412	-477	-476	-496
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-439	-681	-591	-1,168	-599

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	89	2.6
Sum of 5-Year Adjusted Free Cash Flow	-481	-13.8
Sum of Cash and 5-Year Cash Generation	-392	-11.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	-392	-11.3
Sum of 5-Year Cash Commitments	-3,478	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	10	—	—
Solvency Score	8	—	—
Distance to Default	3	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 3.0 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Through 2016, Fortis has CAD 6.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. Fortis has manageable debt maturities through 2016. The company issued significant equity in 2011 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2013 to accommodate employee stock purchase plans and to support its capital expenditure plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2016. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75 B		3.02	1.43	-3	30 Jun 2012
BMO Dividend	★★★★	1.34	2.19	-47	31 Aug 2012
iShares S&P/TSX 60 Index	★★★★★	1.10	0.58	39	31 Aug 2012
Fidelity Dividend Plus Series F	★★★★★	0.99	3.34	—	30 Jun 2012
RBC Canadian Dividend GIF	★★	0.86	0.42	-273	31 May 2012

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund	0.25	21.82	13	31 Aug 2012
BMO Equal Weight Utilities Index ETF	0.30	7.41	33	31 Aug 2012
Utility Corp	0.06	6.88	—	31 Aug 2012
Manulife Floating Rate Income Cl T	0.04	6.23	68	31 Aug 2012

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Vanguard Total Intl Stock Index Inv	★★★★★	0.42	0.04	78	30 Jun 2012
Manulife Floating Rate Income Cl T		0.04	6.23	68	31 Aug 2012
Bissett Canadian Dividend Class A	★★★★★	0.38	3.65	65	30 Jun 2012
Russell Global Infrastructure A		0.05	0.33	65	31 Jul 2012
Nuveen Global Infrastructure A	★★★★★	0.04	0.89	56	31 Jul 2012

#### Top 5 Sellers

Undrly L&G Pen PMC Consensus Idx	—	0.01	-1,206	31 Mar 2012	
Undrly L&G Pen PMC Glb Eq 60:40 Idx	—	0.01	-1,206	31 Mar 2012	
Undrly L&G Pen PMC Oversea Consensus Idx	—	0.01	-606	31 Mar 2012	
Undrly L&G Pen PMC World Ex UK Eq Idx		0.06	0.02	-503	31 Mar 2012
RBC Canadian Dividend GIF	★★	0.86	0.42	-273	31 May 2012

### Stewardship: 23 Jan 2013

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that its members have more direct utility experience.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

### Fortis Reports Lower Third-Quarter Earnings on Acquisition Expenses 01 Nov 2012

Fortis, Inc. FTS posted EPS of \$0.24 in the third quarter, down from \$0.30 in the year-ago quarter. The company will pay \$1.20 per share in dividends in 2012, up 3.4% from 2011. We are reaffirming our \$30 per share fair value estimate and 2012 EPS estimate.

The company incurred \$10 million in acquisition-related expenses for its \$1.5 billion CH Energy Group purchase, which it announced in February 2012. Fortis awaits New York State Public Service Commission approval. It already has received approvals from shareholders, the Federal Energy Commission, and the Committee on Foreign Investment. We continue to estimate an 85% probability of closing and forecast the transaction will be slightly value-dilutive for Fortis shareholders, included in our fair value estimate.

The company's regulated Canadian Electric Utilities increased earnings 26% from the year-ago quarter, aided by stronger transmission revenue and returns from infrastructure investments offset by lower allowed returns on equity. In a low-usage quarter for gas, the company's regulated gas unit lost \$6 million compared to a \$4 million loss in the year-ago period primarily related to revenue recognition for seasonal gas consumption and lower customer additions. The company's non-regulated generation unit showed weakness from lower hydroelectric generation from reduced water levels.

The company has continued to progress through a busy 2012 regulatory calendar, receiving regulatory decisions at FortisBC Energy, Fortis Alberta, and FortisBC Electric. We expect the company will receive additional decisions at Fortis Alberta and Newfoundland Power before year's end. Allowed revenue increases are vital in allowing the company to earn competitive returns on the company's

planned five-year \$5.5 billion capital program through 2016, of which it plans to spend \$1.3 billion in 2012.

### Regulated Electric Utilities Drive Fortis' Second-Quarter Results 02 Aug 2012

Fortis, Inc FTS posted slightly higher EPS of \$0.33 compared with \$0.32 in the year-ago quarter. The comparison is complicated by the mid-2011 equity issuance offering, which increased outstanding shares 7%. The company will pay \$1.20 per share in dividends, up 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our \$30 per share fair value estimate and forecast 4% EPS growth in 2012.

The company's regulated electric utilities earnings increased \$9 million, up 20% from the year-ago quarter. Fortis Alberta accounted for the majority of the increase as the company continues to expand energy infrastructure and began to reap the benefits from prior transmission investments. Pending regulatory decisions are expected for Fortis BC Electric in the third quarter.

Earnings at the company's regulated gas utilities declined \$2 million, down 13% from the comparable 2011 quarter. A decline in customer additions and lower allowance for funds during construction negatively affected earnings. At the company's Belize unit, higher rainfall increased production with a favorable \$3 million benefit to the company's bottom line. Earnings were flat at Fortis' nonregulated generation and property units.

The company continues to progress through regulatory approvals for its announced \$1.5 billion acquisition of CH Energy CHG. To date, the company has received approval from the U.S. Federal Energy Regulatory Commission and the Committee on Foreign Investment. An application was filed in April 2012 with the New York State Public Service

## Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

Commission, with a decision forecast in the third quarter. Shareholders approved the transaction in June 2012. Company management is targeting closing the transaction in the first quarter of 2013, and expects CH Energy to be accretive to earnings immediately. We continue to believe the transaction is slightly value-dilutive for Fortis shareholders, and estimate an 85% probability of the transaction closing.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

	Forecast						
	3-Year Hist. CAGR	2009	2010	2011	2012	2013	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	—	4.1	2.7
EBIT	3.1	0.1	5.6	3.5	11.3	9.0	7.5
EBITDA	2.4	-3.9	8.0	3.5	9.0	7.9	6.6
Net Income	9.1	6.9	8.8	11.6	2.9	10.9	6.2
Diluted EPS	3.9	-1.1	7.0	6.1	-1.9	9.9	4.4
Earnings Before Interest, after Tax	4.3	9.8	-3.0	6.4	7.3	11.4	7.1
Free Cash Flow	-37.6	-165.9	-119.6	89.0	-247.7	156.8	57.3
Profitability	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Operating Margin %	20.0	19.3	20.2	20.4	22.8	23.8	24.4
EBITDA Margin %	30.8	29.3	31.4	31.8	34.6	35.9	36.6
Net Margin %	7.8	7.2	7.8	8.5	8.7	9.3	9.4
Free Cash Flow Margin %	-0.4	-2.9	0.6	1.1	-1.6	-3.8	1.4
ROIC %	6.1	6.4	5.9	6.0	5.9	6.2	6.0
Adjusted ROIC %	7.2	7.6	7.0	7.0	6.8	7.0	6.8
Return on Assets %	2.3	2.3	2.3	2.4	2.3	2.4	2.4
Return on Equity %	8.7	8.4	8.8	8.9	8.2	8.6	8.5
Leverage	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Debt/Capital	0.60	0.63	0.61	0.57	0.59	0.60	0.61
Total Debt/EBITDA	5.26	5.55	5.24	5.00	5.20	5.18	5.37
EBITDA/Interest Expense	3.15	2.96	3.29	3.22	3.38	3.40	3.30

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.26	1.24	—	—
Price/Earnings	20.5	19.0	19.9	18.1
EV/EBITDA	10.9	10.5	10.7	9.9
EV/EBIT	16.9	16.3	16.2	14.9
Free Cash Flow Yield %	-4.6	-3.2	-8.4	-6.6
Dividend Yield %	3.2	2.5	2.6	2.7

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	6.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	205	1.7	1.11
Present Value Stage II	1,571	13.3	8.52
Present Value Stage III	10,054	85.0	54.55
<b>Total Firm Value</b>	<b>11,830</b>	<b>100.0</b>	<b>64.18</b>
Cash and Equivalents	89	—	0.48
Debt	-5,944	—	-32.25
Preferred Stock	-592	—	-3.21
Other Adjustments	58	—	0.31
<b>Equity Value</b>	<b>5,441</b>	<b>—</b>	<b>29.52</b>
Projected Diluted Shares	184		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
	2009	2010	2011	2012	2013
<b>Revenue</b>	<b>3,637</b>	<b>3,664</b>	<b>3,747</b>	<b>3,747</b>	<b>3,898</b>
Cost of Goods Sold	1,799	1,686	1,697	1,561	1,592
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,186</b>	<b>2,306</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	364	410	419	445	471
<b>Operating Income (ex charges)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>852</b>	<b>929</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>852</b>	<b>929</b>
Interest Expense	360	350	370	383	412
Interest Income	—	—	40	-12	-10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>457</b>	<b>507</b>
Income Tax Expense	49	67	80	87	96
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
<b>Net Income</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>327</b>	<b>363</b>
Weighted Average Diluted Shares Outstanding	170	173	182	191	193
<b>Diluted Earnings Per Share</b>	<b>1.54</b>	<b>1.65</b>	<b>1.75</b>	<b>1.71</b>	<b>1.88</b>
Adjusted Net Income	262	285	318	327	363
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.54</b>	<b>1.65</b>	<b>1.75</b>	<b>1.71</b>	<b>1.88</b>
Dividends Per Common Share	1.05	1.12	0.84	0.91	0.94
<b>EBITDA</b>	<b>1,065</b>	<b>1,150</b>	<b>1,190</b>	<b>1,297</b>	<b>1,400</b>
<b>Adjusted EBITDA</b>	<b>1,065</b>	<b>1,150</b>	<b>1,190</b>	<b>1,297</b>	<b>1,400</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2009	2010	2011	Forecast	
				2012	2013
Cash and Equivalents	85	109	89	360	228
Investments	—	—	—	—	—
Accounts Receivable	595	655	644	616	641
Inventory	178	168	134	150	153
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	268	272	253	270	280
<b>Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,395</b>	<b>1,302</b>
Net Property Plant, and Equipment	7,687	8,202	8,687	9,534	10,381
Goodwill	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	341	341
Deferred Tax Assets (Long-Term)	17	16	8	20	20
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,547</b>	<b>15,350</b>
Accounts Payable	852	953	914	834	851
Short-Term Debt	639	414	265	419	264
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	103	150	141	141	141
<b>Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,394</b>	<b>1,256</b>
Long-Term Debt	5,276	5,609	5,679	6,325	6,984
Deferred Tax Liabilities (Long-Term)	576	623	685	705	730
Other Long-Term Operating Liabilities	731	775	881	916	916
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,660</b>	<b>10,206</b>
Preferred Stock	347	592	592	592	592
Common Stock	170	173	173	173	173
Additional Paid-in Capital	2,338	2,417	2,725	2,783	2,842
Retained Earnings (Deficit)	763	804	905	1,060	1,244
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Shareholder's Equity</b>	<b>3,540</b>	<b>3,897</b>	<b>4,469</b>	<b>4,682</b>	<b>4,925</b>
Minority Interest	123	162	208	205	220
<b>Total Equity</b>	<b>3,663</b>	<b>4,059</b>	<b>4,677</b>	<b>4,887</b>	<b>5,145</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Net Income	280	323	356	370	411
Depreciation	364	410	424	445	471
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	5	-3	4	8	25
Other Non-Cash Adjustments	29	4	22	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	28	-25
(Increase) Decrease in Inventory	—	—	—	-16	-3
Change in Other Short-Term Assets	-41	-2	98	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	-80	17
Change in Other Short-Term Liabilities	—	—	—	—	—
<b>Cash From Operations</b>	<b>637</b>	<b>732</b>	<b>904</b>	<b>738</b>	<b>886</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
Net (Acquisitions), Asset Sales, and Disposals	-76	15	26	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-8	—	-52	184	-50
<b>Cash From Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
Common Stock Issuance (or Repurchase)	46	80	345	58	59
Common Stock (Dividends)	-177	-193	-151	-172	-179
Short-Term Debt Issuance (or Retirement)	-6	-48	-343	154	-155
Long-Term Debt Issuance (or Retirement)	557	194	307	646	659
Other Financing Cash Flows	-26	250	43	-46	-33
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>640</b>	<b>351</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
<b>Net Change in Cash</b>	<b>-21</b>	<b>24</b>	<b>-20</b>	<b>271</b>	<b>-131</b>



# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.07	13.3	16.1	14.6	9.2	10.8	9.7	547.3	NM	NM	1.7	1.9	1.8	1.7	2.1	1.9
Average		13.3	16.1	14.6	9.2	10.8	9.7	547.3	—	—	1.7	1.9	1.8	1.7	2.1	1.9
<b>Fortis, Inc. FTS CA</b>	<b>1.15</b>	<b>19.0</b>	<b>19.9</b>	<b>18.1</b>	<b>10.5</b>	<b>10.7</b>	<b>9.9</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.6</b>	<b>1.8</b>	<b>1.7</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	— USD	9.3	7.2	6.6	9.3	7.2	6.6	13.1	12.2	12.6	3.5	3.1	3.3	3.6	3.3	3.6
Average		9.3	7.2	6.6	9.3	7.2	6.6	13.1	12.2	12.6	3.5	3.1	3.3	3.6	3.3	3.6
<b>Fortis, Inc. FTS CA</b>	<b>— USD</b>	<b>6.0</b>	<b>5.9</b>	<b>6.2</b>	<b>7.0</b>	<b>6.8</b>	<b>7.0</b>	<b>8.9</b>	<b>8.2</b>	<b>8.6</b>	<b>2.4</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,341 USD	0.2	-3.4	7.6	4.2	5.0	12.4	-3.1	-2.4	9.9	-44.1	454.5	-132.1	10.2	9.3	10.0
Average		0.2	-3.4	7.6	4.2	5.0	12.4	-3.1	-2.4	9.9	-44.1	454.5	-132.1	10.2	9.3	10.0
<b>Fortis, Inc. FTS CA</b>	<b>3,747 USD</b>	<b>2.3</b>	<b>—</b>	<b>4.1</b>	<b>3.5</b>	<b>11.3</b>	<b>9.0</b>	<b>6.1</b>	<b>-1.9</b>	<b>9.9</b>	<b>89.0</b>	<b>-247.7</b>	<b>156.8</b>	<b>-25.6</b>	<b>8.5</b>	<b>3.5</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.26 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,923 USD	59.2	64.6	65.0	34.4	35.3	36.5	22.0	23.9	25.0	12.5	12.7	13.0	0.3	-25.4	-0.6
Average		59.2	64.6	65.0	34.4	35.3	36.5	22.0	23.9	25.0	12.5	12.7	13.0	0.3	-25.4	-0.6
<b>Fortis, Inc. FTS CA</b>	<b>318 USD</b>	<b>54.7</b>	<b>58.3</b>	<b>59.2</b>	<b>31.8</b>	<b>34.6</b>	<b>35.9</b>	<b>20.4</b>	<b>22.8</b>	<b>23.8</b>	<b>8.5</b>	<b>8.7</b>	<b>9.3</b>	<b>-5.2</b>	<b>-14.8</b>	<b>-11.1</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	22,967 USD	153.7	173.6	168.6	60.6	63.5	62.8	5.1	4.7	4.7	4.4	5.3	4.9	3.8	3.9	3.8
Average		153.7	173.6	168.6	60.6	63.5	62.8	5.1	4.7	4.7	4.4	5.3	4.9	3.8	3.9	3.8
<b>Fortis, Inc. FTS CA</b>	<b>5,944 USD</b>	<b>133.0</b>	<b>144.0</b>	<b>147.2</b>	<b>57.1</b>	<b>59.0</b>	<b>59.5</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>	<b>5.0</b>	<b>5.2</b>	<b>5.2</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	30,462 USD	0.90	1.25	0.35	0.73	0.66	0.70	0.57	0.55	0.56	0.17	0.24	0.10	47.8	53.6	53.6
Average		0.90	1.25	0.35	0.73	0.66	0.70	0.57	0.55	0.56	0.17	0.24	0.10	47.8	53.6	53.6
<b>Fortis, Inc. FTS CA</b>	<b>6,559 CAD</b>	<b>0.49</b>	<b>1.88</b>	<b>1.18</b>	<b>0.85</b>	<b>1.00</b>	<b>1.04</b>	<b>0.75</b>	<b>0.89</b>	<b>0.91</b>	<b>0.34</b>	<b>0.86</b>	<b>0.86</b>	<b>47.5</b>	<b>52.5</b>	<b>49.5</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

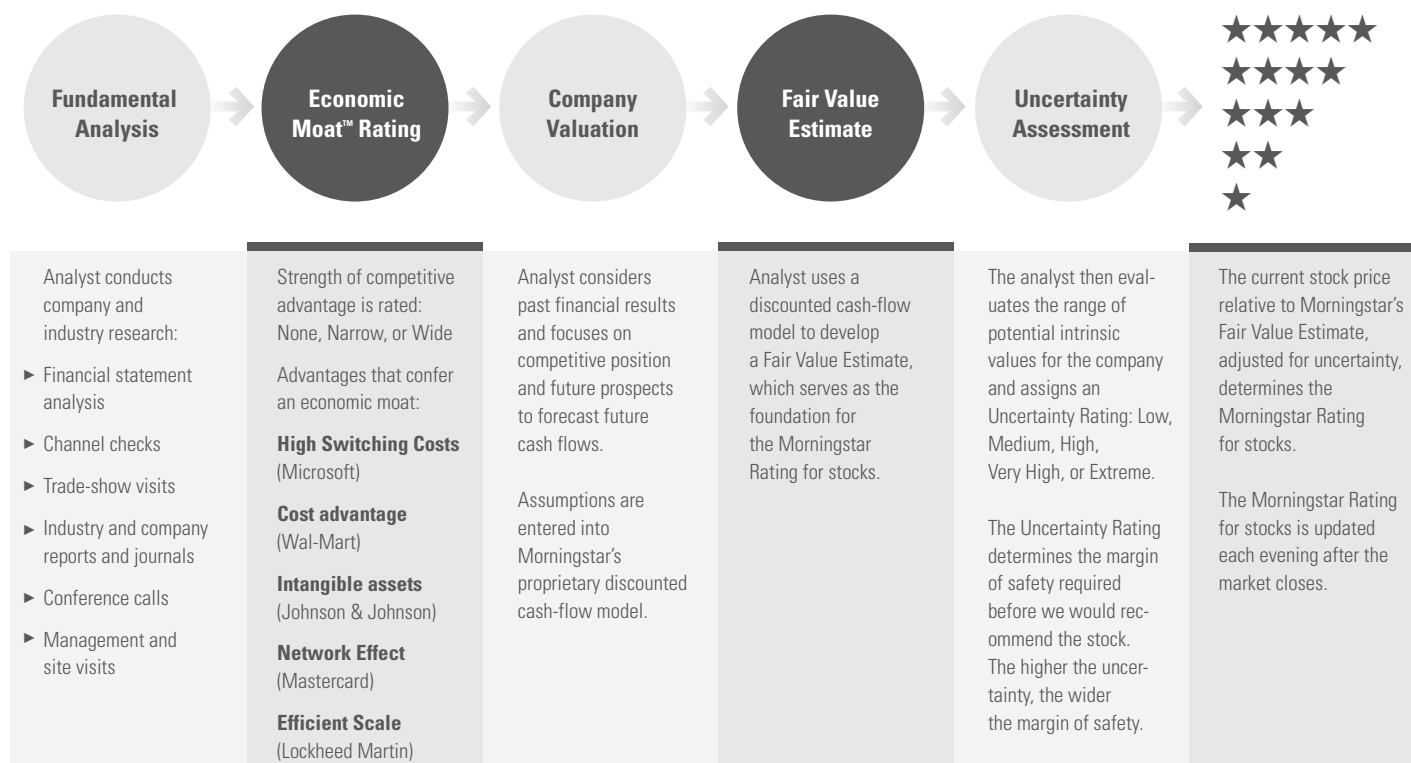
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

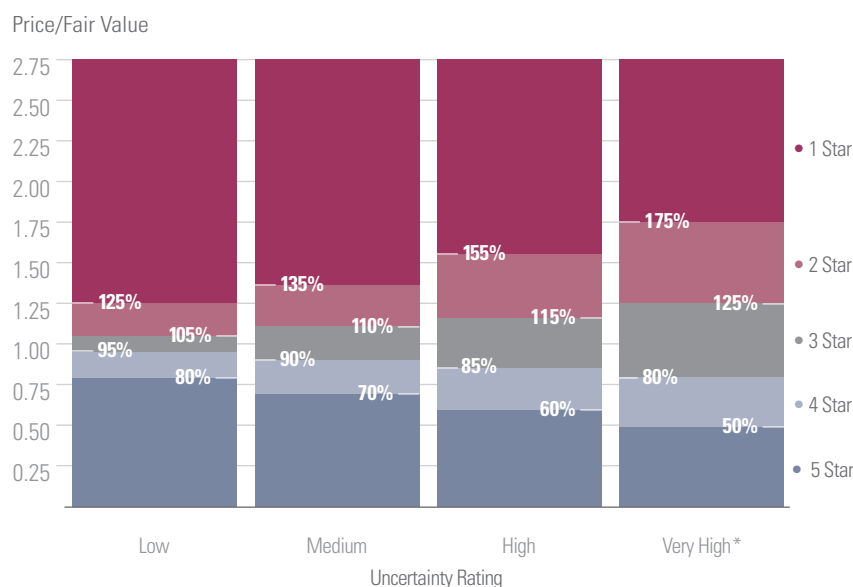
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

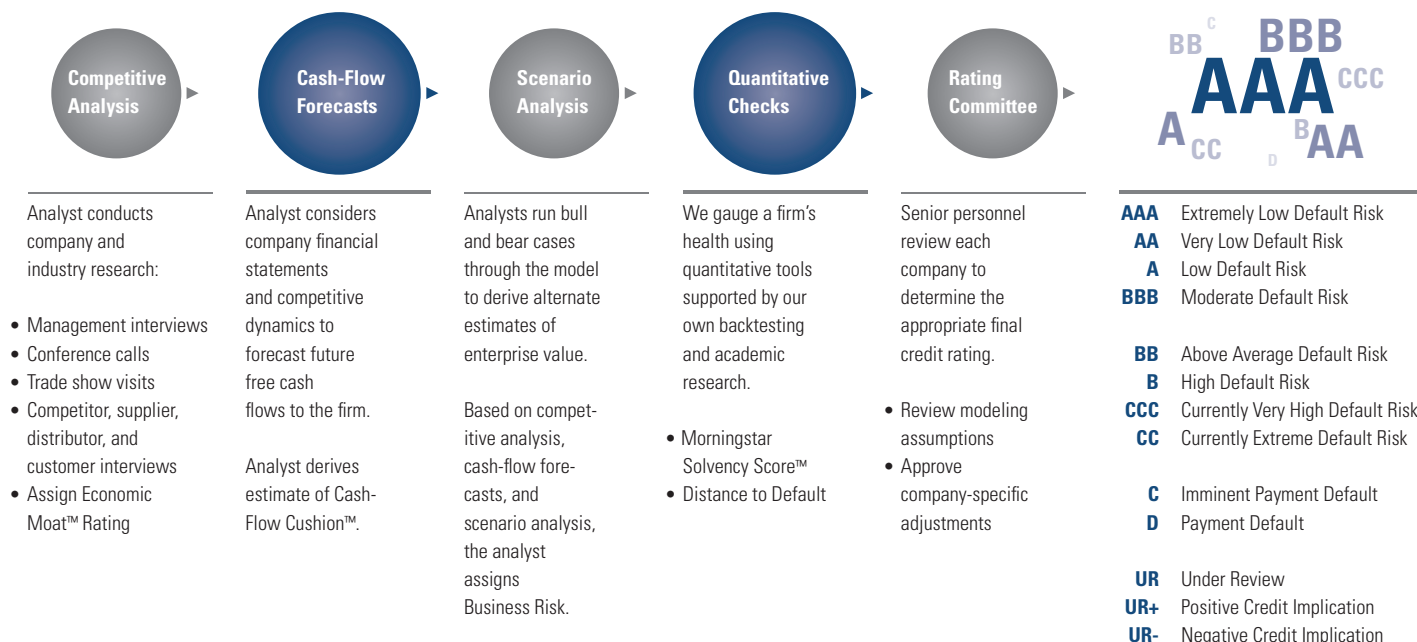
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.04 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Reports Full-Year Earnings, Announces Settlement Agreement with New York Regulators

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 19 Feb 2013  
Estimates as of 22 Jan 2013  
Pricing data through 18 Feb 2013  
Rating updated as of 15 Feb 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 19 Feb 2013

Fortis Inc. FTS reported full-year ongoing EPS of \$1.70, compared with \$1.65 in the same year-ago period. Earnings were negatively affected by the 5% increase in shares outstanding due to the company's equity share issuance for the company's CH Energy Acquisition. The company will pay CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

In January, Fortis filed a settlement agreement reached with the New York State Public Service Commission staff. Approval by the commission, which we expect, is the last regulatory hurdle to complete the company's announced \$1.5 billion acquisition of CH Energy Group. Management expects the transaction to close in the second quarter, and we continue to forecast the transaction will be slightly value-dilutive for Fortis shareholders. The company's regulated earnings continued to perform well, registering 11% growth in regulated earnings attributed to higher regulated infrastructure investments and allowed revenue increases.

### Vital Statistics

Market Cap (CAD Mil)	6,300
52-Week High (CAD)	34.98
52-Week Low (CAD)	31.70
52-Week Total Return %	3.1
YTD Total Return %	-2.5
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	2.7
5-Yr Forward EPS CAGR %	4.4
Price/Fair Value	1.07

### Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	20.5	19.0	19.1	17.4
EV/EBITDA	10.9	10.5	10.4	9.6
EV/EBIT	16.9	16.3	15.8	14.5
Free Cash Flow Yield %	-4.6	-3.2	-8.8	-6.9
Dividend Yield %	3.2	2.5	2.7	2.9

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	3,664	3,747	3,747	3,898
Revenue YoY %	0.7	2.3	—	4.1
EBIT	740	766	852	929
EBIT YoY %	5.6	3.5	11.3	9.0
Net Income, Adjusted	285	318	327	363
Net Income YoY %	8.8	11.6	2.9	10.9
Diluted EPS	1.66	1.76	1.73	1.90
Diluted EPS YoY %	7.0	6.1	-1.9	9.9
Free Cash Flow	21	39	-58	-150
Free Cash Flow YoY %	-119.6	89.0	-247.7	156.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2011.



# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.04 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2009	2010	2011	2012	2013	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	-1.4	-6.8	0.7	2.3	—	4.1	2.7
EBIT	3.1	0.1	5.6	3.5	11.3	9.0	7.5
EBITDA	2.4	-3.9	8.0	3.5	9.0	7.9	6.6
Net Income	9.1	6.9	8.8	11.6	2.9	10.9	6.2
Diluted EPS	3.9	-1.1	7.0	6.1	-1.9	9.9	4.4
Earnings Before Interest, after Tax	4.3	9.8	-3.0	6.4	7.3	11.4	7.1
Free Cash Flow	-37.6	-165.9	-119.6	89.0	-247.7	156.8	57.3
Profitability	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Operating Margin %	20.0	19.3	20.2	20.4	22.8	23.8	24.4
EBITDA Margin %	30.8	29.3	31.4	31.8	34.6	35.9	36.6
Net Margin %	7.8	7.2	7.8	8.5	8.7	9.3	9.4
Free Cash Flow Margin %	-0.4	-2.9	0.6	1.1	-1.6	-3.8	1.4
ROIC %	6.1	6.4	5.9	6.0	5.9	6.2	6.0
Adjusted ROIC %	7.2	7.6	7.0	7.0	6.8	7.0	6.8
Return on Assets %	2.3	2.3	2.3	2.4	2.3	2.4	2.4
Return on Equity %	8.7	8.4	8.8	8.9	8.2	8.6	8.5
Leverage	3-Year Hist. Avg	2009	2010	2011	2012	2013	5-Year Proj. Avg
Debt/Capital	0.60	0.63	0.61	0.57	0.59	0.60	0.61
Total Debt/EBITDA	5.26	5.55	5.24	5.00	5.20	5.18	5.37
EBITDA/Interest Expense	3.15	2.96	3.29	3.22	3.38	3.40	3.30

### Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.26	1.24	—	—
Price/Earnings	20.5	19.0	19.1	17.4
EV/EBITDA	10.9	10.5	10.4	9.6
EV/EBIT	16.9	16.3	15.8	14.5
Free Cash Flow Yield %	-4.6	-3.2	-8.8	-6.9
Dividend Yield %	3.2	2.5	2.7	2.9

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	6.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	205	1.7	1.11
Present Value Stage II	1,571	13.3	8.52
Present Value Stage III	10,054	85.0	54.55
<b>Total Firm Value</b>	<b>11,830</b>	<b>100.0</b>	<b>64.18</b>
Cash and Equivalents	89	—	0.48
Debt	-5,944	—	-32.25
Preferred Stock	-592	—	-3.21
Other Adjustments	58	—	0.31
<b>Equity Value</b>	<b>5,441</b>	<b>—</b>	<b>29.52</b>
Projected Diluted Shares	184		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.04 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
	2009	2010	2011	2012	2013
<b>Revenue</b>	<b>3,637</b>	<b>3,664</b>	<b>3,747</b>	<b>3,747</b>	<b>3,898</b>
Cost of Goods Sold	1,799	1,686	1,697	1,561	1,592
<b>Gross Profit</b>	<b>1,838</b>	<b>1,978</b>	<b>2,050</b>	<b>2,186</b>	<b>2,306</b>
Selling, General & Administrative Expenses	773	828	865	888	906
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	364	410	419	445	471
<b>Operating Income (ex charges)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>852</b>	<b>929</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>701</b>	<b>740</b>	<b>766</b>	<b>852</b>	<b>929</b>
Interest Expense	360	350	370	383	412
Interest Income	—	—	40	-12	-10
<b>Pre-Tax Income</b>	<b>341</b>	<b>390</b>	<b>436</b>	<b>457</b>	<b>507</b>
Income Tax Expense	49	67	80	87	96
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-12	-10	-9	-9	-9
(Preferred Dividends)	-18	-28	-29	-34	-39
<b>Net Income</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>327</b>	<b>363</b>
Weighted Average Diluted Shares Outstanding	170	173	182	191	193
<b>Diluted Earnings Per Share</b>	<b>1.54</b>	<b>1.65</b>	<b>1.75</b>	<b>1.71</b>	<b>1.88</b>
Adjusted Net Income	262	285	318	327	363
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.54</b>	<b>1.65</b>	<b>1.75</b>	<b>1.71</b>	<b>1.88</b>
Dividends Per Common Share	1.05	1.12	0.84	0.91	0.94
<b>EBITDA</b>	<b>1,065</b>	<b>1,150</b>	<b>1,190</b>	<b>1,297</b>	<b>1,400</b>
<b>Adjusted EBITDA</b>	<b>1,065</b>	<b>1,150</b>	<b>1,190</b>	<b>1,297</b>	<b>1,400</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.04 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Cash and Equivalents	85	109	89	360	228
Investments	—	—	—	—	—
Accounts Receivable	595	655	644	616	641
Inventory	178	168	134	150	153
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	268	272	253	270	280
<b>Current Assets</b>	<b>1,126</b>	<b>1,204</b>	<b>1,120</b>	<b>1,395</b>	<b>1,302</b>
Net Property Plant, and Equipment	7,687	8,202	8,687	9,534	10,381
Goodwill	1,560	1,553	1,557	1,557	1,557
Other Intangibles	279	324	341	341	341
Deferred Tax Assets (Long-Term)	17	16	8	20	20
Other Long-Term Operating Assets	1,491	1,604	1,849	1,700	1,750
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,547</b>	<b>15,350</b>
Accounts Payable	852	953	914	834	851
Short-Term Debt	639	414	265	419	264
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	103	150	141	141	141
<b>Current Liabilities</b>	<b>1,594</b>	<b>1,517</b>	<b>1,320</b>	<b>1,394</b>	<b>1,256</b>
Long-Term Debt	5,276	5,609	5,679	6,325	6,984
Deferred Tax Liabilities (Long-Term)	576	623	685	705	730
Other Long-Term Operating Liabilities	731	775	881	916	916
Long-Term Non-Operating Liabilities	320	320	320	320	320
<b>Total Liabilities</b>	<b>8,497</b>	<b>8,844</b>	<b>8,885</b>	<b>9,660</b>	<b>10,206</b>
Preferred Stock	347	592	592	592	592
Common Stock	170	173	173	173	173
Additional Paid-in Capital	2,338	2,417	2,725	2,783	2,842
Retained Earnings (Deficit)	763	804	905	1,060	1,244
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	74	74
<b>Shareholder's Equity</b>	<b>3,540</b>	<b>3,897</b>	<b>4,469</b>	<b>4,682</b>	<b>4,925</b>
Minority Interest	123	162	208	205	220
<b>Total Equity</b>	<b>3,663</b>	<b>4,059</b>	<b>4,677</b>	<b>4,887</b>	<b>5,145</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.04 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Net Income	280	323	356	370	411
Depreciation	364	410	424	445	471
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	5	-3	4	8	25
Other Non-Cash Adjustments	29	4	22	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	28	-25
(Increase) Decrease in Inventory	—	—	—	-16	-3
Change in Other Short-Term Assets	-41	-2	98	-17	-10
Increase (Decrease) in Accounts Payable	—	—	—	-80	17
Change in Other Short-Term Liabilities	—	—	—	—	—
<b>Cash From Operations</b>	<b>637</b>	<b>732</b>	<b>904</b>	<b>738</b>	<b>886</b>
(Capital Expenditures)	-968	-1,006	-1,099	-1,292	-1,318
Net (Acquisitions), Asset Sales, and Disposals	-76	15	26	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-8	—	-52	184	-50
<b>Cash From Investing</b>	<b>-1,052</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,108</b>	<b>-1,368</b>
Common Stock Issuance (or Repurchase)	46	80	345	58	59
Common Stock (Dividends)	-177	-193	-151	-172	-179
Short-Term Debt Issuance (or Retirement)	-6	-48	-343	154	-155
Long-Term Debt Issuance (or Retirement)	557	194	307	646	659
Other Financing Cash Flows	-26	250	43	-46	-33
<b>Cash From Financing</b>	<b>394</b>	<b>283</b>	<b>201</b>	<b>640</b>	<b>351</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
<b>Net Change in Cash</b>	<b>-21</b>	<b>24</b>	<b>-20</b>	<b>271</b>	<b>-131</b>

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis' stable of regulated utilities supports its dividend yield.

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 04 Apr 2013  
Estimates as of 02 Apr 2013  
Pricing data through 03 Apr 2013  
Rating updated as of 03 Apr 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst's Perspective	1
Key Investment Considerations	1
Morningstar Analysis	
Analyst Note	-
Thesis	2
Valuation, Growth and Profitability	3
Scenario Analysis	3
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	5
Credit Analysis	
Financial Health	6
Capital Structure	6
Enterprise Risk	6
Management & Ownership	7
Analyst Note Archive	8
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Analyst's Perspective 03 Apr 2013

Fortis' FTS predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions but with slightly lower allowed returns on equity than their U.S. counterparts. In addition to organic growth, company management expanded into the U.S. market with the announced acquisition of CH Energy in February 2012. Given the small size of the transaction, we expect the company to continue U.S. expansion after the transaction is complete. We forecast normalized earnings can grow at 6% annually through 2017. At a 3.6% dividend yield and trading at 19 times our 2013 earnings forecast, Fortis looks overvalued to us.

### Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- Trading at 19 times our 2013 earnings estimate as of early April, the stock looks overvalued to us.

### Vital Statistics

Market Cap (CAD Mil)	6,531
52-Week High (CAD)	34.98
52-Week Low (CAD)	31.70
52-Week Total Return %	9.4
YTD Total Return %	0.4
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	1.10

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	19.1	17.8
EV/EBITDA	11.1	11.1	10.2	9.7
EV/EBIT	17.3	17.7	15.9	15.0
Free Cash Flow Yield %	-3.2	-1.3	-5.1	1.4
Dividend Yield %	2.5	2.6	3.7	3.8

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,848	3,967
Revenue YoY %	2.3	-2.5	5.3	3.1
EBIT	766	794	865	918
EBIT YoY %	3.5	3.7	8.9	6.1
Net Income, Adjusted	318	315	343	369
Net Income YoY %	11.6	-0.9	9.0	7.4
Diluted EPS	1.72	1.63	1.78	1.91
Diluted EPS YoY %	6.1	-5.1	9.0	7.4
Free Cash Flow	39	198	52	467
Free Cash Flow YoY %	89.0	401.6	-73.7	798.9

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the past four decades.

#### Thesis 04 Apr 2013

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 14% of operating earnings. While we are less excited about the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2017, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 5.3 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utilities in Belize and the Caribbean. While the allowed returns can be significantly higher than for the Canadian operations, these operations have a much higher risk profile as well. In the summer of 2011, the government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest in expanding operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would probably be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenue offsets holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In 2012, Fortis announced a \$1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

To date, the company has received approval from shareholders, the U.S. Federal Energy Regulatory Commission, the Committee on Foreign Investment, and the New York Public Service Commission. Management is targeting closing the transaction in the second quarter and expects CH Energy to be accretive to earnings immediately. We forecast the transaction will be slightly value-dilutive for Fortis shareholders and estimate a high 85% probability of the transaction closing. Given the relatively small size of CH Energy, we think Fortis will continue to look for acquisition opportunities after this transaction is complete.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to sell its noncore assets.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



## Valuation, Growth and Profitability 04 Apr 2013

We are reaffirming our fair value estimate of CAD 31 per share after updating our five-year operating outlook to reflect 2012 results. In accounting for the CH Energy acquisition, we adjusted for certain tax and regulatory balance sheet items. We believe the deal is slightly value-dilutive for Fortis shareholders. We expect the transaction to close in the second quarter.

We forecast 6% annual earnings growth through 2017 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 6.3 billion at the utilities through 2017, leading to annualized rate base growth of 6%.

We use an 8.0% cost of equity and current credit spreads to arrive at a 6.7% weighted average cost of capital in our discounted cash flow model.

## Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 basis points lower than our 2013 estimate, our earnings per share would fall 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in EPS and fair value if energy growth is 50 basis points higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100-basis-point decrease in allowed returns on equity in 2013 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by about CAD 3.

## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

## Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.



Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ The company operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, Fortis' rate base could grow 6% annually.
- ▶ Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.
- ▶ Fortis operations are based in higher-growth regions in Canada, mainly in Alberta and British Columbia.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than the U.S. does.
- ▶ The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- ▶ The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★★

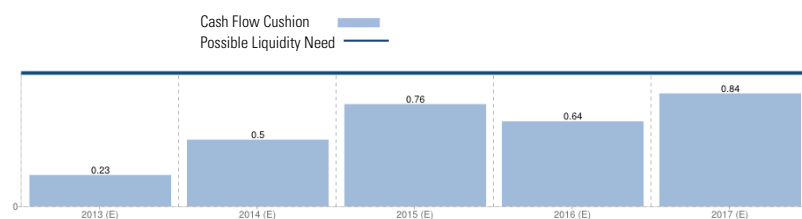
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
Cash and Equivalents (beginning of period)	154	160	93	62	60
Adjusted Available Cash Flow	-40	379	353	375	360
Total Cash Available before Debt Service	114	540	446	437	419
Principal Payments	-117	-690	-187	-291	-81
Interest Payments	-369	-393	-396	-397	-416
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-486	-1,083	-583	-688	-497

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	154	4.6
Sum of 5-Year Adjusted Free Cash Flow	1,427	42.8
Sum of Cash and 5-Year Cash Generation	1,581	47.4
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,581	47.4
Sum of 5-Year Cash Commitments	-3,337	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	10	—	—
Cash Flow Cushion	10	—	—
Solvency Score	1	—	—
Distance to Default	—	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health

With a debt/capital ratio of 54% and interest coverage of 3.5 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

### Capital Structure

Through 2017, Fortis has CAD 5.3 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. Fortis has manageable debt maturities through 2017. The company issued significant equity in 2011 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2013 to accommodate employee stock purchase plans and to support its capital expenditure plan.

### Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2017. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75 B		3.02	1.43	-3	30 Jun 2012
BMO Dividend	★★★	1.34	2.19	-47	31 Aug 2012
iShares S&P/TSX 60 Index	★★★★	1.10	0.58	39	31 Aug 2012
Fidelity Dividend Plus Series F	★★★★★	0.99	3.34	—	30 Jun 2012
RBC Canadian Dividend GIF	★★	0.86	0.42	-273	31 May 2012

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund	0.25	21.82	13	31 Aug 2012
BMO Equal Weight Utilities Index ETF	0.30	7.41	33	31 Aug 2012
Utility Corp	0.06	6.88	—	31 Aug 2012
Manulife Floating Rate Income Cl T	0.04	6.23	68	31 Aug 2012

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Vanguard Total Intl Stock Index Inv	★★★★	0.42	0.04	78	30 Jun 2012
Manulife Floating Rate Income Cl T		0.04	6.23	68	31 Aug 2012
Bissett Canadian Dividend Class A	★★★★	0.38	3.65	65	30 Jun 2012
Russell Global Infrastructure A		0.05	0.33	65	31 Jul 2012
Nuveen Global Infrastructure A	★★★★	0.04	0.89	56	31 Jul 2012

#### Top 5 Sellers

Undrly L&G Pen PMC Consensus Idx	—	0.01	-1,206	31 Mar 2012	
Undrly L&G Pen PMC Glb Eq 60:40 Idx	—	0.01	-1,206	31 Mar 2012	
Undrly L&G Pen PMC Oversea Consensus Idx	—	0.01	-606	31 Mar 2012	
Undrly L&G Pen PMC World Ex UK Eq Idx		0.06	0.02	-503	31 Mar 2012
RBC Canadian Dividend GIF	★★	0.86	0.42	-273	31 May 2012

### Stewardship: 04 Apr 2013

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that its members have more direct utility experience.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

#### Fortis Reports Full-Year Earnings, Announces Settlement Agreement with New York Regulators 19 Feb 2013

Fortis Inc. FTS reported full-year ongoing EPS of \$1.70, compared with \$1.65 in the same year-ago period. Earnings were negatively affected by the 5% increase in shares outstanding due to the company's equity share issuance for the company's CH Energy Acquisition. The company will pay CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

In January, Fortis filed a settlement agreement reached with the New York State Public Service Commission staff. Approval by the commission, which we expect, is the last regulatory hurdle to complete the company's announced \$1.5 billion acquisition of CH Energy Group. Management expects the transaction to close in the second quarter, and we continue to forecast the transaction will be slightly value-dilutive for Fortis shareholders. The company's regulated earnings continued to perform well, registering 11% growth in regulated earnings attributed to higher regulated infrastructure investments and allowed revenue increases.

#### Fortis Reports Lower Third-Quarter Earnings on Acquisition Expenses 01 Nov 2012

Fortis, Inc. FTS posted EPS of \$0.24 in the third quarter, down from \$0.30 in the year-ago quarter. The company will pay \$1.20 per share in dividends in 2012, up 3.4% from 2011. We are reaffirming our \$30 per share fair value estimate and 2012 EPS estimate.

The company incurred \$10 million in acquisition-related expenses for its \$1.5 billion CH Energy Group purchase, which it announced in February 2012. Fortis awaits New York State Public Service Commission approval. It already

has received approvals from shareholders, the Federal Energy Commission, and the Committee on Foreign Investment. We continue to estimate an 85% probability of closing and forecast the transaction will be slightly value-dilutive for Fortis shareholders, included in our fair value estimate.

The company's regulated Canadian Electric Utilities increased earnings 26% from the year-ago quarter, aided by stronger transmission revenue and returns from infrastructure investments offset by lower allowed returns on equity. In a low-usage quarter for gas, the company's regulated gas unit lost \$6 million compared to a \$4 million loss in the year-ago period primarily related to revenue recognition for seasonal gas consumption and lower customer additions. The company's non-regulated generation unit showed weakness from lower hydroelectric generation from reduced water levels.

The company has continued to progress through a busy 2012 regulatory calendar, receiving regulatory decisions at FortisBC Energy, Fortis Alberta, and FortisBC Electric. We expect the company will receive additional decisions at Fortis Alberta and Newfoundland Power before year's end. Allowed revenue increases are vital in allowing the company to earn competitive returns on the company's planned five-year \$5.5 billion capital program through 2016, of which it plans to spend \$1.3 billion in 2012.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	5.3	3.1	3.3
EBIT	4.2	5.6	3.5	3.7	8.9	6.1	5.7
EBITDA	5.9	8.0	3.5	6.2	7.4	5.1	4.9
Net Income	6.3	8.8	11.6	-0.9	9.0	7.4	7.2
Diluted EPS	2.5	7.0	6.1	-5.1	9.0	7.4	7.2
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	12.6	7.7	5.3
Free Cash Flow	—	-119.6	89.0	401.6	-73.7	798.9	24.0
	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.5	23.1	23.5
EBITDA Margin %	32.6	31.4	31.8	34.6	35.3	36.0	36.4
Net Margin %	8.3	7.8	8.5	8.6	8.9	9.3	9.8
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.4	11.8	10.6
ROIC %	6.1	5.9	6.0	6.6	6.9	7.3	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.4	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.2	2.3	2.4
Return on Equity %	8.5	8.8	8.9	8.0	8.3	8.5	8.9
	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.54	0.54
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.80	4.61	4.58
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.68	3.63	3.76

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	19.1	17.8
EV/EBITDA	11.1	11.1	10.2	9.7
EV/EBIT	17.3	17.7	15.9	15.0
Free Cash Flow Yield %	-3.2	-1.3	-5.1	1.4
Dividend Yield %	2.5	2.6	3.7	3.8

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,750	13.8	9.21
Present Value Stage II	1,587	12.5	8.35
Present Value Stage III	9,390	73.8	49.42
<b>Total Firm Value</b>	<b>12,727</b>	<b>100.0</b>	<b>66.98</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,730</b>	<b>—</b>	<b>30.16</b>
Projected Diluted Shares	190		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,848</b>	<b>3,967</b>
Cost of Goods Sold	1,686	1,697	1,522	1,599	1,631
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,249</b>	<b>2,336</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	509
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>865</b>	<b>918</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>865</b>	<b>918</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>496</b>	<b>530</b>
Income Tax Expense	67	80	61	94	101
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>343</b>	<b>369</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.81</b>	<b>1.94</b>
Adjusted Net Income	285	318	315	343	369
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.81</b>	<b>1.94</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,357</b>	<b>1,427</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,357</b>	<b>1,427</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	160	93
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	640	660
Inventory	168	134	133	133	136
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,153</b>	<b>1,108</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	10,950
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,777</b>	<b>16,146</b>
Accounts Payable	953	914	966	938	957
Short-Term Debt	414	265	260	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,079</b>	<b>1,098</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,194</b>	<b>10,423</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,060	1,185
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,378</b>	<b>5,503</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,583</b>	<b>5,723</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	402	429
Depreciation	410	424	470	492	509
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-53	-20
(Increase) Decrease in Inventory	—	—	—	0	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-28	19
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>1,001</b>	<b>1,084</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-998
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-923</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	—
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-229</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>6</b>	<b>-67</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1.17	—	15.9	15.1	—	10.4	10.1	—	NM	40.1	—	2.0	1.9	—	2.1	2.0
TransAlta Corporation TAC USA	0.86	14.7	22.1	22.1	9.0	7.8	7.6	NM	9.2	12.3	1.3	1.3	1.3	1.7	1.5	1.4
Average		14.7	19.0	18.6	9.0	9.1	8.9	—	9.2	26.2	1.3	1.7	1.6	1.7	1.8	1.7
<b>Fortis, Inc. FTS CA</b>	<b>1.10</b>	<b>21.0</b>	<b>19.1</b>	<b>17.8</b>	<b>11.1</b>	<b>10.2</b>	<b>9.7</b>	<b>NM</b>	<b>NM</b>	<b>74.2</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	— USD	7.2	6.6	6.6	7.2	6.6	6.6	12.2	12.6	12.7	3.1	3.3	3.3	—	3.3	3.7
TransAlta Corporation TAC USA	9,451 USD	3.7	5.3	5.6	3.9	6.2	6.5	-24.9	7.8	8.1	-6.4	1.8	1.8	2.7	8.1	8.1
Average		5.5	6.0	6.1	5.6	6.4	6.6	-6.4	10.2	10.4	-1.7	2.6	2.6	2.7	5.7	5.9
<b>Fortis, Inc. FTS CA</b>	<b>14,950 USD</b>	<b>6.6</b>	<b>6.9</b>	<b>7.3</b>	<b>7.6</b>	<b>8.0</b>	<b>8.4</b>	<b>8.0</b>	<b>8.3</b>	<b>8.5</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.6</b>	<b>3.7</b>	<b>3.8</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	14,827 USD	-3.4	7.6	3.0	5.0	12.4	2.5	-2.4	9.9	5.5	454.5	-132.1	101.7	9.3	10.0	10.0
TransAlta Corporation TAC USA	2,262 USD	-15.1	10.1	5.1	-36.1	23.3	1.8	—	-36.6	-0.5	-227.8	-282.2	-18.3	—	—	—
Average		-9.3	8.9	4.1	-15.6	17.9	2.2	-2.4	-13.4	2.5	113.4	-207.2	41.7	9.3	10.0	10.0
<b>Fortis, Inc. FTS CA</b>	<b>3,654 USD</b>	<b>-2.5</b>	<b>5.3</b>	<b>3.1</b>	<b>3.7</b>	<b>8.9</b>	<b>6.1</b>	<b>-5.1</b>	<b>9.0</b>	<b>7.4</b>	<b>401.6</b>	<b>-73.7</b>	<b>798.9</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.06 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1,879 USD	64.6	65.0	64.7	35.3	36.5	36.2	23.9	25.0	24.8	12.7	13.0	13.2	-25.4	-0.6	5.0
TransAlta Corporation TAC USA	165 USD	64.2	62.0	60.0	43.6	44.2	43.1	18.7	21.0	20.3	7.3	6.9	6.5	-8.1	16.3	11.6
Average		64.4	63.5	62.4	39.5	40.4	39.7	21.3	23.0	22.6	10.0	10.0	9.9	-16.8	7.8	8.3
<b>Fortis, Inc. FTS CA</b>	<b>315 USD</b>	<b>58.4</b>	<b>58.5</b>	<b>58.9</b>	<b>34.6</b>	<b>35.3</b>	<b>36.0</b>	<b>21.7</b>	<b>22.5</b>	<b>23.1</b>	<b>8.6</b>	<b>8.9</b>	<b>9.3</b>	<b>-2.4</b>	<b>-8.6</b>	<b>2.2</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	27,540 USD	173.6	168.6	168.2	63.5	62.8	62.7	4.7	4.7	4.5	5.3	4.9	4.9	3.9	3.8	3.8
TransAlta Corporation TAC USA	4,217 USD	140.1	141.1	148.4	58.4	58.5	59.8	4.1	4.5	4.5	4.3	3.8	3.7	3.1	3.2	3.3
Average		156.9	154.9	158.3	61.0	60.7	61.3	4.4	4.6	4.5	4.8	4.4	4.3	3.5	3.5	3.6
<b>Fortis, Inc. FTS CA</b>	<b>6,043 USD</b>	<b>118.5</b>	<b>121.2</b>	<b>119.5</b>	<b>54.2</b>	<b>54.8</b>	<b>54.4</b>	<b>3.5</b>	<b>3.7</b>	<b>3.6</b>	<b>4.8</b>	<b>4.8</b>	<b>4.6</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	33,197 USD	1.25	0.35	1.44	0.66	0.70	0.79	0.55	0.56	0.65	0.24	0.10	0.40	53.6	53.6	55.9
TransAlta Corporation TAC USA	3,713 USD	0.11	0.21	0.34	0.68	0.79	0.81	0.62	0.72	0.74	0.04	0.18	0.29	-16.9	175.8	176.7
Average		0.68	0.28	0.89	0.67	0.75	0.80	0.59	0.64	0.70	0.14	0.14	0.35	18.4	114.7	116.3
<b>Fortis, Inc. FTS CA</b>	<b>6,531 CAD</b>	<b>0.81</b>	<b>0.84</b>	<b>0.49</b>	<b>0.84</b>	<b>1.07</b>	<b>1.01</b>	<b>0.73</b>	<b>0.95</b>	<b>0.89</b>	<b>0.59</b>	<b>—</b>	<b>—</b>	<b>72.4</b>	<b>68.6</b>	<b>66.0</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

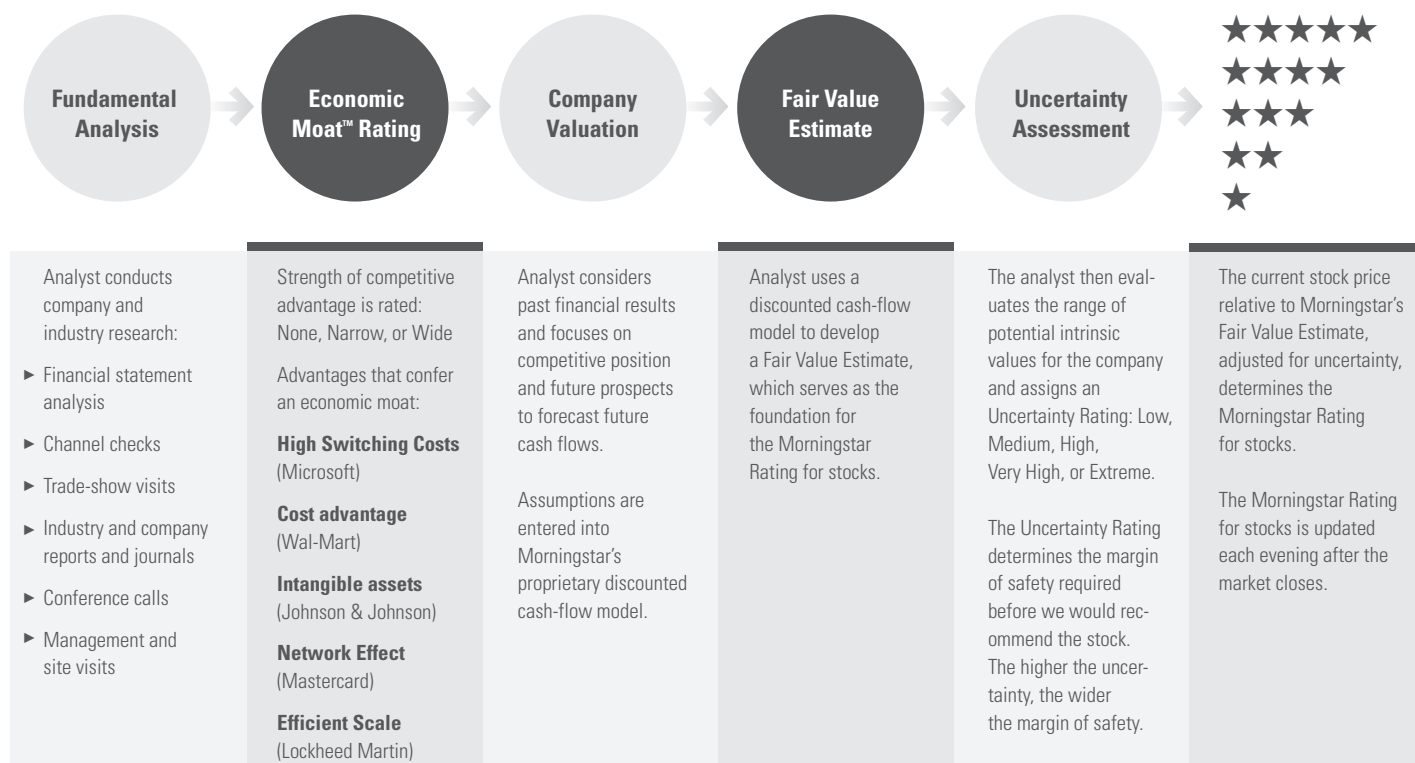
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



## Research Methodology for Valuing Companies

### Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

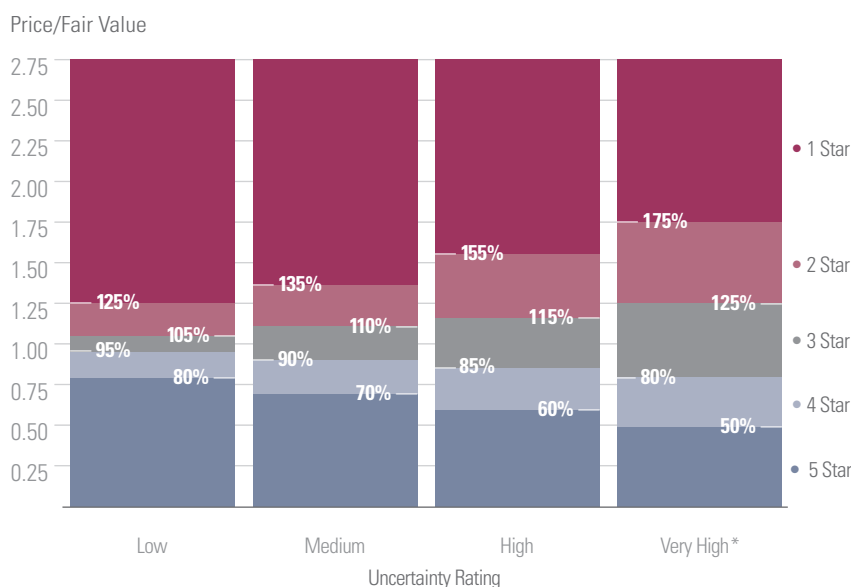
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

### Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

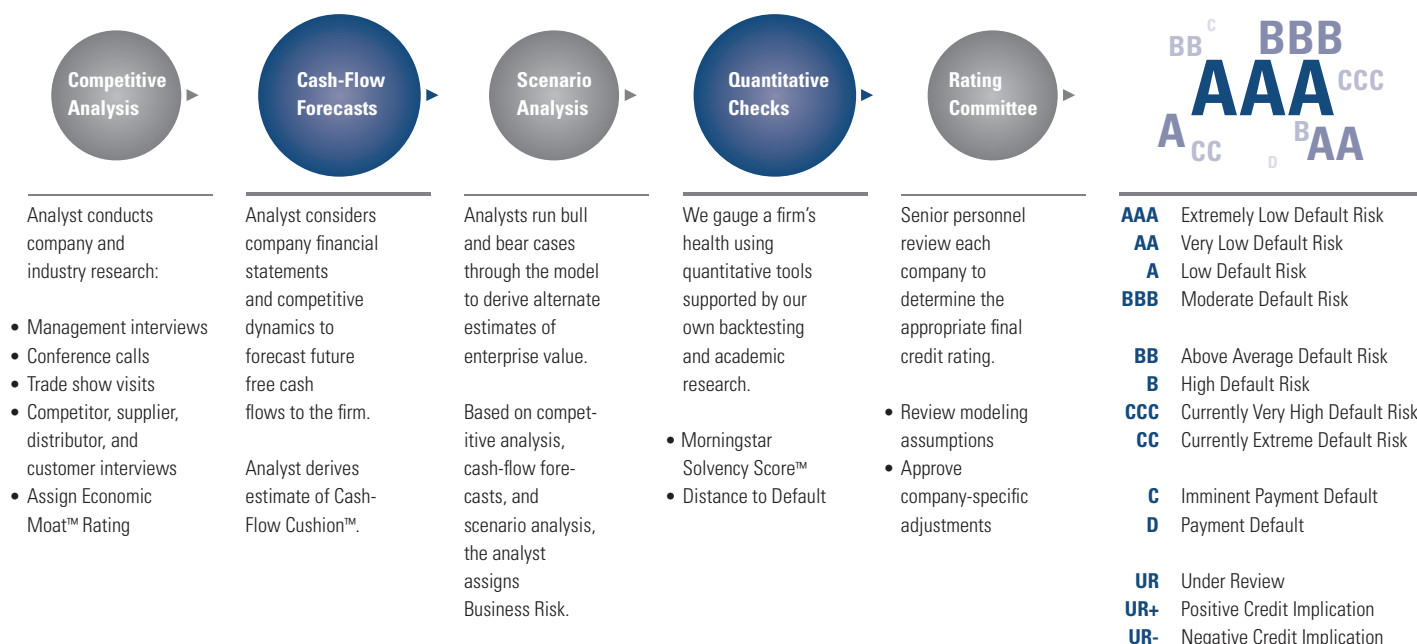
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings





## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.01 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Posts Solid 1Q Results; Awaiting Approval for CH Energy Acquisition

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 07 May 2013  
Estimates as of 02 Apr 2013  
Pricing data through 06 May 2013  
Rating updated as of 06 May 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 07 May 2013

Fortis reported first-quarter earnings per share of \$0.79, compared with \$0.64 in the year-ago period. Earnings were boosted \$0.12 from an extraordinary gain relating to a settlement with the government of Newfoundland over the 2008 expropriation of nonregulated hydroelectric assets. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

The company's regulated utilities performed well, particularly the FortisAlberta and FortisBC Electric subsidiaries. FortisAlberta reached approval for an interim distribution revenue increase effective Jan. 1 until a final decision is made in late 2013. The subsidiary also benefited from higher transmission revenue and lower depreciation. FortisBC Electric benefited from increased infrastructure investments, lower interest expense, and an increase in allowance for funds used during construction.

In January, Fortis reached a settlement agreement with the New York State Public Service Commission staff related to its \$1.5 billion CH Energy Group acquisition proposal. On Friday, an advisory opinion issued by administrative law judges recommended approval of the acquisition. The commission will consider the opinion in determining its final order, expected in June. Commission approval, which we expect, is the last regulatory hurdle to complete the deal. We continue to forecast the transaction will be slightly value-dilutive for Fortis shareholders.

### Vital Statistics

Market Cap (CAD Mil)	6,739
52-Week High (CAD)	35.13
52-Week Low (CAD)	32.03
52-Week Total Return %	7.7
YTD Total Return %	3.2
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	1.13

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	19.7	18.3
EV/EBITDA	11.1	11.1	10.3	9.8
EV/EBIT	17.3	17.7	16.2	15.3
Free Cash Flow Yield %	-3.2	-1.3	-4.9	1.3
Dividend Yield %	2.5	2.6	3.5	3.6

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,848	3,967
Revenue YoY %	2.3	-2.5	5.3	3.1
EBIT	766	794	865	918
EBIT YoY %	3.5	3.7	8.9	6.1
Net Income, Adjusted	318	315	343	369
Net Income YoY %	11.6	-0.9	9.0	7.4
Diluted EPS	1.72	1.63	1.78	1.91
Diluted EPS YoY %	6.1	-5.1	9.0	7.4
Free Cash Flow	39	198	52	467
Free Cash Flow YoY %	89.0	401.6	-73.7	798.9

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.01 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	5.3	3.1	3.3
EBIT	4.2	5.6	3.5	3.7	8.9	6.1	5.7
EBITDA	5.9	8.0	3.5	6.2	7.4	5.1	4.9
Net Income	6.3	8.8	11.6	-0.9	9.0	7.4	7.2
Diluted EPS	2.5	7.0	6.1	-5.1	9.0	7.4	7.2
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	12.6	7.7	5.3
Free Cash Flow	—	-119.6	89.0	401.6	-73.7	798.9	24.0
Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	20.8	20.2	20.4	21.7	22.5	23.1	23.5
EBITDA Margin %	32.6	31.4	31.8	34.6	35.3	36.0	36.4
Net Margin %	8.3	7.8	8.5	8.6	8.9	9.3	9.8
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.4	11.8	10.6
ROIC %	6.1	5.9	6.0	6.6	6.9	7.3	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.4	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.2	2.3	2.4
Return on Equity %	8.5	8.8	8.9	8.0	8.3	8.5	8.9
Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.54	0.54
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.80	4.61	4.58
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.68	3.63	3.76

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	19.7	18.3
EV/EBITDA	11.1	11.1	10.3	9.8
EV/EBIT	17.3	17.7	16.2	15.3
Free Cash Flow Yield %	-3.2	-1.3	-4.9	1.3
Dividend Yield %	2.5	2.6	3.5	3.6

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,750	13.8	9.21
Present Value Stage II	1,587	12.5	8.35
Present Value Stage III	9,390	73.8	49.42
<b>Total Firm Value</b>	<b>12,727</b>	<b>100.0</b>	<b>66.98</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,730</b>	<b>—</b>	<b>30.16</b>
Projected Diluted Shares	190		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.01 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,848</b>	<b>3,967</b>
Cost of Goods Sold	1,686	1,697	1,522	1,599	1,631
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,249</b>	<b>2,336</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	509
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>865</b>	<b>918</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>865</b>	<b>918</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>496</b>	<b>530</b>
Income Tax Expense	67	80	61	94	101
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>343</b>	<b>369</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.81</b>	<b>1.94</b>
Adjusted Net Income	285	318	315	343	369
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.81</b>	<b>1.94</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,357</b>	<b>1,427</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,357</b>	<b>1,427</b>

# Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.01 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	160	93
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	640	660
Inventory	168	134	133	133	136
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,153</b>	<b>1,108</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	10,950
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,777</b>	<b>16,146</b>
Accounts Payable	953	914	966	938	957
Short-Term Debt	414	265	260	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,079</b>	<b>1,098</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,194</b>	<b>10,423</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,060	1,185
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,378</b>	<b>5,503</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,583</b>	<b>5,723</b>

# Fortis, Inc. FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.01 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	402	429
Depreciation	410	424	470	492	509
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-53	-20
(Increase) Decrease in Inventory	—	—	—	0	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-28	19
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>1,001</b>	<b>1,084</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-998
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-923</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	—
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-229</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>6</b>	<b>-67</b>

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.29 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Reports Second-Quarter Earnings, Closes CH Energy Acquisition

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 01 Aug 2013  
Estimates as of 02 Apr 2013  
Pricing data through 31 Jul 2013  
Rating updated as of 31 Jul 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 01 Aug 2013

Fortis reported second-quarter earnings per share of \$0.28, compared with \$0.33 in the year-ago period. Earnings were negatively affected by \$32 million in acquisition-related expenses, or \$0.17 per share, partially offset by a \$25 million, or \$0.13 per share, income tax recovery. Excluding the effects of both the acquisition and tax items, earnings were \$0.32 compared with \$0.36 per share. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

In late June, Fortis closed its \$1.5 billion CH Energy Group acquisition after receiving regulatory approval from the New York State Public Service Commission. Management expects the transaction to be EPS accretive beginning in 2015. Infrastructure investments aided the company's Canadian regulated gas utilities, offset by lower volumes, fewer customer additions and an unfavorable regulatory decision. Fortis' regulated Canadian electric utilities earnings grew 23%, aided by income tax recoveries and customer growth.

### Vital Statistics

Market Cap (CAD Mil)	6,836
52-Week High (CAD)	35.14
52-Week Low (CAD)	30.70
52-Week Total Return %	-0.1
YTD Total Return %	-3.8
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	1.04

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	18.1	16.9
EV/EBITDA	11.1	11.1	10.3	9.8
EV/EBIT	17.3	17.7	16.1	15.2
Free Cash Flow Yield %	-3.2	-1.3	-5.0	1.3
Dividend Yield %	2.5	2.6	3.5	3.7

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,848	3,967
Revenue YoY %	2.3	-2.5	5.3	3.1
EBIT	766	794	865	918
EBIT YoY %	3.5	3.7	8.9	6.1
Net Income, Adjusted	318	315	343	369
Net Income YoY %	11.6	-0.9	9.0	7.4
Diluted EPS	1.72	1.63	1.78	1.91
Diluted EPS YoY %	6.1	-5.1	9.0	7.4
Free Cash Flow	39	198	52	467
Free Cash Flow YoY %	89.0	401.6	-73.7	798.9

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.



# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.29 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	5.3	3.1	3.3
EBIT	4.2	5.6	3.5	3.7	8.9	6.1	5.7
EBITDA	5.9	8.0	3.5	6.2	7.4	5.1	4.9
Net Income	6.3	8.8	11.6	-0.9	9.0	7.4	7.2
Diluted EPS	2.5	7.0	6.1	-5.1	9.0	7.4	7.2
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	12.6	7.7	5.3
Free Cash Flow	—	-119.6	89.0	401.6	-73.7	798.9	24.0
	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.5	23.1	23.5
EBITDA Margin %	32.6	31.4	31.8	34.6	35.3	36.0	36.4
Net Margin %	8.3	7.8	8.5	8.6	8.9	9.3	9.8
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.4	11.8	10.6
ROIC %	6.1	5.9	6.0	6.6	6.9	7.3	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.4	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.2	2.3	2.4
Return on Equity %	8.5	8.8	8.9	8.0	8.3	8.5	8.9
	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.54	0.54
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.80	4.61	4.58
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.68	3.63	3.76

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	18.1	16.9
EV/EBITDA	11.1	11.1	10.3	9.8
EV/EBIT	17.3	17.7	16.1	15.2
Free Cash Flow Yield %	-3.2	-1.3	-5.0	1.3
Dividend Yield %	2.5	2.6	3.5	3.7

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,750	13.8	9.21
Present Value Stage II	1,587	12.5	8.35
Present Value Stage III	9,390	73.8	49.42
<b>Total Firm Value</b>	<b>12,727</b>	<b>100.0</b>	<b>66.98</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,730</b>	<b>—</b>	<b>30.16</b>
Projected Diluted Shares	190		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.29 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,848</b>	<b>3,967</b>
Cost of Goods Sold	1,686	1,697	1,522	1,599	1,631
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,249</b>	<b>2,336</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	509
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>865</b>	<b>918</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>865</b>	<b>918</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>496</b>	<b>530</b>
Income Tax Expense	67	80	61	94	101
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>343</b>	<b>369</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.81</b>	<b>1.94</b>
Adjusted Net Income	285	318	315	343	369
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.81</b>	<b>1.94</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,357</b>	<b>1,427</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,357</b>	<b>1,427</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.29 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	160	93
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	640	660
Inventory	168	134	133	133	136
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,153</b>	<b>1,108</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	10,950
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,777</b>	<b>16,146</b>
Accounts Payable	953	914	966	938	957
Short-Term Debt	414	265	260	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,079</b>	<b>1,098</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,194</b>	<b>10,423</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,060	1,185
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,378</b>	<b>5,503</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,583</b>	<b>5,723</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.29 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	402	429
Depreciation	410	424	470	492	509
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-53	-20
(Increase) Decrease in Inventory	—	—	—	0	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-28	19
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>1,001</b>	<b>1,084</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-998
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-923</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	—
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-229</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>6</b>	<b>-67</b>

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis' stable of regulated utilities supports its dividend and modest growth profile.

Andrew Bischof  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 23 Aug 2013  
Estimates as of 12 Aug 2013  
Pricing data through 22 Aug 2013  
Rating updated as of 22 Aug 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	3
Credit Analysis	
Financial Health	4
Capital Structure	4
Enterprise Risk	4
Management & Ownership	5
Analyst Note Archive	6
Additional Information	-
Morningstar Analyst Forecasts	7
Comparable Company Analysis	11
Methodology for Valuing Companies	13

### Investment Thesis 23 Aug 2013

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 14% of operating earnings. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate-base additions should be significant through 2017, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 5.3 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable given the low-risk nature of Fortis' transmission and delivery operations.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In 2012, Fortis announced a \$1.5 billion cash and debt bid for CH Energy Group, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations. Given the relatively small size of CH Energy, we think Fortis will continue to look for acquisition opportunities after this transaction is complete.

### Vital Statistics

Market Cap (CAD Mil)	6,445
52-Week High (CAD)	35.14
52-Week Low (CAD)	30.26
52-Week Total Return %	-5.7
YTD Total Return %	-8.3
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	9.1
Price/Fair Value	0.98

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	16.8	15.4
EV/EBITDA	11.1	11.1	10.5	9.9
EV/EBIT	17.3	17.7	16.4	15.3
Free Cash Flow Yield %	-3.2	-1.3	-5.5	-0.5
Dividend Yield %	2.5	2.6	3.8	4.0

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,810	3,941
Revenue YoY %	2.3	-2.5	4.3	3.4
EBIT	766	794	872	936
EBIT YoY %	3.5	3.7	9.9	7.3
Net Income, Adjusted	318	315	349	383
Net Income YoY %	11.6	-0.9	10.9	9.7
Diluted EPS	1.72	1.63	1.81	1.98
Diluted EPS YoY %	6.1	-5.1	10.9	9.7
Free Cash Flow	39	198	41	348
Free Cash Flow YoY %	89.0	401.6	-79.1	742.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Morningstar Analysis

#### Valuation, Growth and Profitability 23 Aug 2013

We are reaffirming our CAD 31 per share fair value estimate after incorporating second-quarter earnings that were in line with our expectations. In accounting for the CH Energy acquisition, we adjusted for certain tax and regulatory balance sheet items. We believe the deal is slightly value-dilutive for Fortis shareholders. We expect the transaction to close in the second quarter.

We forecast 6% annual earnings growth through 2017 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 6.3 billion at the utilities through 2017, leading to 6% annualized rate base growth.

We use an 8.0% cost of equity to arrive at a 6.7% weighted average cost of capital in our discounted cash flow valuation.

#### Scenario Analysis

Allowed returns at the Canadian utilities are a significant driver of our valuation estimates. If we assume a 100-basis-point decrease in allowed returns on equity in 2013 and beyond, our fair value estimate decreases to CAD 21 per share. Better-than-expected allowed returns on equity drive similar upside results.

Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

#### Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides essential energy sources: natural gas and electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs

low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should allow Fortis to earn its cost of capital in the long run and leads us to assign Fortis' regulated utilities a narrow economic moat.

#### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ Fortis operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has a consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ The Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but substantially higher risk.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.



# Fortis, Inc. FTS (TSE) ★★★

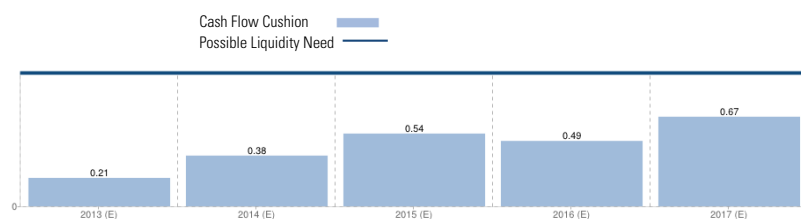
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
Cash and Equivalents (beginning of period)	154	150	72	58	59
Adjusted Available Cash Flow	-51	261	245	278	273
Total Cash Available before Debt Service	103	410	317	336	333
Principal Payments	-117	-690	-187	-291	-81
Interest Payments	-369	-393	-396	-397	-416
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-486	-1,083	-583	-688	-497

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	154	4.6
Sum of 5-Year Adjusted Free Cash Flow	1,006	30.2
Sum of Cash and 5-Year Cash Generation	1,160	34.8
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,160	34.8
Sum of 5-Year Cash Commitments	-3,337	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	7	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2017, Fortis has CAD 5.3 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. Fortis has manageable debt maturities through 2017. The company issued significant equity in 2011 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2013 to accommodate employee stock purchase plans and to support its capital expenditure plan.

With a 54% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2017. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75 B		3.02	1.43	-3	30 Jun 2012
BMO Dividend	★★★	1.34	2.19	-47	31 Aug 2012
iShares S&P/TSX 60 Index	★★★★	1.10	0.58	39	31 Aug 2012
Fidelity Dividend Plus Series F	★★★★★	0.99	3.34	—	30 Jun 2012
RBC Canadian Dividend GIF	★★	0.86	0.42	-273	31 May 2012

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund	0.25	21.82	13	31 Aug 2012
BMO Equal Weight Utilities Index ETF	0.30	7.41	33	31 Aug 2012
Utility Corp	0.06	6.88	—	31 Aug 2012
Manulife Floating Rate Income Cl T	0.04	6.23	68	31 Aug 2012

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Vanguard Total Intl Stock Index Inv	★★★★	0.42	0.04	78	30 Jun 2012
Manulife Floating Rate Income Cl T		0.04	6.23	68	31 Aug 2012
Bissett Canadian Dividend Class A	★★★★	0.38	3.65	65	30 Jun 2012
Russell Global Infrastructure A		0.05	0.33	65	31 Jul 2012
Nuveen Global Infrastructure A	★★★★	0.04	0.89	56	31 Jul 2012

#### Top 5 Sellers

Undrly L&G Pen PMC Consensus Idx		—	0.01	-1,206	31 Mar 2012
Undrly L&G Pen PMC Glb Eq 60:40 Idx		—	0.01	-1,206	31 Mar 2012
Undrly L&G Pen PMC Oversea Consensus Idx		—	0.01	-606	31 Mar 2012
Undrly L&G Pen PMC World Ex UK Eq Idx		0.06	0.02	-503	31 Mar 2012
RBC Canadian Dividend GIF	★★	0.86	0.42	-273	31 May 2012

### Stewardship: 23 Aug 2013

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. Additionally, we would prefer the board of directors have more direct utility experience.

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

#### Fortis Reports Second-Quarter Earnings, Closes CH Energy Acquisition 01 Aug 2013

Fortis reported second-quarter earnings per share of \$0.28, compared with \$0.33 in the year-ago period. Earnings were negatively affected by \$32 million in acquisition-related expenses, or \$0.17 per share, partially offset by a \$25 million, or \$0.13 per share, income tax recovery. Excluding the effects of both the acquisition and tax items, earnings were \$0.32 compared with \$0.36 per share. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

In late June, Fortis closed its \$1.5 billion CH Energy Group acquisition after receiving regulatory approval from the New York State Public Service Commission. Management expects the transaction to be EPS accretive beginning in 2015. Infrastructure investments aided the company's Canadian regulated gas utilities, offset by lower volumes, fewer customer additions and an unfavorable regulatory decision. Fortis' regulated Canadian electric utilities earnings grew 23%, aided by income tax recoveries and customer growth.

The company's regulated utilities performed well, particularly the FortisAlberta and FortisBC Electric subsidiaries. FortisAlberta reached approval for an interim distribution revenue increase effective Jan. 1 until a final decision is made in late 2013. The subsidiary also benefited from higher transmission revenue and lower depreciation. FortisBC Electric benefited from increased infrastructure investments, lower interest expense, and an increase in allowance for funds used during construction.

In January, Fortis reached a settlement agreement with the New York State Public Service Commission staff related to its \$1.5 billion CH Energy Group acquisition proposal. On Friday, an advisory opinion issued by administrative law judges recommended approval of the acquisition. The commission will consider the opinion in determining its final order, expected in June. Commission approval, which we expect, is the last regulatory hurdle to complete the deal. We continue to forecast the transaction will be slightly value-dilutive for Fortis shareholders.

#### Fortis Posts Solid 1Q Results; Awaiting Approval for CH Energy Acquisition 07 May 2013

Fortis reported first-quarter earnings per share of \$0.79, compared with \$0.64 in the year-ago period. Earnings were boosted \$0.12 from an extraordinary gain relating to a settlement with the government of Newfoundland over the 2008 expropriation of nonregulated hydroelectric assets. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	4.3	3.4	3.4
EBIT	4.2	5.6	3.5	3.7	9.9	7.3	6.7
EBITDA	5.9	8.0	3.5	6.2	7.9	6.0	5.7
Net Income	6.3	8.8	11.6	-0.9	10.9	9.7	9.1
Diluted EPS	2.5	7.0	6.1	-5.1	10.9	9.7	9.1
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	13.4	8.6	6.2
Free Cash Flow	—	-119.6	89.0	401.6	-79.1	742.8	20.1

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.9	23.8	24.3
EBITDA Margin %	32.6	31.4	31.8	34.6	35.8	36.7	37.3
Net Margin %	8.3	7.8	8.5	8.6	9.2	9.7	10.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.1	8.8	8.6
ROIC %	6.1	5.9	6.0	6.6	7.0	7.4	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.5	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.3	2.4	2.5
Return on Equity %	8.5	8.8	8.9	8.0	8.5	8.8	9.3

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.55	0.55
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.78	4.62	4.62
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.70	3.68	3.84

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	16.8	15.4
EV/EBITDA	11.1	11.1	10.5	9.9
EV/EBIT	17.3	17.7	16.4	15.3
Free Cash Flow Yield %	-3.2	-1.3	-5.5	-0.5
Dividend Yield %	2.5	2.6	3.8	4.0

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,409	11.0	7.42
Present Value Stage II	1,654	12.9	8.71
Present Value Stage III	9,787	76.2	51.51
<b>Total Firm Value</b>	<b>12,850</b>	<b>100.0</b>	<b>67.63</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,853</b>	<b>—</b>	<b>30.81</b>

Projected Diluted Shares	190
<b>Fair Value per Share (CAD)</b>	<b>—</b>

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
	2013	2014			
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,810</b>	<b>3,941</b>
Cost of Goods Sold	1,686	1,697	1,522	1,553	1,585
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>503</b>	<b>548</b>
Income Tax Expense	67	80	61	96	104
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>349</b>	<b>383</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Adjusted Net Income	285	318	315	349	383
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	150	72
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	633	655
Inventory	168	134	133	129	132
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,132</b>	<b>1,079</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,756</b>	<b>16,248</b>
Accounts Payable	953	914	966	911	930
Short-Term Debt	414	265	260	—	109
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,052</b>	<b>1,179</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,167</b>	<b>10,504</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,066	1,206
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,384</b>	<b>5,524</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,589</b>	<b>5,744</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	408	444
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-46	-22
(Increase) Decrease in Inventory	—	—	—	4	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-55	18
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>990</b>	<b>1,099</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	109
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>-4</b>	<b>-77</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1.09	15.2	16.3	15.7	11.2	11.4	10.7	NM	NM	NM	1.8	2.0	1.9	2.1	2.2	2.1
TransAlta Corporation TAC USA	0.76	14.7	19.7	19.7	9.0	7.6	7.5	NM	8.5	11.4	1.3	1.2	1.2	1.7	1.4	1.3
Average		15.0	18.0	17.7	10.1	9.5	9.1	—	8.5	11.4	1.6	1.6	1.6	1.9	1.8	1.7
<b>Fortis, Inc. FTS CA</b>	<b>0.98</b>	<b>21.0</b>	<b>16.8</b>	<b>15.4</b>	<b>11.1</b>	<b>10.5</b>	<b>9.9</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	64,439 USD	7.0	5.5	5.8	7.0	5.5	5.8	12.3	12.6	12.3	3.1	3.1	3.0	3.4	3.2	3.6
TransAlta Corporation TAC USA	9,451 USD	3.7	5.3	5.6	3.9	6.2	6.5	-24.9	7.8	8.1	-6.4	1.8	1.8	2.7	8.7	8.7
Average		5.4	5.4	5.7	5.5	5.9	6.2	-6.3	10.2	10.2	-1.7	2.5	2.4	3.1	6.0	6.2
<b>Fortis, Inc. FTS CA</b>	<b>14,950 USD</b>	<b>6.6</b>	<b>7.0</b>	<b>7.4</b>	<b>7.6</b>	<b>8.0</b>	<b>8.5</b>	<b>8.0</b>	<b>8.5</b>	<b>8.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.6</b>	<b>3.8</b>	<b>4.0</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	14,256 USD	-7.1	10.3	4.3	-3.0	14.7	5.8	-0.7	9.0	3.8	827.8	-40.1	-82.3	9.1	10.0	10.6
TransAlta Corporation TAC USA	2,262 USD	-15.1	10.1	5.1	-36.1	23.3	1.8	—	-36.6	-0.5	-227.8	-282.2	-18.3	—	—	—
Average		-11.1	10.2	4.7	-19.6	19.0	3.8	-0.7	-13.8	1.7	300.0	-161.2	-50.3	9.1	10.0	10.6
<b>Fortis, Inc. FTS CA</b>	<b>3,654 USD</b>	<b>-2.5</b>	<b>4.3</b>	<b>3.4</b>	<b>3.7</b>	<b>9.9</b>	<b>7.3</b>	<b>-5.1</b>	<b>10.9</b>	<b>9.7</b>	<b>401.6</b>	<b>-79.1</b>	<b>742.8</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.44 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1,911 USD	64.1	63.3	64.0	35.4	34.7	35.6	23.0	23.9	24.2	13.4	13.3	13.2	-6.2	-20.8	-6.9
TransAlta Corporation TAC USA	165 USD	64.2	62.0	60.0	43.6	44.2	43.1	18.7	21.0	20.3	7.3	6.9	6.5	-8.1	16.3	11.6
Average		64.1	62.7	62.0	39.5	39.5	39.4	20.9	22.5	22.3	10.4	10.1	9.9	-7.2	-2.3	2.4
<b>Fortis, Inc. FTS CA</b>	<b>315 USD</b>	<b>58.4</b>	<b>59.2</b>	<b>59.8</b>	<b>34.6</b>	<b>35.8</b>	<b>36.7</b>	<b>21.7</b>	<b>22.9</b>	<b>23.8</b>	<b>8.6</b>	<b>9.2</b>	<b>9.7</b>	<b>-2.4</b>	<b>-8.9</b>	<b>-0.8</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	27,359 USD	170.3	185.4	189.1	63.0	65.0	65.4	4.9	4.7	4.5	5.4	5.8	5.9	4.0	4.1	4.0
TransAlta Corporation TAC USA	4,217 USD	140.1	141.1	148.4	58.4	58.5	59.8	4.1	4.5	4.5	4.3	3.8	3.7	3.1	3.2	3.3
Average		155.2	163.3	168.8	60.7	61.8	62.6	4.5	4.6	4.5	4.9	4.8	4.8	3.6	3.7	3.7
<b>Fortis, Inc. FTS CA</b>	<b>6,043 USD</b>	<b>118.5</b>	<b>121.0</b>	<b>121.0</b>	<b>54.2</b>	<b>54.8</b>	<b>54.8</b>	<b>3.5</b>	<b>3.7</b>	<b>3.7</b>	<b>4.8</b>	<b>4.8</b>	<b>4.6</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	34,385 USD	0.78	0.93	0.72	0.59	0.62	0.57	0.47	0.49	0.45	0.08	0.09	0.06	52.5	53.0	56.5
TransAlta Corporation TAC USA	3,457 USD	0.11	0.21	0.34	0.68	0.79	0.81	0.62	0.72	0.74	0.04	0.18	0.29	-16.9	175.8	176.7
Average		0.45	0.57	0.53	0.64	0.71	0.69	0.55	0.61	0.60	0.06	0.14	0.18	17.8	114.4	116.6
<b>Fortis, Inc. FTS CA</b>	<b>6,445 CAD</b>	<b>0.81</b>	<b>0.79</b>	<b>0.38</b>	<b>0.84</b>	<b>1.08</b>	<b>0.92</b>	<b>0.73</b>	<b>0.95</b>	<b>0.80</b>	<b>0.59</b>	<b>—</b>	<b>0.67</b>	<b>72.4</b>	<b>67.5</b>	<b>63.5</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

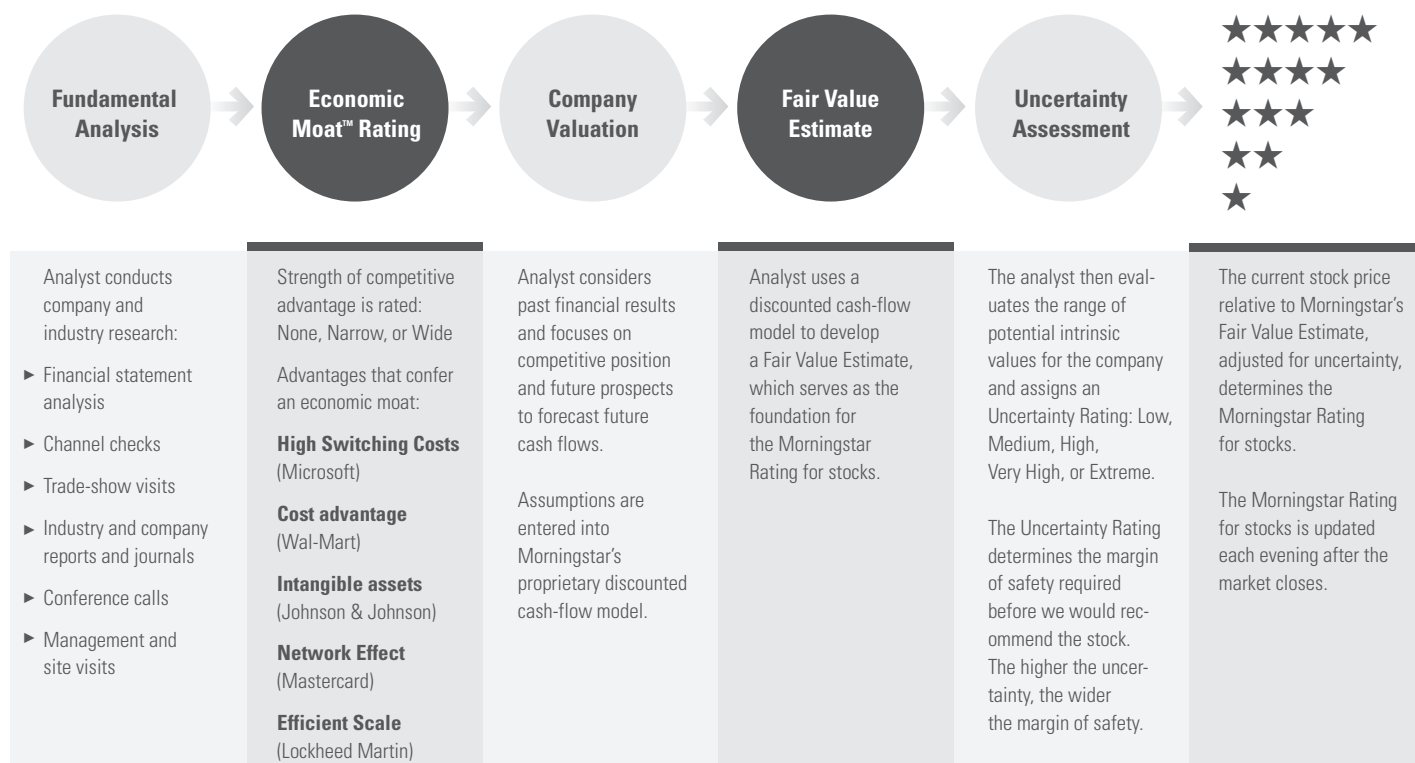
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

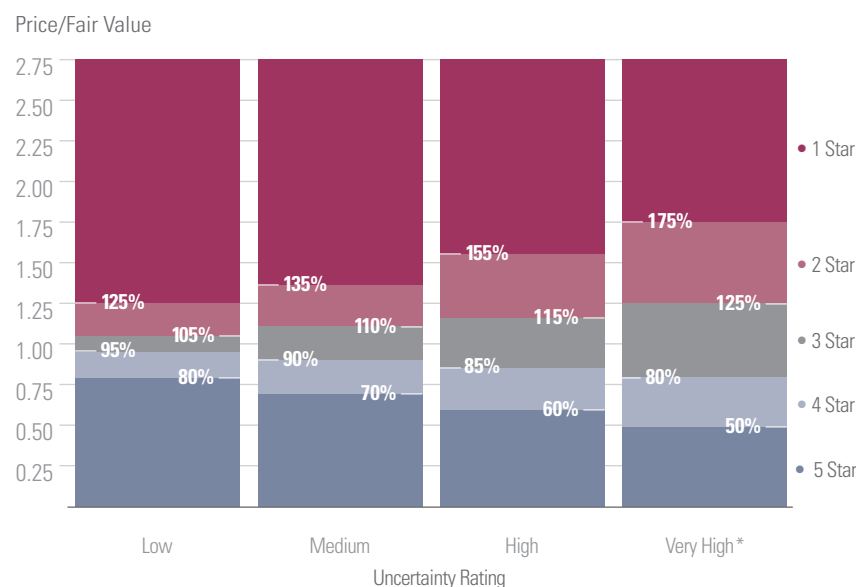
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

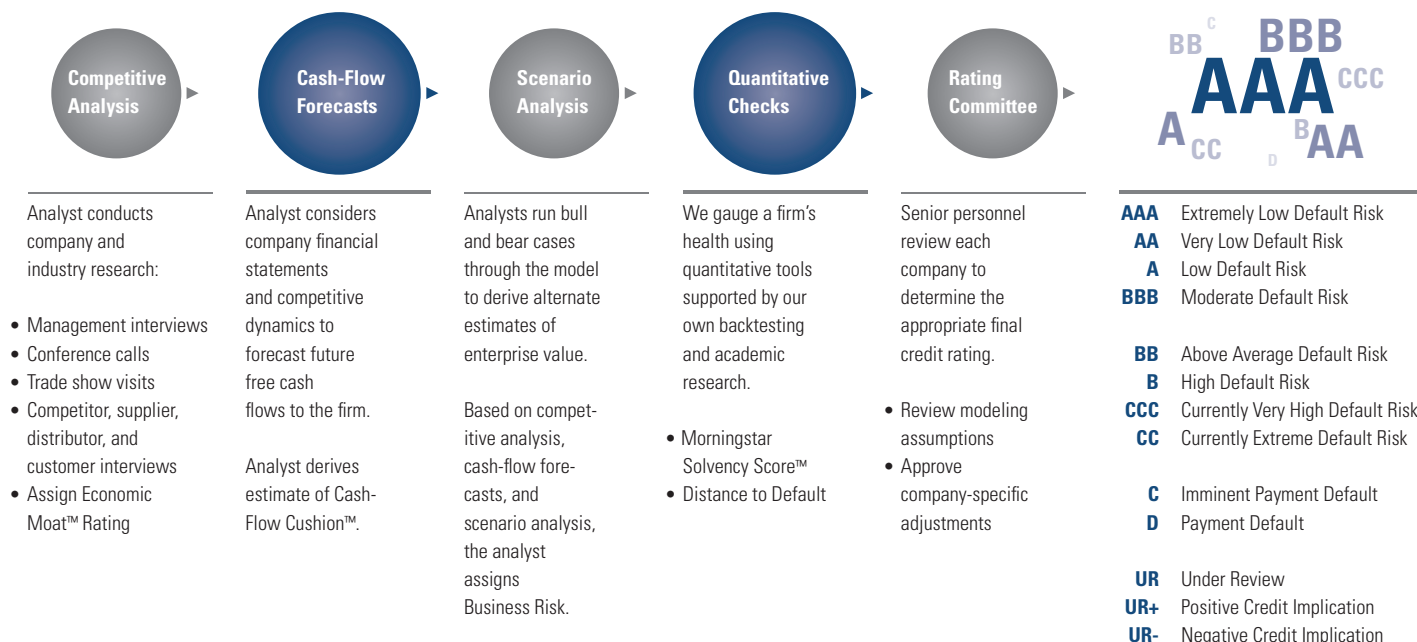
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.47 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis' Earnings Reflect Lower Allowed Returns and Higher Capital Additions

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 01 Nov 2013  
Estimates as of 12 Aug 2013  
Pricing data through 01 Nov 2013  
Rating updated as of 01 Nov 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 01 Nov 2013

Fortis reported third-quarter earnings per share of \$0.23, compared with \$0.24 in the year-ago period. Year-to-date EPS were \$1.27, compared to \$1.20 in the same period. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

Fortis recently completed its \$1.5 billion CH Energy Group acquisition. Management expects the transaction to be accretive to EPS in 2015. CH Energy Group contributed \$12 million in the quarter, which was offset by the common share offering and financing costs related to the transaction. We suspect management continues to look for additional regulated opportunities in the U.S.

Fortis' Canadian Regulated Gas Utilities notched a \$14 million loss compared to a \$6 million loss in the year-ago quarter, in a period of low demand from warmer temperatures. Higher operating expenses and lower allowed rates of return attributed to the larger loss. Earnings from capital projects partially offset segment weakness. The company's Canadian Regulated Electric Utilities also showed weakness, earning \$51 million in the third quarter compared to \$55 million in the year-ago quarter. In general, across the segment earnings from completion of infrastructure projects were offset from lower allowed rates of return. Management continues to work towards completing \$1.2 billion in capital projects in 2013, part of a larger \$6 billion program, which will drive future earnings and dividend growth.

### Vital Statistics

Market Cap (CAD Mil)	6,897
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.78
52-Week Total Return %	-0.6
YTD Total Return %	-2.4
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	9.1
Price/Fair Value	1.05

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	17.9	16.4
EV/EBITDA	11.1	11.1	10.9	10.2
EV/EBIT	17.3	17.7	17.0	15.8
Free Cash Flow Yield %	-3.2	-1.3	-5.1	-0.5
Dividend Yield %	2.4	2.6	3.6	3.7

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,810	3,941
Revenue YoY %	2.3	-2.5	4.3	3.4
EBIT	766	794	872	936
EBIT YoY %	3.5	3.7	9.9	7.3
Net Income, Adjusted	318	315	349	383
Net Income YoY %	11.6	-0.9	10.9	9.7
Diluted EPS	1.72	1.63	1.81	1.98
Diluted EPS YoY %	6.1	-5.1	10.9	9.7
Free Cash Flow	39	198	41	348
Free Cash Flow YoY %	89.0	401.6	-79.1	742.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.



# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.47 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	4.3	3.4	3.4
EBIT	4.2	5.6	3.5	3.7	9.9	7.3	6.7
EBITDA	5.9	8.0	3.5	6.2	7.9	6.0	5.7
Net Income	6.3	8.8	11.6	-0.9	10.9	9.7	9.1
Diluted EPS	2.5	7.0	6.1	-5.1	10.9	9.7	9.1
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	13.4	8.6	6.2
Free Cash Flow	—	-119.6	89.0	401.6	-79.1	742.8	20.1

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.9	23.8	24.3
EBITDA Margin %	32.6	31.4	31.8	34.6	35.8	36.7	37.3
Net Margin %	8.3	7.8	8.5	8.6	9.2	9.7	10.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.1	8.8	8.6
ROIC %	6.1	5.9	6.0	6.6	7.0	7.4	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.5	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.3	2.4	2.5
Return on Equity %	8.5	8.8	8.9	8.0	8.5	8.8	9.3

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.55	0.55
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.78	4.62	4.62
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.70	3.68	3.84

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	17.9	16.4
EV/EBITDA	11.1	11.1	10.9	10.2
EV/EBIT	17.3	17.7	17.0	15.8
Free Cash Flow Yield %	-3.2	-1.3	-5.1	-0.5
Dividend Yield %	2.4	2.6	3.6	3.7

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,409	11.0	7.42
Present Value Stage II	1,654	12.9	8.71
Present Value Stage III	9,787	76.2	51.51
<b>Total Firm Value</b>	<b>12,850</b>	<b>100.0</b>	<b>67.63</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,853</b>	<b>—</b>	<b>30.81</b>

Projected Diluted Shares	190
--------------------------	-----

<b>Fair Value per Share (CAD)</b>	<b>—</b>
-----------------------------------	----------

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.47 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
	2013	2014			
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,810</b>	<b>3,941</b>
Cost of Goods Sold	1,686	1,697	1,522	1,553	1,585
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>503</b>	<b>548</b>
Income Tax Expense	67	80	61	96	104
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>349</b>	<b>383</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Adjusted Net Income	285	318	315	349	383
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.47 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	150	72
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	633	655
Inventory	168	134	133	129	132
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,132</b>	<b>1,079</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,756</b>	<b>16,248</b>
Accounts Payable	953	914	966	911	930
Short-Term Debt	414	265	260	—	109
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,052</b>	<b>1,179</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,167</b>	<b>10,504</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,066	1,206
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,384</b>	<b>5,524</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,589</b>	<b>5,744</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.47 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	408	444
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-46	-22
(Increase) Decrease in Inventory	—	—	—	4	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-55	18
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>990</b>	<b>1,099</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	109
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>-4</b>	<b>-77</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management Meeting: Acquisitive Fortis Management Seeks Further U.S. Expansion

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

**Analyst Note** 14 Nov 2013

Fortis' appetite for further expansion in the U.S. was evident during our executive management meeting at the 48th Edison Electric Institute Financial Conference in Orlando, Fla. We are reaffirming our CAD 31 per share fair value estimate, narrow moat and stable moat trend ratings.

The primary analyst covering this company does not own its stock.

Research as of 14 Nov 2013  
Estimates as of 12 Aug 2013  
Pricing data through 13 Nov 2013  
Rating updated as of 13 Nov 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

Management indicated that the integration of the \$1.5 billion acquisition of Central Hudson Energy was complete. A prolonged regulatory approval process, which ultimately led to \$3 million in annual concessions, hasn't deterred management from seeking additional U.S. opportunities. Fortis sees multiple transactions in the U.S. during the next 10 years, indicating a desire for transactions \$5 billion and under. Management prefers regulated transmission and distribution assets but would consider combining with generation assets given the right asset mix. Fortis would not consider merchant assets. Since 2004, Fortis has acquired four regulated Canadian and U.S. utilities (Fortis Alberta, Fortis BCElectric, FortisBC Gas, Central Hudson Energy) for a combined \$6.7 billion. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 6% overvalued, not accounting for a likely 20%-30% takeover premium.

At its regulated Canadian operations, management expects to invest \$1.0 billion-\$1.2 billion annually, with the largest allocation to Fortis Alberta, the company's fastest-growing utility. Build-out of Alberta's oil sand production should support 7%-8% near-term growth and \$400 million of annual capital spend. Fortis Alberta, the company's largest utility, will account for \$250 million in annual investment. Fortis has managed its Wanetta hydro expansion well, with construction on time and on budget for the \$900-million, 335 MW facility.

### Vital Statistics

Market Cap (CAD Mil)	6,696
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.78
52-Week Total Return %	-2.7
YTD Total Return %	-4.3
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	9.1
Price/Fair Value	1.02

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	17.4	15.9
EV/EBITDA	11.1	11.1	10.8	10.2
EV/EBIT	17.3	17.7	16.9	15.7
Free Cash Flow Yield %	-3.2	-1.3	-5.3	-0.5
Dividend Yield %	2.4	2.6	3.7	3.8

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,810	3,941
Revenue YoY %	2.3	-2.5	4.3	3.4
EBIT	766	794	872	936
EBIT YoY %	3.5	3.7	9.9	7.3
Net Income, Adjusted	318	315	349	383
Net Income YoY %	11.6	-0.9	10.9	9.7
Diluted EPS	1.72	1.63	1.81	1.98
Diluted EPS YoY %	6.1	-5.1	10.9	9.7
Free Cash Flow	39	198	41	348
Free Cash Flow YoY %	89.0	401.6	-79.1	742.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	4.3	3.4	3.4
EBIT	4.2	5.6	3.5	3.7	9.9	7.3	6.7
EBITDA	5.9	8.0	3.5	6.2	7.9	6.0	5.7
Net Income	6.3	8.8	11.6	-0.9	10.9	9.7	9.1
Diluted EPS	2.5	7.0	6.1	-5.1	10.9	9.7	9.1
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	13.4	8.6	6.2
Free Cash Flow	—	-119.6	89.0	401.6	-79.1	742.8	20.1

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.9	23.8	24.3
EBITDA Margin %	32.6	31.4	31.8	34.6	35.8	36.7	37.3
Net Margin %	8.3	7.8	8.5	8.6	9.2	9.7	10.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.1	8.8	8.6
ROIC %	6.1	5.9	6.0	6.6	7.0	7.4	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.5	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.3	2.4	2.5
Return on Equity %	8.5	8.8	8.9	8.0	8.5	8.8	9.3

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.55	0.55
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.78	4.62	4.62
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.70	3.68	3.84

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	17.4	15.9
EV/EBITDA	11.1	11.1	10.8	10.2
EV/EBIT	17.3	17.7	16.9	15.7
Free Cash Flow Yield %	-3.2	-1.3	-5.3	-0.5
Dividend Yield %	2.4	2.6	3.7	3.8

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,409	11.0	7.42
Present Value Stage II	1,654	12.9	8.71
Present Value Stage III	9,787	76.2	51.51
<b>Total Firm Value</b>	<b>12,850</b>	<b>100.0</b>	<b>67.63</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,853</b>	<b>—</b>	<b>30.81</b>

Projected Diluted Shares	190
<b>Fair Value per Share (CAD)</b>	<b>—</b>

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,810</b>	<b>3,941</b>
Cost of Goods Sold	1,686	1,697	1,522	1,553	1,585
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>503</b>	<b>548</b>
Income Tax Expense	67	80	61	96	104
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>349</b>	<b>383</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Adjusted Net Income	285	318	315	349	383
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	150	72
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	633	655
Inventory	168	134	133	129	132
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,132</b>	<b>1,079</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,756</b>	<b>16,248</b>
Accounts Payable	953	914	966	911	930
Short-Term Debt	414	265	260	—	109
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,052</b>	<b>1,179</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,167</b>	<b>10,504</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,066	1,206
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,384</b>	<b>5,524</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,589</b>	<b>5,744</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	408	444
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-46	-22
(Increase) Decrease in Inventory	—	—	—	4	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-55	18
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>990</b>	<b>1,099</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	109
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>-4</b>	<b>-77</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis' stable of regulated utilities supports its dividend and modest growth profile.

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 20 Nov 2013  
Estimates as of 12 Aug 2013  
Pricing data through 20 Nov 2013  
Rating updated as of 20 Nov 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	3
Credit Analysis	
Financial Health	4
Capital Structure	4
Enterprise Risk	4
Management & Ownership	5
Analyst Note Archive	6
Additional Information	-
Morningstar Analyst Forecasts	8
Comparable Company Analysis	12
Methodology for Valuing Companies	14

### Investment Thesis 20 Nov 2013

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 14% of operating earnings. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate-base additions should be significant through 2017, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 5.3 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable given the low-risk nature of Fortis' transmission and delivery operations.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In 2012, Fortis announced a \$1.5 billion cash and debt bid for CH Energy Group, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations. Given the relatively small size of CH Energy, we think Fortis will continue to look for acquisition opportunities after this transaction is complete.

### Vital Statistics

Market Cap (CAD Mil)	6,696
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.78
52-Week Total Return %	-0.7
YTD Total Return %	-4.3
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	9.1
Price/Fair Value	1.02

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	17.5	16.0
EV/EBITDA	11.1	11.1	10.8	10.2
EV/EBIT	17.3	17.7	17.0	15.8
Free Cash Flow Yield %	-3.2	-1.3	-5.3	-0.5
Dividend Yield %	2.4	2.6	3.7	3.8

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,810	3,941
Revenue YoY %	2.3	-2.5	4.3	3.4
EBIT	766	794	872	936
EBIT YoY %	3.5	3.7	9.9	7.3
Net Income, Adjusted	318	315	349	383
Net Income YoY %	11.6	-0.9	10.9	9.7
Diluted EPS	1.72	1.63	1.81	1.98
Diluted EPS YoY %	6.1	-5.1	10.9	9.7
Free Cash Flow	39	198	41	348
Free Cash Flow YoY %	89.0	401.6	-79.1	742.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Morningstar Analysis

#### Valuation, Growth and Profitability 23 Aug 2013

We are reaffirming our CAD 31 per share fair value estimate after incorporating second-quarter earnings that were in line with our expectations. In accounting for the CH Energy acquisition, we adjusted for certain tax and regulatory balance sheet items. We believe the deal is slightly value-dilutive for Fortis shareholders. We expect the transaction to close in the second quarter.

We forecast 6% annual earnings growth through 2017 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 6.3 billion at the utilities through 2017, leading to 6% annualized rate base growth.

We use an 8.0% cost of equity to arrive at a 6.7% weighted average cost of capital in our discounted cash flow valuation.

#### Scenario Analysis

Allowed returns at the Canadian utilities are a significant driver of our valuation estimates. If we assume a 100-basis-point decrease in allowed returns on equity in 2013 and beyond, our fair value estimate decreases to CAD 21 per share. Better-than-expected allowed returns on equity drive similar upside results.

Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

#### Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides essential energy sources: natural gas and electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs

low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should allow Fortis to earn its cost of capital in the long run and leads us to assign Fortis' regulated utilities a narrow economic moat.

#### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ Fortis operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has a consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ The Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but substantially higher risk.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

# Fortis, Inc. FTS (TSE) ★★★

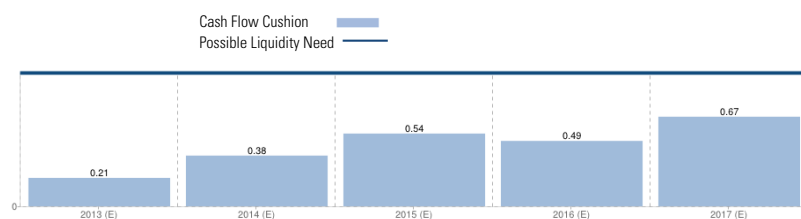
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
Cash and Equivalents (beginning of period)	154	150	72	58	59
Adjusted Available Cash Flow	-51	261	245	278	273
Total Cash Available before Debt Service	103	410	317	336	333
Principal Payments	-117	-690	-187	-291	-81
Interest Payments	-369	-393	-396	-397	-416
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-486	-1,083	-583	-688	-497

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	154	4.6
Sum of 5-Year Adjusted Free Cash Flow	1,006	30.2
Sum of Cash and 5-Year Cash Generation	1,160	34.8
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,160	34.8
Sum of 5-Year Cash Commitments	-3,337	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	7	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2017, Fortis has CAD 5.3 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. Fortis has manageable debt maturities through 2017. The company issued significant equity in 2011 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2013 to accommodate employee stock purchase plans and to support its capital expenditure plan.

With a 54% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2017. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.45	1.06	132	31 Aug 2013
iShares S&P/TSX 60 Index	0.97	0.57	-32	31 Oct 2013
Fidelity Dividend Plus	0.94	2.11	—	30 Jun 2013
Scotia Canadian Dividend	0.78	0.96	—	30 Sep 2013
RBC Canadian Dividend GIF	0.76	0.35	—	31 Jul 2013

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund	0.35	23.01	12	31 Oct 2013
AGF Monthly High Income Class	0.03	8.59	2	31 Mar 2013
BMO Equal Weight Utilities Indx ETF	0.30	7.56	-7	31 Oct 2013
Utility Corp	0.05	6.03	—	31 Oct 2013
Newgrowth Corp A	0.10	5.04	—	31 Oct 2013

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
RBC Global Asset Management Inc.	1.41	0.49	181	30 Sep 2013
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009
IG Investment Management Ltd	2.52	0.93	132	31 Aug 2013
Vanguard Group, Inc.	0.54	0.03	127	31 Jul 2013
Intact Investment Management Inc.	0.04	0.68	87	31 Oct 2013

#### Top 5 Sellers

TD Asset Management	0.74	1.32	-731	30 Jun 2013
GCIC Ltd.	0.90	0.56	-401	31 Jul 2013
1832 Asset Management L.P.	0.91	0.72	-355	30 Sep 2013
Fidelity Investments Canada ULC	1.22	0.33	-315	30 Jun 2013
Industrial Alliance Investment Mgmt Inc.	1.27	1.74	-301	30 Sep 2013

### Management

23 Aug 2013

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. Additionally, we would prefer the board of directors have more direct utility experience.



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

### Management Meeting: Acquisitive Fortis Management Seeks Further U.S. Expansion 14 Nov 2013

Fortis' appetite for further expansion in the U.S. was evident during our executive management meeting at the 48th Edison Electric Institute Financial Conference in Orlando, Fla. We are reaffirming our CAD 31 per share fair value estimate, narrow moat and stable moat trend ratings.

Management indicated that the integration of the \$1.5 billion acquisition of Central Hudson Energy was complete. A prolonged regulatory approval process, which ultimately led to \$3 million in annual concessions, hasn't deterred management from seeking additional U.S. opportunities. Fortis sees multiple transactions in the U.S. during the next 10 years, indicating a desire for transactions \$5 billion and under. Management prefers regulated transmission and distribution assets but would consider combining with generation assets given the right asset mix. Fortis would not consider merchant assets. Since 2004, Fortis has acquired four regulated Canadian and U.S. utilities (Fortis Alberta, Fortis BCElectric, FortisBC Gas, Central Hudson Energy) for a combined \$6.7 billion. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 6% overvalued, not accounting for a likely 20%-30% takeover premium.

At its regulated Canadian operations, management expects to invest \$1.0 billion-\$1.2 billion annually, with the largest allocation to Fortis Alberta, the company's fastest-growing utility. Build-out of Alberta's oil sand production should support 7%-8% near-term growth and \$400 million of annual capital spend. Fortis Alberta, the company's largest utility, will account for \$250 million in annual investment. Fortis has managed its Wanetta hydro expansion well, with construction on time and on budget for the \$900-million, 335 MW facility.

### Fortis' Earnings Reflect Lower Allowed Returns and Higher Capital Additions 01 Nov 2013

Fortis reported third-quarter earnings per share of \$0.23, compared with \$0.24 in the year-ago period. Year-to-date EPS were \$1.27, compared to \$1.20 in the same period. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

Fortis recently completed its \$1.5 billion CH Energy Group acquisition. Management expects the transaction to be accretive to EPS in 2015. CH Energy Group contributed \$12 million in the quarter, which was offset by the common share offering and financing costs related to the transaction. We suspect management continues to look for additional regulated opportunities in the U.S.

Fortis' Canadian Regulated Gas Utilities notched a \$14 million loss compared to a \$6 million loss in the year-ago quarter, in a period of low demand from warmer temperatures. Higher operating expenses and lower allowed rates of return attributed to the larger loss. Earnings from capital projects partially offset segment weakness. The company's Canadian Regulated Electric Utilities also showed weakness, earning \$51 million in the third quarter compared to \$55 million in the year-ago quarter. In general, across the segment earnings from completion of infrastructure projects were offset from lower allowed rates of return. Management continues to work towards completing \$1.2 billion in capital projects in 2013, part of a larger \$6 billion program, which will drive future earnings and dividend growth.

### Fortis Reports Second-Quarter Earnings, Closes CH Energy Acquisition 01 Aug 2013

Fortis reported second-quarter earnings per share of \$0.28,

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

compared with \$0.33 in the year-ago period. Earnings were negatively affected by \$32 million in acquisition-related expenses, or \$0.17 per share, partially offset by a \$25 million, or \$0.13 per share, income tax recovery. Excluding the effects of both the acquisition and tax items, earnings were \$0.32 compared with \$0.36 per share. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

In late June, Fortis closed its \$1.5 billion CH Energy Group acquisition after receiving regulatory approval from the New York State Public Service Commission. Management expects the transaction to be EPS accretive beginning in 2015. Infrastructure investments aided the company's Canadian regulated gas utilities, offset by lower volumes, fewer customer additions and an unfavorable regulatory decision. Fortis' regulated Canadian electric utilities earnings grew 23%, aided by income tax recoveries and customer growth.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	4.3	3.4	3.4
EBIT	4.2	5.6	3.5	3.7	9.9	7.3	6.7
EBITDA	5.9	8.0	3.5	6.2	7.9	6.0	5.7
Net Income	6.3	8.8	11.6	-0.9	10.9	9.7	9.1
Diluted EPS	2.5	7.0	6.1	-5.1	10.9	9.7	9.1
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	13.4	8.6	6.2
Free Cash Flow	—	-119.6	89.0	401.6	-79.1	742.8	20.1

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.9	23.8	24.3
EBITDA Margin %	32.6	31.4	31.8	34.6	35.8	36.7	37.3
Net Margin %	8.3	7.8	8.5	8.6	9.2	9.7	10.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.1	8.8	8.6
ROIC %	6.1	5.9	6.0	6.6	7.0	7.4	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.5	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.3	2.4	2.5
Return on Equity %	8.5	8.8	8.9	8.0	8.5	8.8	9.3

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.55	0.55
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.78	4.62	4.62
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.70	3.68	3.84

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	17.5	16.0
EV/EBITDA	11.1	11.1	10.8	10.2
EV/EBIT	17.3	17.7	17.0	15.8
Free Cash Flow Yield %	-3.2	-1.3	-5.3	-0.5
Dividend Yield %	2.4	2.6	3.7	3.8

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,409	11.0	7.42
Present Value Stage II	1,654	12.9	8.71
Present Value Stage III	9,787	76.2	51.51
<b>Total Firm Value</b>	<b>12,850</b>	<b>100.0</b>	<b>67.63</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,853</b>	<b>—</b>	<b>30.81</b>

Projected Diluted Shares	190
<b>Fair Value per Share (CAD)</b>	<b>—</b>

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,810</b>	<b>3,941</b>
Cost of Goods Sold	1,686	1,697	1,522	1,553	1,585
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>503</b>	<b>548</b>
Income Tax Expense	67	80	61	96	104
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>349</b>	<b>383</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Adjusted Net Income	285	318	315	349	383
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	150	72
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	633	655
Inventory	168	134	133	129	132
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,132</b>	<b>1,079</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,756</b>	<b>16,248</b>
Accounts Payable	953	914	966	911	930
Short-Term Debt	414	265	260	—	109
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,052</b>	<b>1,179</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,167</b>	<b>10,504</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,066	1,206
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,384</b>	<b>5,524</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,589</b>	<b>5,744</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	408	444
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-46	-22
(Increase) Decrease in Inventory	—	—	—	4	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-55	18
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>990</b>	<b>1,099</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	109
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>-4</b>	<b>-77</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1.09	15.2	17.6	16.0	11.2	11.8	10.8	NM	NM	NM	1.8	2.1	2.0	2.1	2.4	2.3
TransAlta Corporation TAC USA	1.00	30.5	22.6	18.2	14.6	8.8	8.4	NM	24.0	20.1	1.3	1.2	1.2	1.7	1.6	1.6
Average		22.9	20.1	17.1	12.9	10.3	9.6	—	24.0	20.1	1.6	1.7	1.6	1.9	2.0	2.0
<b>Fortis, Inc. FTS CA</b>	<b>1.02</b>	<b>21.0</b>	<b>17.5</b>	<b>16.0</b>	<b>11.1</b>	<b>10.8</b>	<b>10.2</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	64,939 USD	6.9	5.5	6.0	6.9	5.5	6.0	12.1	12.3	12.7	3.1	3.1	3.2	3.4	3.0	3.3
TransAlta Corporation TAC USA	9,451 CAD	7.9	6.2	5.8	8.4	6.6	6.1	-24.9	6.9	8.4	-6.4	1.7	2.2	2.7	3.4	6.1
Average		7.4	5.9	5.9	7.7	6.1	6.1	-6.4	9.6	10.6	-1.7	2.4	2.7	3.1	3.2	4.7
<b>Fortis, Inc. FTS CA</b>	<b>14,950 USD</b>	<b>6.6</b>	<b>7.0</b>	<b>7.4</b>	<b>7.6</b>	<b>8.0</b>	<b>8.5</b>	<b>8.0</b>	<b>8.5</b>	<b>8.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.6</b>	<b>3.7</b>	<b>3.8</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	14,256 USD	-7.1	10.3	4.3	-3.0	17.6	9.9	-0.7	9.1	9.4	827.8	-40.4	-87.2	9.1	10.0	10.6
TransAlta Corporation TAC USA	2,262 CAD	-15.1	6.6	3.1	-36.1	19.9	12.3	-51.9	24.2	23.6	66.0	4.9	-5.1	—	—	—
Average		-11.1	8.5	3.7	-19.6	18.8	11.1	-26.3	16.7	16.5	446.9	-17.8	-46.2	9.1	10.0	10.6
<b>Fortis, Inc. FTS CA</b>	<b>3,654 USD</b>	<b>-2.5</b>	<b>4.3</b>	<b>3.4</b>	<b>3.7</b>	<b>9.9</b>	<b>7.3</b>	<b>-5.1</b>	<b>10.9</b>	<b>9.7</b>	<b>401.6</b>	<b>-79.1</b>	<b>742.8</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.52 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1,911 USD	64.1	63.3	64.0	35.4	35.4	37.2	23.0	24.5	25.8	13.4	13.4	14.1	-6.2	-20.6	-6.0
TransAlta Corporation TAC USA	118 CAD	64.2	63.7	64.6	26.8	41.5	42.2	18.7	21.0	22.9	5.2	6.7	8.5	-8.1	6.8	7.9
Average		64.1	63.5	64.3	31.1	38.5	39.7	20.9	22.8	24.4	9.3	10.1	11.3	-7.2	-6.9	1.0
<b>Fortis, Inc. FTS CA</b>	<b>315 USD</b>	<b>58.4</b>	<b>59.2</b>	<b>59.8</b>	<b>34.6</b>	<b>35.8</b>	<b>36.7</b>	<b>21.7</b>	<b>22.9</b>	<b>23.8</b>	<b>8.6</b>	<b>9.2</b>	<b>9.7</b>	<b>-2.4</b>	<b>-8.9</b>	<b>-0.8</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	27,359 USD	165.1	177.1	179.1	62.3	63.9	64.2	4.9	4.8	4.7	5.4	5.6	5.5	3.9	3.9	3.9
TransAlta Corporation TAC USA	4,217 CAD	140.1	118.4	116.6	58.4	54.2	53.8	2.5	4.6	4.8	7.0	3.8	3.7	3.1	2.9	2.9
Average		152.6	147.8	147.9	60.4	59.1	59.0	3.7	4.7	4.8	6.2	4.7	4.6	3.5	3.4	3.4
<b>Fortis, Inc. FTS CA</b>	<b>6,043 USD</b>	<b>118.5</b>	<b>121.0</b>	<b>121.0</b>	<b>54.2</b>	<b>54.8</b>	<b>54.8</b>	<b>3.5</b>	<b>3.7</b>	<b>3.7</b>	<b>4.8</b>	<b>4.8</b>	<b>4.6</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	37,599 USD	1.98	0.92	0.71	0.65	0.66	0.61	0.53	0.52	0.48	0.20	0.10	0.07	52.5	53.0	53.6
TransAlta Corporation TAC USA	3,755 USD	0.11	0.54	0.58	0.68	1.12	1.15	0.62	1.03	1.06	0.04	0.47	0.53	-44.4	186.9	151.2
Average		1.05	0.73	0.65	0.67	0.89	0.88	0.58	0.78	0.77	0.12	0.29	0.30	4.0	120.0	102.4
<b>Fortis, Inc. FTS CA</b>	<b>6,696 CAD</b>	<b>0.81</b>	<b>0.79</b>	<b>0.38</b>	<b>0.84</b>	<b>1.08</b>	<b>0.92</b>	<b>0.73</b>	<b>0.95</b>	<b>0.80</b>	<b>0.59</b>	<b>—</b>	<b>0.67</b>	<b>72.4</b>	<b>67.5</b>	<b>63.5</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

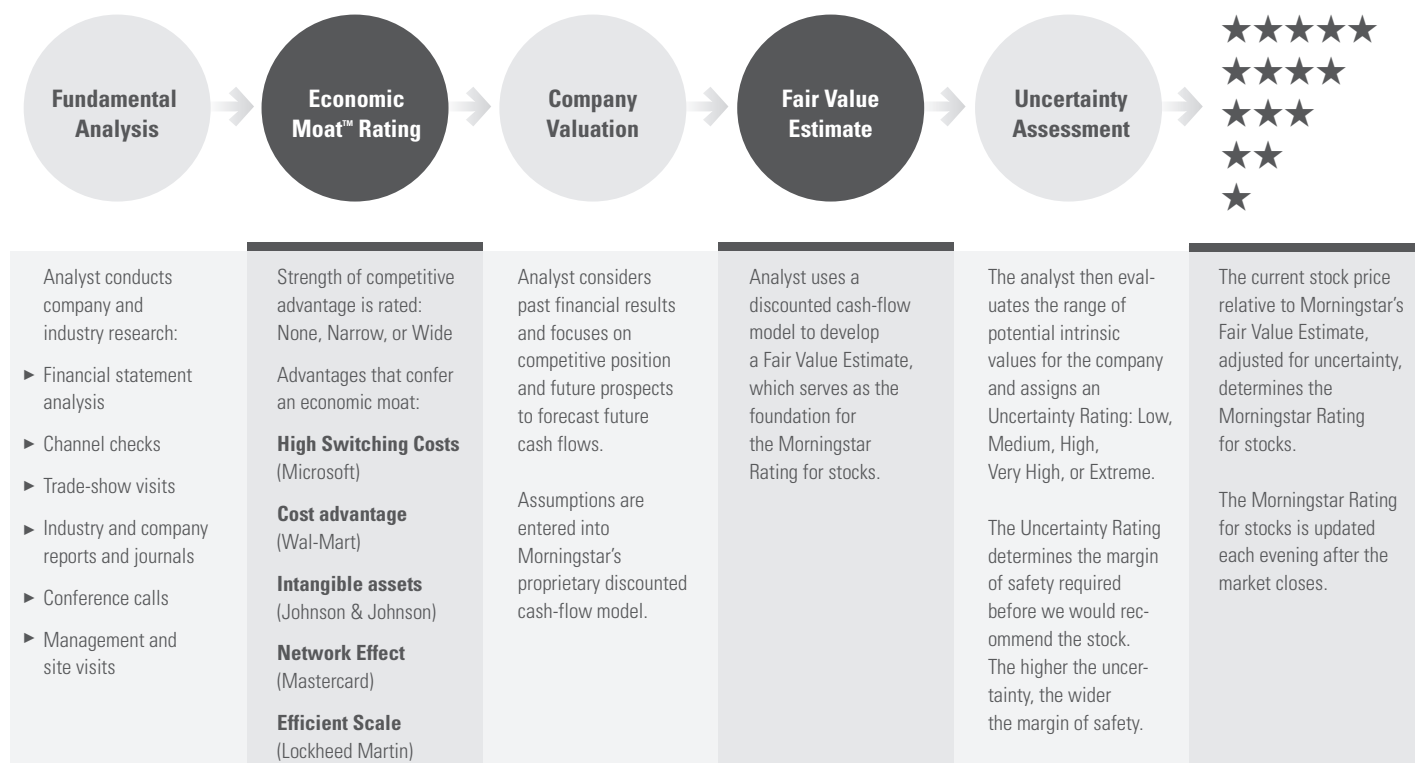
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

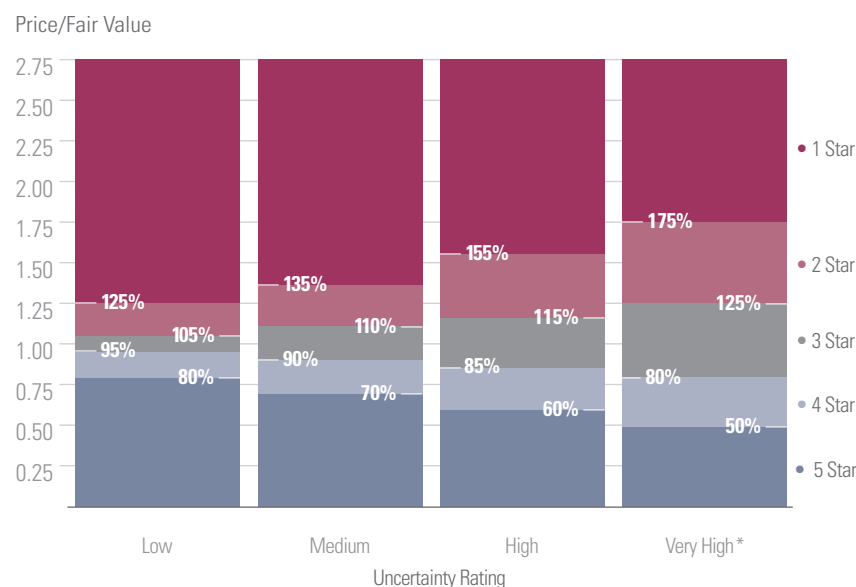
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

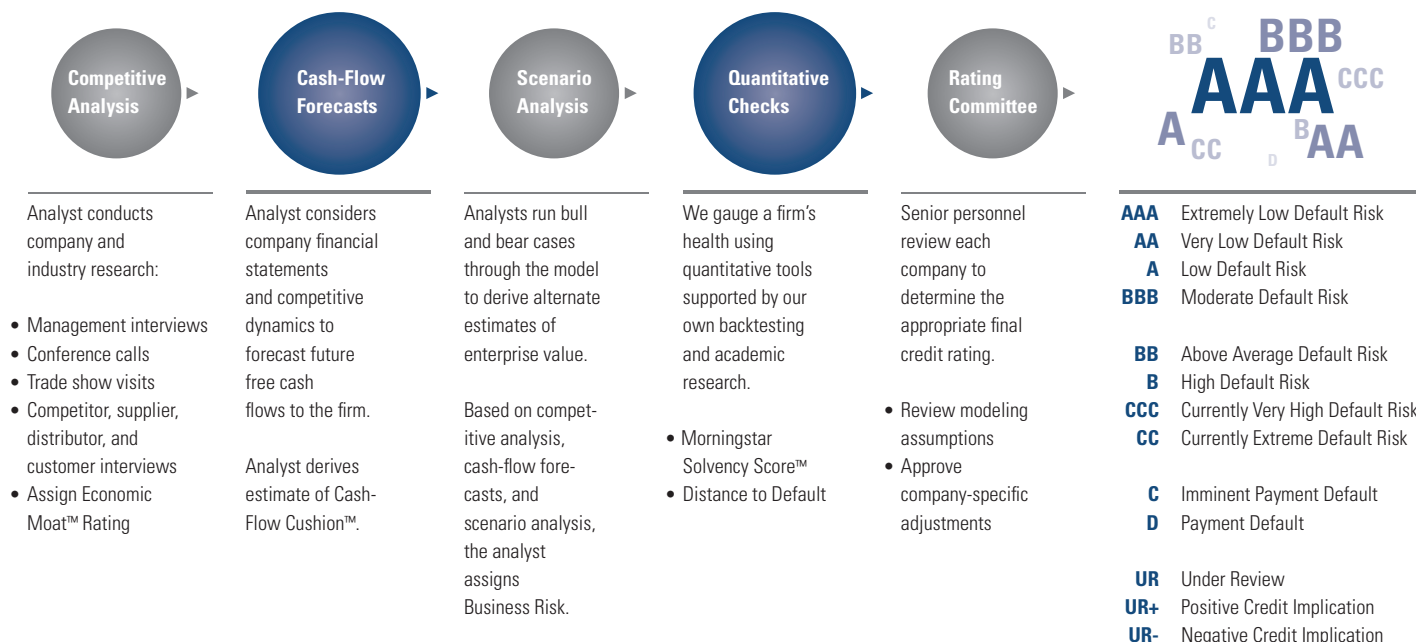
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.19 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Makes Pricey Offer for UNS Energy

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 11 Dec 2013  
Estimates as of 12 Aug 2013  
Pricing data through 11 Dec 2013  
Rating updated as of 11 Dec 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 11 Dec 2013

Fortis management made good on its outspoken desire to add to its U.S. utilities holdings with a \$4.3 billion offer to acquire UNS Energy, a predominantly regulated electric and gas utility in Arizona. Management has told us repeatedly in recent meetings it would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade. The UNS deal comes less than six months after Fortis closed its \$1.5 billion acquisition of Central Hudson Energy, its first U.S. acquisition.

We are reaffirming our CAD 31 per share fair value estimate, narrow economic moat, and stable moat trend ratings, although we think the price it is paying for UNS is rich relative to where its U.S. regulated utilities peers are trading. Fortis is offering \$60.25 per share, a 31% premium to UNS Energy's closing price on Dec. 11. The \$2.5 billion equity value offer implies a 2.3 price-to-book multiple, well above the median 1.7 price-to-book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value including \$1.8 billion of assumed debt is approximately 1.5 times UNS' consolidated rate base.

We expect Fortis to issue additional debt at the holding company level to fund a portion of the equity, easing some of the equity dilution from the premium price it is paying. The deal will have to receive approval from UNS shareholders, the Arizona Corporation Commission, and the Federal Energy Regulatory Commission. We expect regulatory approvals to take until late 2014. Management said it expects the UNS deal to be accretive to earnings in the first full year after closing, likely in 2015. They expect the CH Energy deal to be accretive in 2015 as well.

### Vital Statistics

Market Cap (CAD Mil)	6,626
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.78
52-Week Total Return %	-4.1
YTD Total Return %	-5.2
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	9.1
Price/Fair Value	1.01

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	17.2	15.8
EV/EBITDA	11.1	11.1	10.6	10.0
EV/EBIT	17.3	17.7	16.6	15.5
Free Cash Flow Yield %	-3.2	-1.3	-5.4	-0.5
Dividend Yield %	2.4	2.6	3.8	3.9

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,810	3,941
Revenue YoY %	2.3	-2.5	4.3	3.4
EBIT	766	794	872	936
EBIT YoY %	3.5	3.7	9.9	7.3
Net Income, Adjusted	318	315	349	383
Net Income YoY %	11.6	-0.9	10.9	9.7
Diluted EPS	1.72	1.63	1.81	1.98
Diluted EPS YoY %	6.1	-5.1	10.9	9.7
Free Cash Flow	39	198	41	348
Free Cash Flow YoY %	89.0	401.6	-79.1	742.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.19 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	4.3	3.4	3.4
EBIT	4.2	5.6	3.5	3.7	9.9	7.3	6.7
EBITDA	5.9	8.0	3.5	6.2	7.9	6.0	5.7
Net Income	6.3	8.8	11.6	-0.9	10.9	9.7	9.1
Diluted EPS	2.5	7.0	6.1	-5.1	10.9	9.7	9.1
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	13.4	8.6	6.2
Free Cash Flow	—	-119.6	89.0	401.6	-79.1	742.8	20.1

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.9	23.8	24.3
EBITDA Margin %	32.6	31.4	31.8	34.6	35.8	36.7	37.3
Net Margin %	8.3	7.8	8.5	8.6	9.2	9.7	10.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.1	8.8	8.6
ROIC %	6.1	5.9	6.0	6.6	7.0	7.4	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.5	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.3	2.4	2.5
Return on Equity %	8.5	8.8	8.9	8.0	8.5	8.8	9.3

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.55	0.55
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.78	4.62	4.62
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.70	3.68	3.84

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	17.2	15.8
EV/EBITDA	11.1	11.1	10.6	10.0
EV/EBIT	17.3	17.7	16.6	15.5
Free Cash Flow Yield %	-3.2	-1.3	-5.4	-0.5
Dividend Yield %	2.4	2.6	3.8	3.9

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,409	11.0	7.42
Present Value Stage II	1,654	12.9	8.71
Present Value Stage III	9,787	76.2	51.51
<b>Total Firm Value</b>	<b>12,850</b>	<b>100.0</b>	<b>67.63</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,853</b>	<b>—</b>	<b>30.81</b>

Projected Diluted Shares	190
--------------------------	-----

<b>Fair Value per Share (CAD)</b>	<b>—</b>
-----------------------------------	----------

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.



# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.19 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,810</b>	<b>3,941</b>
Cost of Goods Sold	1,686	1,697	1,522	1,553	1,585
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>503</b>	<b>548</b>
Income Tax Expense	67	80	61	96	104
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>349</b>	<b>383</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Adjusted Net Income	285	318	315	349	383
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.19 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	150	72
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	633	655
Inventory	168	134	133	129	132
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,132</b>	<b>1,079</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,756</b>	<b>16,248</b>
Accounts Payable	953	914	966	911	930
Short-Term Debt	414	265	260	—	109
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,052</b>	<b>1,179</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,167</b>	<b>10,504</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,066	1,206
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,384</b>	<b>5,524</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,589</b>	<b>5,744</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.19 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	408	444
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-46	-22
(Increase) Decrease in Inventory	—	—	—	4	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-55	18
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>990</b>	<b>1,099</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	109
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>-4</b>	<b>-77</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis is rapidly expanding its presence in the U.S.

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 16 Dec 2013  
Estimates as of 16 Dec 2013  
Pricing data through 16 Dec 2013  
Rating updated as of 16 Dec 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	2
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	3
Moat Trend	3
Bulls Say/Bears Say	4
Credit Analysis	
Financial Health	5
Capital Structure	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	10
Comparable Company Analysis	14
Methodology for Valuing Companies	16

### Investment Thesis 16 Dec 2013

Fortis manages electric and gas regulated utilities in Canada, the U.S., and the Caribbean, resulting in stable operating results. Regulated operations make up 90% of the company's asset base, and noncore generation and real estate holding operations account for the remainder. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate-base additions should be significant through 2017, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 5.3 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable given the low-risk nature of Fortis' transmission and delivery operations. In the U.S., CH Energy's allowed return on equity is 10%.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy Group, Fortis recently announced a \$4.3 billion cash and debt offer for Tucson, AZ based UNS Energy. If the UNS Energy transaction closes, 31% of Fortis' operating earnings will come from U.S. regulated utilities. Management continues to be outspoken about their desire for further U.S. transactions, which increases shareholder risk that management overpay for future acquisitions.

### Vital Statistics

Market Cap (CAD Mil)	6,322
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.51
52-Week Total Return %	-8.3
YTD Total Return %	-9.4
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	4.2
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	0.96

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	20.2	21.9	18.5	17.3
EV/EBITDA	11.1	11.1	10.6	10.0
EV/EBIT	17.3	17.7	16.7	15.6
Free Cash Flow Yield %	-3.2	-1.3	-5.2	-0.9
Dividend Yield %	2.4	2.6	4.0	4.2

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,965	4,099
Revenue YoY %	2.3	-2.5	8.5	3.4
EBIT	766	794	847	911
EBIT YoY %	3.5	3.7	6.7	7.5
Net Income, Adjusted	318	315	325	359
Net Income YoY %	11.6	-0.9	3.2	10.4
Diluted EPS	1.65	1.56	1.61	1.72
Diluted EPS YoY %	6.1	-5.1	3.2	6.8
Free Cash Flow	39	198	73	329
Free Cash Flow YoY %	89.0	401.6	-62.9	348.3

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and in the United States, serving more than 2.4 million electricity and gas customers. Regulated operations comprise roughly 90% of total assets. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Morningstar Analysis

#### Fortis Management's Zeal for Acquisitions Leads to Pricey UNS Energy Offer 16 Dec 2013

We think Fortis management's enthusiasm for regulated acquisitions led them to offer a pricey \$4.3 billion for UNS Energy, a 31% premium to UNS Energy's close price before the announcement and a lofty 18 times UNS Energy management's 2014 midpoint earnings estimate. The \$2.5 billion equity value offer implies a 2.3 price/book multiple, well above the median 1.7 price/book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value includes \$1.8 billion of assumed debt and is approximately 1.5 times UNS Energy's consolidated rate base.

We view the transaction negatively for Fortis shareholders, resulting in a CAD 1 per share dilution. We estimate a 75% probability of the deal closing and assume no synergy savings. Offsetting the transaction impact is the time-value appreciation since our last update, and thus we are maintaining our CAD 31 per share fair value estimate, narrow moat and stable trend. Fortis will finance the acquisition with \$1.8 billion in convertible debentures, comprising \$1.6 billion in deal and \$200 million private placement debentures.

The transaction is in line with the price MidAmerican Energy offered in May for NV Energy, which we also viewed as rich. Fortis management recently indicated to us that they would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade, increasing shareholder risk that management might overpay for future U.S. acquisitions.

The appeal of a strong economic recovery, above-average demand growth and constructive regulatory environment has recently lured other utilities to the Southwest. In addition to MidAmerican Energy's offer for NV Energy, TECO Energy in May offered to acquire New Mexico Gas Company. We highlight Pinnacle West Capital (PNW) as another potential target in the Southwest. Valuing PNW at 18 times

our 2014 earnings estimate implies a \$66 per share takeout price, well above our \$55 per share fair value estimate

#### Valuation, Growth and Profitability 16 Dec 2013

We are reaffirming our CAD 31 per share fair value estimate after incorporating the company's bid for UNS Energy. We view the transaction negatively, resulting in CAD 1 per share dilution. Offsetting the transaction impact is the time-value appreciation since our last update. In accounting for the UNS Energy acquisition, we adjusted for certain tax and regulatory balance sheet items and assign a 75% probability the deal closes. We expect the transaction to close in the fourth quarter of 2014.

We forecast 6% annual earnings growth through 2017 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 6.3 billion at the utilities through 2017, leading to 6% annualized rate base growth.

We use an 8.0% cost of equity to arrive at a 6.7% weighted average cost of capital in our discounted cash flow valuation.

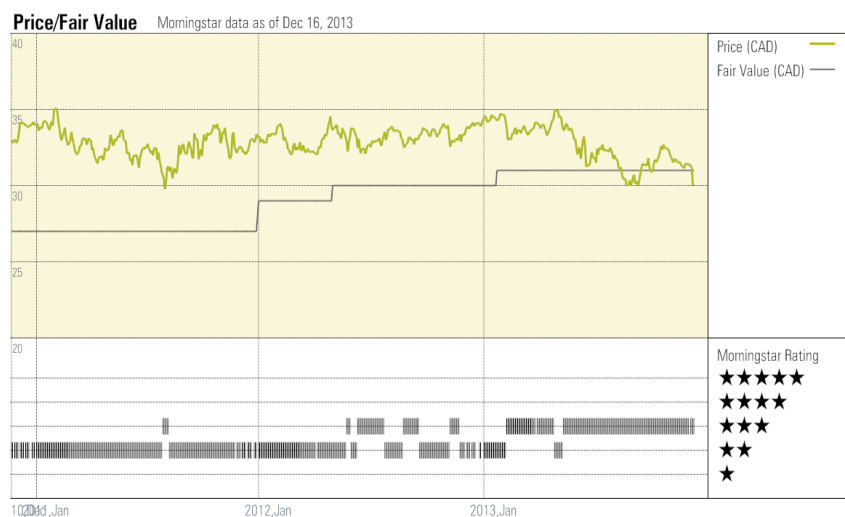
#### Scenario Analysis

Allowed returns at the Canadian utilities are a significant driver of our valuation estimates. If we assume a 100-basis-point decrease in allowed returns on equity in 2013 and beyond, our fair value estimate decreases to CAD 28 per share. Better-than-expected allowed returns on equity drive similar upside results.

Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



## Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides essential energy sources: natural gas and electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should allow Fortis to earn its cost of capital in the long run and leads us to assign Fortis' regulated utilities a narrow economic moat.

## Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Bulls Say/Bears Say

#### Bulls Say

- ▶ Fortis operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has a consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.

#### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk the company overpay for acquisitions.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.



# Fortis, Inc. FTS (TSE) ★★★

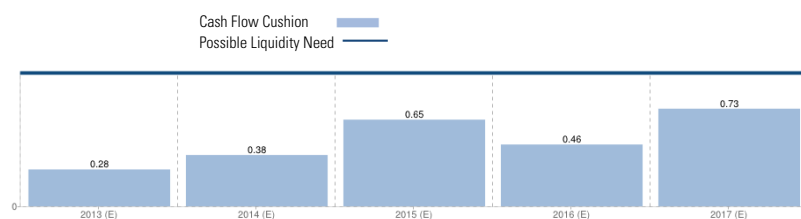
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
Cash and Equivalents (beginning of period)	154	178	160	63	64
Adjusted Available Cash Flow	-19	238	218	255	298
Total Cash Available before Debt Service	135	415	378	318	363
Principal Payments	-117	-690	-187	-291	-81
Interest Payments	-374	-393	-396	-397	-416
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-491	-1,083	-583	-688	-497

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	154	4.6
Sum of 5-Year Adjusted Free Cash Flow	989	29.6
Sum of Cash and 5-Year Cash Generation	1,143	34.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,143	34.2
Sum of 5-Year Cash Commitments	-3,342	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2017, Fortis has CAD 5.3 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. Fortis has manageable debt maturities through 2017. The company issued significant equity in 2011 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2013 to accommodate employee stock purchase plans, support its capital expenditure plan and pay for its proposed UNS Energy acquisition.

With a 54% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2017. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.47	1.09	68	30 Sep 2013
iShares S&P/TSX 60 Index	0.95	0.54	-41	30 Nov 2013
Fidelity Dividend Plus	0.90	2.00	—	30 Sep 2013
Scotia Canadian Dividend	0.78	0.94	—	31 Oct 2013
BMO Dividend	0.76	1.34	—	31 Oct 2013

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund	0.35	22.76	1	30 Nov 2013
AGF Monthly High Income Class	0.03	8.59	2	31 Mar 2013
BMO Equal Weight Utilities Indx ETF	0.29	7.42	-7	30 Nov 2013
Utility Corp	0.05	5.88	—	30 Nov 2013
Newgrowth Corp A	0.10	4.86	—	30 Nov 2013

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
State of Tennessee (Treasury)(duplicate)	0.13	0.05	284	30 Sep 2013
Tennessee Consolidated Retirement System	0.13	0.05	284	30 Sep 2013
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009
Intact Investment Management Inc.	0.09	1.30	93	30 Nov 2013
RBC Global Asset Management Inc.	1.45	0.48	89	31 Oct 2013

#### Top 5 Sellers

TD Asset Management	0.45	2.99	-731	30 Jun 2013
1832 Asset Management L.P.	0.80	0.89	-226	31 Oct 2013
Bissett Investment Management	0.51	2.65	-158	30 Sep 2013
AGF Investments	0.03	8.59	-105	31 Mar 2013
BMO Asset Management Inc.	2.01	1.27	-74	30 Nov 2013

### Management 16 Dec 2013

Overall, we think Fortis' management team has been fair stewards of shareholder capital. Management has earned at or nears its allowed returns and managed regulatory relationships well, particularly in Canada. What concerns us the most, and would cause us to revisit our view of Fortis' management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy, in our view. We think shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. Additionally, we would prefer the board of directors have more direct utility experience.

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

#### Fortis Management's Zeal for Acquisitions Leads to Pricey UNS Energy Offer 16 Dec 2013

We think Fortis management's enthusiasm for regulated acquisitions led them to offer a pricey \$4.3 billion for UNS Energy, a 31% premium to UNS Energy's close price before the announcement and a lofty 18 times UNS Energy management's 2014 midpoint earnings estimate. The \$2.5 billion equity value offer implies a 2.3 price/book multiple, well above the median 1.7 price/book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value includes \$1.8 billion of assumed debt and is approximately 1.5 times UNS Energy's consolidated rate base.

We view the transaction negatively for Fortis shareholders, resulting in a CAD 1 per share dilution. We estimate a 75% probability of the deal closing and assume no synergy savings. Offsetting the transaction impact is the time-value appreciation since our last update, and thus we are maintaining our CAD 31 per share fair value estimate, narrow moat and stable trend. Fortis will finance the acquisition with \$1.8 billion in convertible debentures, comprising \$1.6 billion in deal and \$200 million private placement debentures.

The transaction is in line with the price MidAmerican Energy offered in May for NV Energy, which we also viewed as rich. Fortis management recently indicated to us that they would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade, increasing shareholder risk that management might overpay for future U.S. acquisitions.

The appeal of a strong economic recovery, above-average demand growth and constructive regulatory environment has recently lured other utilities to the Southwest. In addition to MidAmerican Energy's offer for NV Energy, TECO Energy in May offered to acquire New Mexico Gas Company. We highlight Pinnacle West Capital (PNW) as another

potential target in the Southwest. Valuing PNW at 18 times our 2014 earnings estimate implies a \$66 per share takeout price, well above our \$55 per share fair value estimate

#### Fortis Makes Pricey Offer for UNS Energy 11 Dec 2013

Fortis management made good on its outspoken desire to add to its U.S. utilities holdings with a \$4.3 billion offer to acquire UNS Energy, a predominantly regulated electric and gas utility in Arizona. Management has told us repeatedly in recent meetings it would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade. The UNS deal comes less than six months after Fortis closed its \$1.5 billion acquisition of Central Hudson Energy, its first U.S. acquisition.

We are reaffirming our CAD 31 per share fair value estimate, narrow economic moat, and stable moat trend ratings, although we think the price it is paying for UNS is rich relative to where its U.S. regulated utilities peers are trading. Fortis is offering \$60.25 per share, a 31% premium to UNS Energy's closing price on Dec. 11. The \$2.5 billion equity value offer implies a 2.3 price-to-book multiple, well above the median 1.7 price-to-book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value including \$1.8 billion of assumed debt is approximately 1.5 times UNS' consolidated rate base.

We expect Fortis to issue additional debt at the holding company level to fund a portion of the equity, easing some of the equity dilution from the premium price it is paying. The deal will have to receive approval from UNS shareholders, the Arizona Corporation Commission, and the Federal Energy Regulatory Commission. We expect regulatory approvals to take until late 2014. Management said it expects the UNS deal to be accretive to earnings in the first full year after closing, likely in 2015. They expect the CH Energy deal to be accretive in 2015 as well.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

### Management Meeting: Acquisitive Fortis Management Seeks Further U.S. Expansion 14 Nov 2013

Fortis' appetite for further expansion in the U.S. was evident during our executive management meeting at the 48th Edison Electric Institute Financial Conference in Orlando, Fla. We are reaffirming our CAD 31 per share fair value estimate, narrow moat and stable moat trend ratings.

Management indicated that the integration of the \$1.5 billion acquisition of Central Hudson Energy was complete. A prolonged regulatory approval process, which ultimately led to \$3 million in annual concessions, hasn't deterred management from seeking additional U.S. opportunities. Fortis sees multiple transactions in the U.S. during the next 10 years, indicating a desire for transactions \$5 billion and under. Management prefers regulated transmission and distribution assets but would consider combining with generation assets given the right asset mix. Fortis would not consider merchant assets. Since 2004, Fortis has acquired four regulated Canadian and U.S. utilities (Fortis Alberta, Fortis BCElectric, FortisBC Gas, Central Hudson Energy) for a combined \$6.7 billion. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 6% overvalued, not accounting for a likely 20%-30% takeover premium.

At its regulated Canadian operations, management expects to invest \$1.0 billion-\$1.2 billion annually, with the largest allocation to Fortis Alberta, the company's fastest-growing utility. Build-out of Alberta's oil sand production should support 7%-8% near-term growth and \$400 million of annual capital spend. Fortis Alberta, the company's largest utility, will account for \$250 million in annual investment. Fortis has managed its Wanetta hydro expansion well, with construction on time and on budget for the \$900-million, 335 MW facility.

### Fortis' Earnings Reflect Lower Allowed Returns and Higher Capital Additions 01 Nov 2013

Fortis reported third-quarter earnings per share of \$0.23, compared with \$0.24 in the year-ago period. Year-to-date EPS were \$1.27, compared to \$1.20 in the same period. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

Fortis recently completed its \$1.5 billion CH Energy Group acquisition. Management expects the transaction to be accretive to EPS in 2015. CH Energy Group contributed \$12 million in the quarter, which was offset by the common share offering and financing costs related to the transaction. We suspect management continues to look for additional regulated opportunities in the U.S.

Fortis' Canadian Regulated Gas Utilities notched a \$14 million loss compared to a \$6 million loss in the year-ago quarter, in a period of low demand from warmer temperatures. Higher operating expenses and lower allowed rates of return attributed to the larger loss. Earnings from capital projects partially offset segment weakness. The company's Canadian Regulated Electric Utilities also showed weakness, earning \$51 million in the third quarter compared to \$55 million in the year-ago quarter. In general, across the segment earnings from completion of infrastructure projects were offset from lower allowed rates of return. Management continues to work towards completing \$1.2 billion in capital projects in 2013, part of a larger \$6 billion program, which will drive future earnings and dividend growth.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

#### Fortis Reports Second-Quarter Earnings, Closes CH Energy Acquisition 01 Aug 2013

Fortis reported second-quarter earnings per share of \$0.28, compared with \$0.33 in the year-ago period. Earnings were negatively affected by \$32 million in acquisition-related expenses, or \$0.17 per share, partially offset by a \$25 million, or \$0.13 per share, income tax recovery. Excluding the effects of both the acquisition and tax items, earnings were \$0.32 compared with \$0.36 per share. The company will pay a CAD 1.24 per share dividend in 2013, a 3.3% increase from 2012. We are reaffirming our CAD 31 fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

In late June, Fortis closed its \$1.5 billion CH Energy Group acquisition after receiving regulatory approval from the New York State Public Service Commission. Management expects the transaction to be EPS accretive beginning in 2015. Infrastructure investments aided the company's Canadian regulated gas utilities, offset by lower volumes, fewer customer additions and an unfavorable regulatory decision. Fortis' regulated Canadian electric utilities earnings grew 23%, aided by income tax recoveries and customer growth.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	8.5	3.4	4.2
EBIT	4.2	5.6	3.5	3.7	6.7	7.5	6.2
EBITDA	5.9	8.0	3.5	6.2	6.0	6.2	5.3
Net Income	6.3	8.8	11.6	-0.9	3.2	10.4	8.0
Diluted EPS	2.5	7.0	6.1	-5.1	3.2	6.8	7.2
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	10.6	8.9	6.8
Free Cash Flow	—	-119.6	89.0	401.6	-62.9	348.3	21.5
	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	21.4	22.2	22.8
EBITDA Margin %	32.6	31.4	31.8	34.6	33.8	34.7	35.3
Net Margin %	8.3	7.8	8.5	8.6	8.2	8.8	9.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.9	8.0	8.3
ROIC %	6.1	5.9	6.0	6.6	6.8	7.2	7.2
Adjusted ROIC %	7.2	7.0	7.0	7.6	7.8	8.2	8.2
Return on Assets %	2.3	2.3	2.4	2.2	2.1	2.2	2.4
Return on Equity %	8.5	8.8	8.9	8.0	7.9	8.2	8.6
	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.54	0.54
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.86	4.63	4.63
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.58	3.62	3.77

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	20.2	21.9	18.5	17.3
EV/EBITDA	11.1	11.1	10.6	10.0
EV/EBIT	17.3	17.7	16.7	15.6
Free Cash Flow Yield %	-3.2	-1.3	-5.2	-0.9
Dividend Yield %	2.4	2.6	4.0	4.2

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,413	10.7	7.43
Present Value Stage II	1,701	12.9	8.95
Present Value Stage III	10,062	76.4	52.96
<b>Total Firm Value</b>	<b>13,176</b>	<b>100.0</b>	<b>69.35</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	-209	—	-1.10
<b>Equity Value</b>	<b>5,970</b>	<b>—</b>	<b>31.42</b>

Projected Diluted Shares	190
<b>Fair Value per Share (CAD)</b>	<b>—</b>

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2010	2011	2012	2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,965</b>	<b>4,099</b>
Cost of Goods Sold	1,686	1,697	1,522	1,709	1,743
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	917	935
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>847</b>	<b>911</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>847</b>	<b>911</b>
Interest Expense	350	370	366	374	393
Interest Income	—	40	4	—	—
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>473</b>	<b>518</b>
Income Tax Expense	67	80	61	90	98
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>325</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	196
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.71</b>	<b>1.83</b>
Adjusted Net Income	285	318	315	325	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.71</b>	<b>1.83</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,339</b>	<b>1,422</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,339</b>	<b>1,422</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	178	160
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	659	682
Inventory	168	134	133	142	145
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,199</b>	<b>1,207</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,823</b>	<b>16,375</b>
Accounts Payable	953	914	966	1,002	1,022
Short-Term Debt	414	265	260	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,143</b>	<b>1,163</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,258</b>	<b>10,488</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	3,163
Retained Earnings (Deficit)	804	905	952	1,041	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,359</b>	<b>5,667</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,564</b>	<b>5,887</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	383	420
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-72	-22
(Increase) Decrease in Inventory	—	—	—	-9	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	36	20
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>1,019</b>	<b>1,076</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	200
Common Stock (Dividends)	-193	-151	-170	-236	-251
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	—
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-37</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>24</b>	<b>-17</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1.03	15.2	16.6	15.2	11.2	11.5	10.5	NM	NM	NM	1.8	2.0	1.9	2.1	2.3	2.2
TransAlta Corporation TAC USA	0.91	30.5	20.6	16.6	14.6	8.5	8.1	NM	22.3	18.7	1.3	1.1	1.1	1.7	1.5	1.5
Average		22.9	18.6	15.9	12.9	10.0	9.3	—	22.3	18.7	1.6	1.6	1.5	1.9	1.9	1.9
<b>Fortis, Inc. FTS CA</b>	<b>0.96</b>	<b>21.9</b>	<b>18.5</b>	<b>17.3</b>	<b>11.1</b>	<b>10.6</b>	<b>10.0</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	<b>1.8</b>	<b>1.5</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	64,939 USD	6.9	5.5	6.0	6.9	5.5	6.0	12.1	12.3	12.7	3.1	3.1	3.2	3.4	3.1	3.5
TransAlta Corporation TAC USA	9,451 CAD	7.9	6.2	5.8	8.4	6.6	6.1	-24.9	6.9	8.4	-6.4	1.7	2.2	2.7	3.7	6.5
Average		7.4	5.9	5.9	7.7	6.1	6.1	-6.4	9.6	10.6	-1.7	2.4	2.7	3.1	3.4	5.0
<b>Fortis, Inc. FTS CA</b>	<b>14,950 USD</b>	<b>6.6</b>	<b>6.8</b>	<b>7.2</b>	<b>7.6</b>	<b>7.8</b>	<b>8.2</b>	<b>8.0</b>	<b>7.9</b>	<b>8.2</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>	<b>2.6</b>	<b>4.0</b>	<b>4.2</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	14,256 USD	-7.1	10.3	4.3	-3.0	17.6	9.9	-0.7	9.1	9.4	827.8	-40.4	-87.2	9.1	10.0	10.6
TransAlta Corporation TAC USA	2,262 CAD	-15.1	6.6	3.1	-36.1	19.9	12.3	-51.9	24.2	23.6	66.0	4.9	-5.1	—	—	—
Average		-11.1	8.5	3.7	-19.6	18.8	11.1	-26.3	16.7	16.5	446.9	-17.8	-46.2	9.1	10.0	10.6
<b>Fortis, Inc. FTS CA</b>	<b>3,654 USD</b>	<b>-2.5</b>	<b>8.5</b>	<b>3.4</b>	<b>3.7</b>	<b>6.7</b>	<b>7.5</b>	<b>-5.1</b>	<b>3.2</b>	<b>6.8</b>	<b>401.6</b>	<b>-62.9</b>	<b>348.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
29.76 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1,911 USD	64.1	63.3	64.0	35.4	35.4	37.2	23.0	24.5	25.8	13.4	13.4	14.1	-6.2	-20.6	-6.0
TransAlta Corporation TAC USA	118 CAD	64.2	63.7	64.6	26.8	41.5	42.2	18.7	21.0	22.9	5.2	6.7	8.5	-8.1	6.8	7.9
Average		64.1	63.5	64.3	31.1	38.5	39.7	20.9	22.8	24.4	9.3	10.1	11.3	-7.2	-6.9	1.0
<b>Fortis, Inc. FTS CA</b>	<b>315 USD</b>	<b>58.4</b>	<b>56.9</b>	<b>57.5</b>	<b>34.6</b>	<b>33.8</b>	<b>34.7</b>	<b>21.7</b>	<b>21.4</b>	<b>22.2</b>	<b>8.6</b>	<b>8.2</b>	<b>8.8</b>	<b>-2.4</b>	<b>-7.9</b>	<b>-1.3</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	27,359 USD	165.1	177.1	179.1	62.3	63.9	64.2	4.9	4.8	4.7	5.4	5.6	5.5	3.9	3.9	3.9
TransAlta Corporation TAC USA	4,217 CAD	140.1	118.4	116.6	58.4	54.2	53.8	2.5	4.6	4.8	7.0	3.8	3.7	3.1	2.9	2.9
Average		152.6	147.8	147.9	60.4	59.1	59.0	3.7	4.7	4.8	6.2	4.7	4.6	3.5	3.4	3.4
<b>Fortis, Inc. FTS CA</b>	<b>6,043 USD</b>	<b>118.5</b>	<b>121.6</b>	<b>116.1</b>	<b>54.2</b>	<b>54.9</b>	<b>53.7</b>	<b>3.5</b>	<b>3.6</b>	<b>3.6</b>	<b>4.8</b>	<b>4.9</b>	<b>4.6</b>	<b>2.9</b>	<b>3.0</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	35,622 USD	1.98	0.92	0.71	0.65	0.66	0.61	0.53	0.52	0.48	0.20	0.10	0.07	52.5	53.0	53.6
TransAlta Corporation TAC USA	3,428 USD	0.11	0.54	0.58	0.68	1.12	1.15	0.62	1.03	1.06	0.04	0.47	0.53	-44.4	186.9	151.2
Average		1.05	0.73	0.65	0.67	0.89	0.88	0.58	0.78	0.77	0.12	0.29	0.30	4.0	120.0	102.4
<b>Fortis, Inc. FTS CA</b>	<b>6,322 CAD</b>	<b>0.81</b>	<b>0.93</b>	<b>0.82</b>	<b>0.84</b>	<b>1.05</b>	<b>1.04</b>	<b>0.73</b>	<b>0.92</b>	<b>0.91</b>	<b>0.59</b>	—	—	<b>72.4</b>	<b>72.5</b>	<b>70.1</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

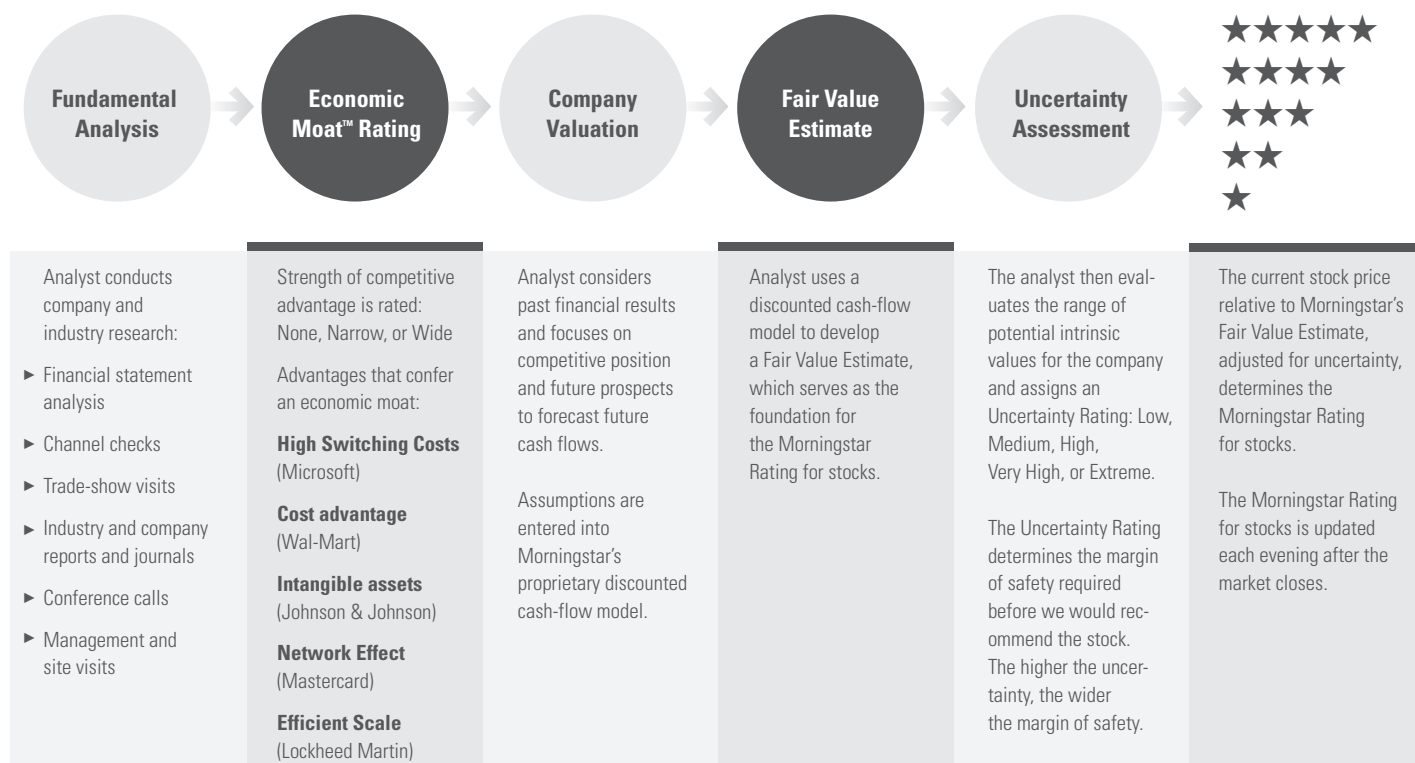
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

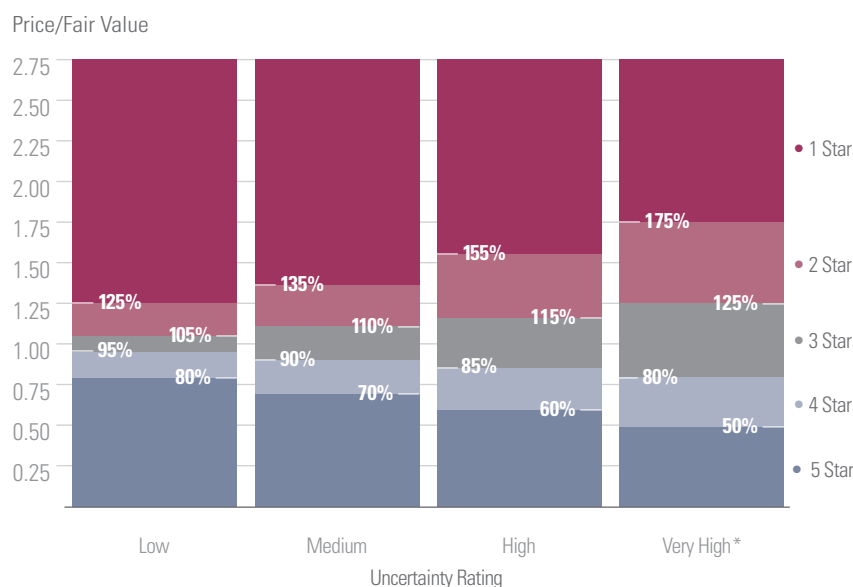
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

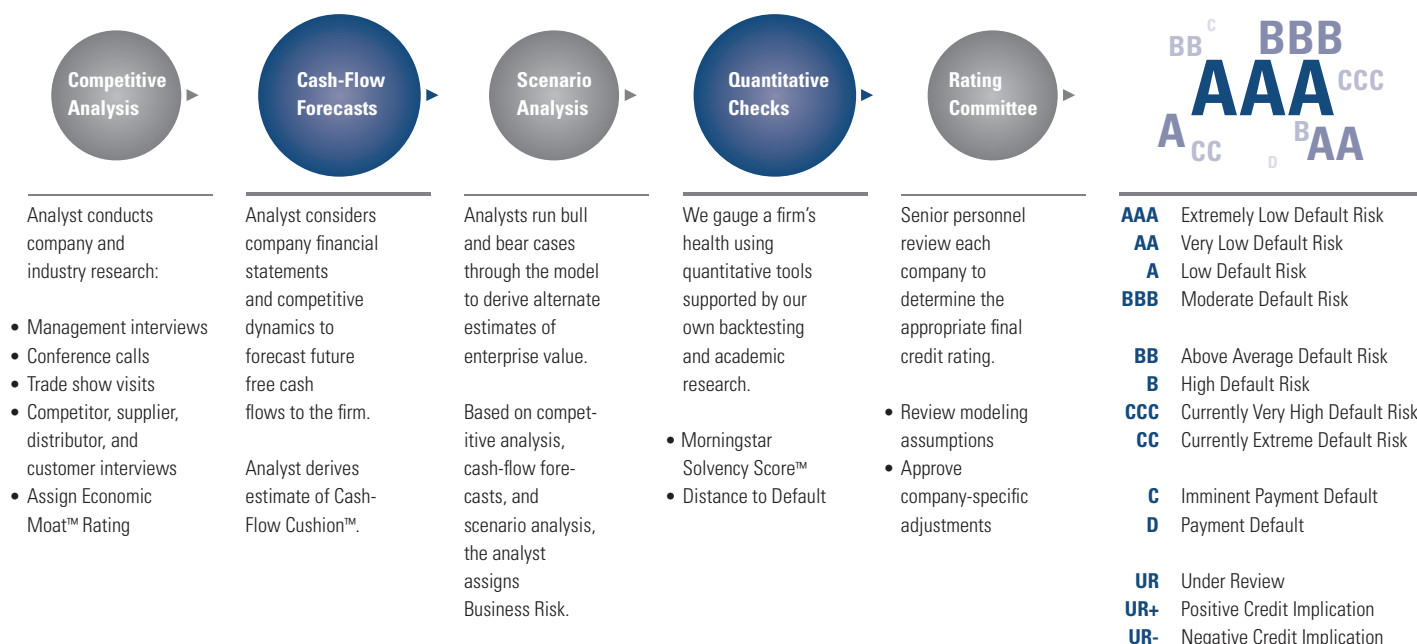
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings





## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.12 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Management's Zeal for Acquisitions Leads to Pricey UNS Energy Offer

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 16 Dec 2013  
Estimates as of 12 Aug 2013  
Pricing data through 13 Dec 2013  
Rating updated as of 13 Dec 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	3

### Analyst Note 16 Dec 2013

We think Fortis management's enthusiasm for regulated acquisitions led them to offer a pricey \$4.3 billion for UNS Energy, a 31% premium to UNS Energy's close price before the announcement and a lofty 18 times UNS Energy management's 2014 midpoint earnings estimate. The \$2.5 billion equity value offer implies a 2.3 price/book multiple, well above the median 1.7 price/book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value includes \$1.8 billion of assumed debt and is approximately 1.5 times UNS Energy's consolidated rate base.

We view the transaction negatively for Fortis shareholders, resulting in a CAD 1 per share dilution. We estimate a 75% probability of the deal closing and assume no synergy savings. Offsetting the transaction impact is the time-value appreciation since our last update, and thus we are maintaining our CAD 31 per share fair value estimate, narrow moat and stable trend. Fortis will finance the acquisition with \$1.8 billion in convertible debentures, comprising \$1.6 billion in deal and \$200 million private placement debentures.

The transaction is in line with the price MidAmerican Energy offered in May for NV Energy, which we also viewed as rich. Fortis management recently indicated to us that they would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade, increasing shareholder risk that management might overpay for future U.S. acquisitions.

The appeal of a strong economic recovery, above-average demand growth and constructive regulatory environment has recently lured other utilities to the Southwest. In addition to MidAmerican Energy's offer for NV Energy, TECO Energy in May offered to acquire New Mexico Gas Company. We highlight Pinnacle West Capital (PNW) as another

### Vital Statistics

Market Cap (CAD Mil)	6,398
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.51
52-Week Total Return %	-7.1
YTD Total Return %	-8.4
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	3.4
5-Yr Forward EPS CAGR %	9.1
Price/Fair Value	0.97

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	19.4	21.0	16.6	15.2
EV/EBITDA	11.1	11.1	10.4	9.8
EV/EBIT	17.3	17.7	16.3	15.2
Free Cash Flow Yield %	-3.2	-1.3	-5.6	-0.5
Dividend Yield %	2.4	2.6	3.9	4.0

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,810	3,941
Revenue YoY %	2.3	-2.5	4.3	3.4
EBIT	766	794	872	936
EBIT YoY %	3.5	3.7	9.9	7.3
Net Income, Adjusted	318	315	349	383
Net Income YoY %	11.6	-0.9	10.9	9.7
Diluted EPS	1.72	1.63	1.81	1.98
Diluted EPS YoY %	6.1	-5.1	10.9	9.7
Free Cash Flow	39	198	41	348
Free Cash Flow YoY %	89.0	401.6	-79.1	742.8

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 94% of its total assets as of 2012.

## Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.12 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

potential target in the Southwest. Valuing PNW at 18 times our 2014 earnings estimate implies a \$66 per share takeout price, well above our \$55 per share fair value estimate

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.12 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	4.3	3.4	3.4
EBIT	4.2	5.6	3.5	3.7	9.9	7.3	6.7
EBITDA	5.9	8.0	3.5	6.2	7.9	6.0	5.7
Net Income	6.3	8.8	11.6	-0.9	10.9	9.7	9.1
Diluted EPS	2.5	7.0	6.1	-5.1	10.9	9.7	9.1
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	13.4	8.6	6.2
Free Cash Flow	—	-119.6	89.0	401.6	-79.1	742.8	20.1

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	22.9	23.8	24.3
EBITDA Margin %	32.6	31.4	31.8	34.6	35.8	36.7	37.3
Net Margin %	8.3	7.8	8.5	8.6	9.2	9.7	10.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.1	8.8	8.6
ROIC %	6.1	5.9	6.0	6.6	7.0	7.4	7.3
Adjusted ROIC %	7.2	7.0	7.0	7.6	8.0	8.5	8.3
Return on Assets %	2.3	2.3	2.4	2.2	2.3	2.4	2.5
Return on Equity %	8.5	8.8	8.9	8.0	8.5	8.8	9.3

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.55	0.55
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.78	4.62	4.62
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.70	3.68	3.84

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	19.4	21.0	16.6	15.2
EV/EBITDA	11.1	11.1	10.4	9.8
EV/EBIT	17.3	17.7	16.3	15.2
Free Cash Flow Yield %	-3.2	-1.3	-5.6	-0.5
Dividend Yield %	2.4	2.6	3.9	4.0

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,409	11.0	7.42
Present Value Stage II	1,654	12.9	8.71
Present Value Stage III	9,787	76.2	51.51
<b>Total Firm Value</b>	<b>12,850</b>	<b>100.0</b>	<b>67.63</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>5,853</b>	<b>—</b>	<b>30.81</b>

Projected Diluted Shares	190
<b>Fair Value per Share (CAD)</b>	<b>—</b>

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.12 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2010	2011	2012	2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,810</b>	<b>3,941</b>
Cost of Goods Sold	1,686	1,697	1,522	1,553	1,585
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	892	910
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>872</b>	<b>936</b>
Interest Expense	350	370	366	369	393
Interest Income	—	40	4	—	5
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>503</b>	<b>548</b>
Income Tax Expense	67	80	61	96	104
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>349</b>	<b>383</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	190
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Adjusted Net Income	285	318	315	349	383
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.84</b>	<b>2.02</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,364</b>	<b>1,447</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.12 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	150	72
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	633	655
Inventory	168	134	133	129	132
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,132</b>	<b>1,079</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,756</b>	<b>16,248</b>
Accounts Payable	953	914	966	911	930
Short-Term Debt	414	265	260	—	109
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,052</b>	<b>1,179</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,167</b>	<b>10,504</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	2,963
Retained Earnings (Deficit)	804	905	952	1,066	1,206
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,384</b>	<b>5,524</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,589</b>	<b>5,744</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.12 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	408	444
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-46	-22
(Increase) Decrease in Inventory	—	—	—	4	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	-55	18
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>990</b>	<b>1,099</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	—
Common Stock (Dividends)	-193	-151	-170	-236	-243
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	109
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>-4</b>	<b>-77</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.46 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Reports Full-Year Earnings, Increases Dividend

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 06 Feb 2014  
Estimates as of 16 Dec 2013  
Pricing data through 05 Feb 2014  
Rating updated as of 05 Feb 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 06 Feb 2014

Fortis reported CAD 1.74 of earnings per share for the full year 2013 compared to CAD 1.66 in 2012. The company will pay a CAD 1.28 per share dividend in 2014, a 3.2% increase from 2013. We are reaffirming our CAD 31 per share fair value estimate, 2014 EPS estimate, narrow moat, and stable moat trend.

In December, Fortis management announced a pricey \$4.3 billion acquisition of UNS Energy. In January, Fortis and UNS Energy filed for regulatory approval with the Arizona Corporation Commission, or ACC. Management expects the deal to close by year-end, with regulatory approvals from the ACC and FERC required before closing. When the acquisition closes, one third of Fortis' assets will be located in the U.S., including the company's CH Energy Group acquisition that closed last June. Management has suggested it will continue to look for additional opportunities to acquire regulated utilities in the U.S.

Fortis' Canadian Regulated Utilities reported roughly flat earnings from 2012. Higher operating expenses and lower allowed rates of return were offset by earnings from \$1.2 billion in capital additions. The company plans to invest \$6.5 billion in 2014-18, not including UNS Energy's planned \$1.4 billion spend from 2015-18. Capital projects should continue to drive future earnings and dividend growth.

### Vital Statistics

Market Cap (CAD Mil)	6,493
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.51
52-Week Total Return %	-8.5
YTD Total Return %	0.0
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	4.2
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	0.98

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	20.2	21.9	18.9	17.7
EV/EBITDA	11.1	11.1	10.3	9.7
EV/EBIT	17.3	17.7	16.2	15.1
Free Cash Flow Yield %	-3.2	-1.3	-5.3	-0.9
Dividend Yield %	2.4	2.6	4.0	4.3

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,965	4,099
Revenue YoY %	2.3	-2.5	8.5	3.4
EBIT	766	794	847	911
EBIT YoY %	3.5	3.7	6.7	7.5
Net Income, Adjusted	318	315	325	359
Net Income YoY %	11.6	-0.9	3.2	10.4
Diluted EPS	1.65	1.56	1.61	1.72
Diluted EPS YoY %	6.1	-5.1	3.2	6.8
Free Cash Flow	39	198	73	329
Free Cash Flow YoY %	89.0	401.6	-62.9	348.3

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and in the United States, serving more than 2.4 million electricity and gas customers. Regulated operations comprise roughly 90% of total assets. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.46 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	8.5	3.4	4.2
EBIT	4.2	5.6	3.5	3.7	6.7	7.5	6.2
EBITDA	5.9	8.0	3.5	6.2	6.0	6.2	5.3
Net Income	6.3	8.8	11.6	-0.9	3.2	10.4	8.0
Diluted EPS	2.5	7.0	6.1	-5.1	3.2	6.8	7.2
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	10.6	8.9	6.8
Free Cash Flow	—	-119.6	89.0	401.6	-62.9	348.3	21.5

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	21.4	22.2	22.8
EBITDA Margin %	32.6	31.4	31.8	34.6	33.8	34.7	35.3
Net Margin %	8.3	7.8	8.5	8.6	8.2	8.8	9.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.9	8.0	8.3
ROIC %	6.1	5.9	6.0	6.6	6.8	7.2	7.2
Adjusted ROIC %	7.2	7.0	7.0	7.6	7.8	8.2	8.2
Return on Assets %	2.3	2.3	2.4	2.2	2.1	2.2	2.4
Return on Equity %	8.5	8.8	8.9	8.0	7.9	8.2	8.6

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.54	0.54
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.86	4.63	4.63
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.58	3.62	3.77

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	20.2	21.9	18.9	17.7
EV/EBITDA	11.1	11.1	10.3	9.7
EV/EBIT	17.3	17.7	16.2	15.1
Free Cash Flow Yield %	-3.2	-1.3	-5.3	-0.9
Dividend Yield %	2.4	2.6	4.0	4.3

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,413	10.7	7.43
Present Value Stage II	1,701	12.9	8.95
Present Value Stage III	10,062	76.4	52.96
<b>Total Firm Value</b>	<b>13,176</b>	<b>100.0</b>	<b>69.35</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	-209	—	-1.10
<b>Equity Value</b>	<b>5,970</b>	<b>—</b>	<b>31.42</b>
Projected Diluted Shares	190		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.46 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2010	2011	2012	2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,965</b>	<b>4,099</b>
Cost of Goods Sold	1,686	1,697	1,522	1,709	1,743
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	917	935
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>847</b>	<b>911</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>847</b>	<b>911</b>
Interest Expense	350	370	366	374	393
Interest Income	—	40	4	—	—
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>473</b>	<b>518</b>
Income Tax Expense	67	80	61	90	98
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>325</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	196
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.71</b>	<b>1.83</b>
Adjusted Net Income	285	318	315	325	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.71</b>	<b>1.83</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,339</b>	<b>1,422</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,339</b>	<b>1,422</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.46 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	178	160
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	659	682
Inventory	168	134	133	142	145
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,199</b>	<b>1,207</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,823</b>	<b>16,375</b>
Accounts Payable	953	914	966	1,002	1,022
Short-Term Debt	414	265	260	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,143</b>	<b>1,163</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,258</b>	<b>10,488</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	3,163
Retained Earnings (Deficit)	804	905	952	1,041	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,359</b>	<b>5,667</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,564</b>	<b>5,887</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.46 CAD	31.00 CAD	21.70 CAD	41.85 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	383	420
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-72	-22
(Increase) Decrease in Inventory	—	—	—	-9	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	36	20
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>1,019</b>	<b>1,076</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	200
Common Stock (Dividends)	-193	-151	-170	-236	-251
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	—
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-37</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>24</b>	<b>-17</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Pricey expansion in the U.S. diversifies Fortis' asset base.

Updated Forecasts and Estimates from 16 Dec 2013

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Apr 2014  
Estimates as of 16 Dec 2013  
Pricing data as of 03 Apr 2014 15:15  
Rating updated as of 03 Apr 2014 15:33

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	3
Credit Analysis	
Financial Health	4
Capital Structure	4
Enterprise Risk	4
Management & Ownership	5
Analyst Note Archive	6
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Investment Thesis 03 Apr 2014

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations make up 90% of the company's asset base; noncore generation and real estate holding operations account for the remainder. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2017, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 5.3 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations. In the U.S., CH Energy's allowed return on equity is 10%.

Fortis' management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently announced a \$4.3 billion cash and debt offer for Tucson, Ariz.-based UNS Energy. If the UNS Energy transaction closes, 31% of Fortis' operating earnings will come from U.S. regulated utilities. Management continues to be outspoken about its desire for further U.S. transactions, which increases shareholder risk that management could overpay for future acquisitions.

### Vital Statistics

Market Cap (CAD Mil)	6,710
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.51
52-Week Total Return %	-4.1
YTD Total Return %	4.4
Last Fiscal Year End	31 Dec 2012
5-Yr Forward Revenue CAGR %	4.2
5-Yr Forward EPS CAGR %	7.2
Price/Fair Value	1.02

### Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	20.2	21.9	19.6	18.3
EV/EBITDA	11.5	12.3	10.6	10.0
EV/EBIT	17.9	19.5	16.8	15.6
Free Cash Flow Yield %	-3.0	-1.3	-5.1	-0.8
Dividend Yield %	2.4	2.6	3.9	4.1

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	3,747	3,654	3,965	4,099
Revenue YoY %	2.3	-2.5	8.5	3.4
EBIT	766	794	847	911
EBIT YoY %	3.5	3.7	6.7	7.5
Net Income, Adjusted	318	315	325	359
Net Income YoY %	11.6	-0.9	3.2	10.4
Diluted EPS	1.65	1.56	1.61	1.72
Diluted EPS YoY %	6.1	-5.1	3.2	6.8
Free Cash Flow	39	198	73	329
Free Cash Flow YoY %	89.0	401.6	-62.9	348.3

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute roughly 90% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 03 Apr 2014

We are increasing our fair value estimate to CAD 33 per share from CAD 31 after incorporating year-end 2013 results that were in line with our expectations. About half of our fair value increase relates to minor adjustments to our five-year outlook, including minor changes in our operating expense outlook and regulated rate adjustments. The remaining increase is due to time value appreciation since our last update.

In accounting for the UNS Energy acquisition, we adjusted for certain tax and regulatory balance sheet items and assign a 75% probability the deal closes. We expect the transaction to close in the fourth quarter.

We forecast 6% annual earnings growth through 2018 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 6.5 billion at the utilities through 2018, leading to 6% annualized rate base growth.

We use an 8.0% cost of equity to arrive at a 6.7% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2013 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides essential energy sources: natural gas and electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should allow Fortis to earn its cost of capital in the long run and leads us to assign Fortis' regulated utilities a narrow economic moat.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has a consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from the core regulated operations.

# Fortis, Inc. FTS (TSE) ★★★

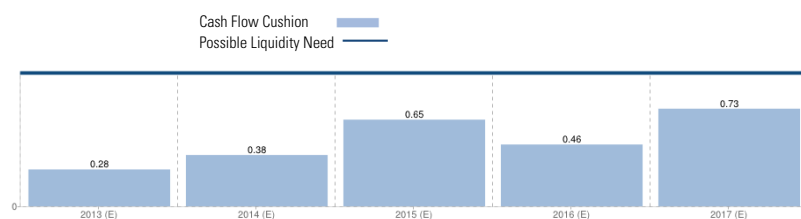
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
Cash and Equivalents (beginning of period)	154	178	160	63	64
Adjusted Available Cash Flow	-19	238	218	255	298
Total Cash Available before Debt Service	135	415	378	318	363
Principal Payments	-117	-690	-187	-291	-81
Interest Payments	-374	-393	-396	-397	-416
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-491	-1,083	-583	-688	-497

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	154	4.6
Sum of 5-Year Adjusted Free Cash Flow	989	29.6
Sum of Cash and 5-Year Cash Generation	1,143	34.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,143	34.2
Sum of 5-Year Cash Commitments	-3,342	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2018, Fortis has CAD 6.5 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2014 to accommodate employee stock-purchase plans, support its capital expenditure plan, and pay for its proposed UNS Energy acquisition.

With a 56% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2018. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.77	1.12	—	31 Jan 2014
iShares S&P/TSX 60 Index	0.97	0.51	-27	28 Feb 2014
Fidelity Dividend Plus	0.88	1.69	-90	31 Dec 2013
Scotia Canadian Dividend	0.78	0.81	—	28 Feb 2014
TD Emerald Low Volatility Cdn Equity PFT	0.72	2.90	152	31 Dec 2013

#### Concentrated Holders

iShares S&P/TSX Capped Utilities Fund	0.33	20.83	1	28 Feb 2014
BMO Equal Weight Utilities Indx ETF	0.33	8.60	-50	28 Feb 2014
AGF Monthly High Income Class	0.02	8.22	52	30 Sep 2013
IA Clarington Tactical Income Class	0.25	7.88	535	28 Feb 2014
Utility Corp	0.05	5.36	—	28 Feb 2014

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Industrial Alliance Investment Mgmt Inc.	1.57	1.79	1,307	28 Feb 2014
Phillips, Hager & North Inv Mgmt	0.38	0.76	778	28 Feb 2014
Standard Life Assurance Co. of Canada	0.16	0.63	230	28 Feb 2014
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009
TD Asset Management	0.72	2.90	152	31 Dec 2013

#### Top 5 Sellers

RBC Global Asset Management Inc.	1.20	0.42	-394	31 Jan 2014
Franklin Bissett Investment Management	0.35	1.68	-325	31 Dec 2013
Fidelity Investments Canada ULC	1.06	0.30	-184	31 Dec 2013
Pyramis Global Advisors, LLC	0.92	1.18	-94	31 Dec 2013
Mackenzie Investments	0.01	0.17	-85	31 Mar 2014

### Management

03 Apr 2014

Overall, we think Fortis' management team has been fair stewards of shareholder capital. Management has earned at or nears its allowed returns and managed regulatory relationships well, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy, in our view. We think shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. Additionally, we would prefer the board of directors have more direct utility experience.

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

#### Fortis Reports Full-Year Earnings, Increases Dividend 06 Feb 2014

Fortis reported CAD 1.74 of earnings per share for the full year 2013 compared to CAD 1.66 in 2012. The company will pay a CAD 1.28 per share dividend in 2014, a 3.2% increase from 2013. We are reaffirming our CAD 31 per share fair value estimate, 2014 EPS estimate, narrow moat, and stable moat trend.

In December, Fortis management announced a pricey \$4.3 billion acquisition of UNS Energy. In January, Fortis and UNS Energy filed for regulatory approval with the Arizona Corporation Commission, or ACC. Management expects the deal to close by year-end, with regulatory approvals from the ACC and FERC required before closing. When the acquisition closes, one third of Fortis' assets will be located in the U.S., including the company's CH Energy Group acquisition that closed last June. Management has suggested it will continue to look for additional opportunities to acquire regulated utilities in the U.S.

Fortis' Canadian Regulated Utilities reported roughly flat earnings from 2012. Higher operating expenses and lower allowed rates of return were offset by earnings from \$1.2 billion in capital additions. The company plans to invest \$6.5 billion in 2014-18, not including UNS Energy's planned \$1.4 billion spend from 2015-18. Capital projects should continue to drive future earnings and dividend growth.

#### Fortis Management's Zeal for Acquisitions Leads to Pricey UNS Energy Offer 16 Dec 2013

We think Fortis management's enthusiasm for regulated acquisitions led them to offer a pricey \$4.3 billion for UNS Energy, a 31% premium to UNS Energy's close price before the announcement and a lofty 18 times UNS Energy management's 2014 midpoint earnings estimate. The \$2.5 billion equity value offer implies a 2.3 price/book multiple,

well above the median 1.7 price/book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value includes \$1.8 billion of assumed debt and is approximately 1.5 times UNS Energy's consolidated rate base.

We view the transaction negatively for Fortis shareholders, resulting in a CAD 1 per share dilution. We estimate a 75% probability of the deal closing and assume no synergy savings. Offsetting the transaction impact is the time-value appreciation since our last update, and thus we are maintaining our CAD 31 per share fair value estimate, narrow moat and stable trend. Fortis will finance the acquisition with \$1.8 billion in convertible debentures, comprising \$1.6 billion in deal and \$200 million private placement debentures.

The transaction is in line with the price MidAmerican Energy offered in May for NV Energy, which we also viewed as rich. Fortis management recently indicated to us that they would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade, increasing shareholder risk that management might overpay for future U.S. acquisitions.

The appeal of a strong economic recovery, above-average demand growth and constructive regulatory environment has recently lured other utilities to the Southwest. In addition to MidAmerican Energy's offer for NV Energy, TECO Energy in May offered to acquire New Mexico Gas Company. We highlight Pinnacle West Capital (PNW) as another potential target in the Southwest. Valuing PNW at 18 times our 2014 earnings estimate implies a \$66 per share takeout price, well above our \$55 per share fair value estimate

#### Fortis Makes Pricey Offer for UNS Energy 11 Dec 2013

Fortis management made good on its outspoken desire to add to its U.S. utilities holdings with a \$4.3 billion offer to

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

acquire UNS Energy, a predominantly regulated electric and gas utility in Arizona. Management has told us repeatedly in recent meetings it would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade. The UNS deal comes less than six months after Fortis closed its \$1.5 billion acquisition of Central Hudson Energy, its first U.S. acquisition.

We are reaffirming our CAD 31 per share fair value estimate, narrow economic moat, and stable moat trend ratings, although we think the price it is paying for UNS is rich relative to where its U.S. regulated utilities peers are trading. Fortis is offering \$60.25 per share, a 31% premium to UNS Energy's closing price on Dec. 11. The \$2.5 billion equity value offer implies a 2.3 price-to-book multiple, well above the median 1.7 price-to-book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value including \$1.8 billion of assumed debt is approximately 1.5 times UNS' consolidated rate base.

We expect Fortis to issue additional debt at the holding company level to fund a portion of the equity, easing some of the equity dilution from the premium price it is paying. The deal will have to receive approval from UNS shareholders, the Arizona Corporation Commission, and the Federal Energy Regulatory Commission. We expect regulatory approvals to take until late 2014. Management said it expects the UNS deal to be accretive to earnings in the first full year after closing, likely in 2015. They expect the CH Energy deal to be accretive in 2015 as well.

#### Management Meeting: Acquisitive Fortis Management Seeks Further U.S. Expansion 14 Nov 2013

Fortis' appetite for further expansion in the U.S. was evident during our executive management meeting at the 48th Edison Electric Institute Financial Conference in Orlando, Fla. We are reaffirming our CAD 31 per share fair value

estimate, narrow moat and stable moat trend ratings.

Management indicated that the integration of the \$1.5 billion acquisition of Central Hudson Energy was complete. A prolonged regulatory approval process, which ultimately led to \$3 million in annual concessions, hasn't deterred management from seeking additional U.S. opportunities. Fortis sees multiple transactions in the U.S. during the next 10 years, indicating a desire for transactions \$5 billion and under. Management prefers regulated transmission and distribution assets but would consider combining with generation assets given the right asset mix. Fortis would not consider merchant assets. Since 2004, Fortis has acquired four regulated Canadian and U.S. utilities (Fortis Alberta, Fortis BCElectric, FortisBC Gas, Central Hudson Energy) for a combined \$6.7 billion. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 6% overvalued, not accounting for a likely 20%-30% takeover premium.

At its regulated Canadian operations, management expects to invest \$1.0 billion-\$1.2 billion annually, with the largest allocation to Fortis Alberta, the company's fastest-growing utility. Build-out of Alberta's oil sand production should support 7%-8% near-term growth and \$400 million of annual capital spend. Fortis Alberta, the company's largest utility, will account for \$250 million in annual investment. Fortis has managed its Wanetta hydro expansion well, with construction on time and on budget for the \$900-million, 335 MW facility.

#### Fortis' Earnings Reflect Lower Allowed Returns and Higher Capital Additions 01 Nov 2013

Fortis reported third-quarter earnings per share of \$0.23, compared with \$0.24 in the year-ago period. Year-to-date EPS were \$1.27, compared to \$1.20 in the same period. The company will pay a CAD 1.24 per share dividend in 2013, a

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

Fortis recently completed its \$1.5 billion CH Energy Group acquisition. Management expects the transaction to be accretive to EPS in 2015. CH Energy Group contributed \$12 million in the quarter, which was offset by the common share offering and financing costs related to the transaction. We suspect management continues to look for additional regulated opportunities in the U.S.

Fortis' Canadian Regulated Gas Utilities notched a \$14 million loss compared to a \$6 million loss in the year-ago quarter, in a period of low demand from warmer temperatures. Higher operating expenses and lower allowed rates of return attributed to the larger loss. Earnings from capital projects partially offset segment weakness. The company's Canadian Regulated Electric Utilities also showed weakness, earning \$51 million in the third quarter compared to \$55 million in the year-ago quarter. In general, across the segment earnings from completion of infrastructure projects were offset from lower allowed rates of return. Management continues to work towards completing \$1.2 billion in capital projects in 2013, part of a larger \$6 billion program, which will drive future earnings and dividend growth.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2010	2011	2012	2013	2014	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	0.2	0.7	2.3	-2.5	8.5	3.4	4.2
EBIT	4.2	5.6	3.5	3.7	6.7	7.5	6.2
EBITDA	5.9	8.0	3.5	6.2	6.0	6.2	5.3
Net Income	6.3	8.8	11.6	-0.9	3.2	10.4	8.0
Diluted EPS	2.5	7.0	6.1	-5.1	3.2	6.8	7.2
Earnings Before Interest, after Tax	5.5	-3.0	6.4	13.6	10.6	8.9	6.8
Free Cash Flow	—	-119.6	89.0	401.6	-62.9	348.3	21.5

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Profitability							
Operating Margin %	20.8	20.2	20.4	21.7	21.4	22.2	22.8
EBITDA Margin %	32.6	31.4	31.8	34.6	33.8	34.7	35.3
Net Margin %	8.3	7.8	8.5	8.6	8.2	8.8	9.4
Free Cash Flow Margin %	2.4	0.6	1.1	5.4	1.9	8.0	8.3
ROIC %	6.1	5.9	6.0	6.6	6.8	7.2	7.2
Adjusted ROIC %	7.2	7.0	7.0	7.6	7.8	8.2	8.2
Return on Assets %	2.3	2.3	2.4	2.2	2.1	2.2	2.4
Return on Equity %	8.5	8.8	8.9	8.0	7.9	8.2	8.6

	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Leverage							
Debt/Capital	0.57	0.61	0.57	0.54	0.55	0.54	0.54
Total Debt/EBITDA	5.00	5.24	5.00	4.78	4.86	4.63	4.63
EBITDA/Interest Expense	3.32	3.29	3.22	3.45	3.58	3.62	3.77

### Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.24	1.14	—	—
Price/Earnings	20.2	21.9	19.6	18.3
EV/EBITDA	11.5	12.3	10.6	10.0
EV/EBIT	17.9	19.5	16.8	15.6
Free Cash Flow Yield %	-3.0	-1.3	-5.1	-0.8
Dividend Yield %	2.4	2.6	3.9	4.1

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,413	10.7	7.43
Present Value Stage II	1,701	12.9	8.95
Present Value Stage III	10,062	76.4	52.96
<b>Total Firm Value</b>	<b>13,176</b>	<b>100.0</b>	<b>69.35</b>
Cash and Equivalents	154	—	0.81
Debt	-6,043	—	-31.81
Preferred Stock	-1,108	—	-5.83
Other Adjustments	-209	—	-1.10
<b>Equity Value</b>	<b>5,970</b>	<b>—</b>	<b>31.42</b>
Projected Diluted Shares	190		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2010	2011	2012	2013	2014
<b>Revenue</b>	<b>3,664</b>	<b>3,747</b>	<b>3,654</b>	<b>3,965</b>	<b>4,099</b>
Cost of Goods Sold	1,686	1,697	1,522	1,709	1,743
<b>Gross Profit</b>	<b>1,978</b>	<b>2,050</b>	<b>2,132</b>	<b>2,257</b>	<b>2,356</b>
Selling, General & Administrative Expenses	828	865	868	917	935
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	410	419	470	492	511
<b>Operating Income (ex charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>847</b>	<b>911</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>740</b>	<b>766</b>	<b>794</b>	<b>847</b>	<b>911</b>
Interest Expense	350	370	366	374	393
Interest Income	—	40	4	—	—
<b>Pre-Tax Income</b>	<b>390</b>	<b>436</b>	<b>432</b>	<b>473</b>	<b>518</b>
Income Tax Expense	67	80	61	90	98
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-10	-9	-9	-9	-9
(Preferred Dividends)	-28	-29	-47	-49	-52
<b>Net Income</b>	<b>285</b>	<b>318</b>	<b>315</b>	<b>325</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	173	182	190	190	196
<b>Diluted Earnings Per Share</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.71</b>	<b>1.83</b>
Adjusted Net Income	285	318	315	325	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.65</b>	<b>1.75</b>	<b>1.66</b>	<b>1.71</b>	<b>1.83</b>
Dividends Per Common Share	1.12	1.16	1.20	1.24	1.28
<b>EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,339</b>	<b>1,422</b>
<b>Adjusted EBITDA</b>	<b>1,150</b>	<b>1,190</b>	<b>1,264</b>	<b>1,339</b>	<b>1,422</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2010	2011	2012	Forecast	
				2013	2014
Cash and Equivalents	109	89	154	178	160
Investments	—	—	—	—	—
Accounts Receivable	655	644	587	659	682
Inventory	168	134	133	142	145
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	272	253	219	220	220
<b>Current Assets</b>	<b>1,204</b>	<b>1,120</b>	<b>1,093</b>	<b>1,199</b>	<b>1,207</b>
Net Property Plant, and Equipment	8,202	8,687	9,623	10,461	11,080
Goodwill	1,553	1,557	1,568	1,568	1,568
Other Intangibles	324	341	325	325	325
Deferred Tax Assets (Long-Term)	16	8	—	20	20
Other Long-Term Operating Assets	1,604	1,849	2,341	2,250	2,175
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>12,903</b>	<b>13,562</b>	<b>14,950</b>	<b>15,823</b>	<b>16,375</b>
Accounts Payable	953	914	966	1,002	1,022
Short-Term Debt	414	265	260	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	150	141	82	141	141
<b>Current Liabilities</b>	<b>1,517</b>	<b>1,320</b>	<b>1,308</b>	<b>1,143</b>	<b>1,163</b>
Long-Term Debt	5,609	5,679	5,783	6,516	6,576
Deferred Tax Liabilities (Long-Term)	623	685	718	868	1,018
Other Long-Term Operating Liabilities	775	881	1,731	1,731	1,731
Long-Term Non-Operating Liabilities	320	320	—	—	—
<b>Total Liabilities</b>	<b>8,844</b>	<b>8,885</b>	<b>9,540</b>	<b>10,258</b>	<b>10,488</b>
Preferred Stock	592	592	1,108	1,108	1,108
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,417	2,725	2,963	2,963	3,163
Retained Earnings (Deficit)	804	905	952	1,041	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	-89	74	-96	74	74
<b>Shareholder's Equity</b>	<b>3,897</b>	<b>4,469</b>	<b>5,100</b>	<b>5,359</b>	<b>5,667</b>
Minority Interest	162	208	310	205	220
<b>Total Equity</b>	<b>4,059</b>	<b>4,677</b>	<b>5,410</b>	<b>5,564</b>	<b>5,887</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	2010	2011	2012	Forecast	
				2013	2014
Net Income	323	356	371	383	420
Depreciation	410	424	470	492	511
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-3	4	17	130	150
Other Non-Cash Adjustments	4	22	40	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-72	-22
(Increase) Decrease in Inventory	—	—	—	-9	-3
Change in Other Short-Term Assets	-2	98	78	-1	—
Increase (Decrease) in Accounts Payable	—	—	—	36	20
Change in Other Short-Term Liabilities	—	—	—	59	—
<b>Cash From Operations</b>	<b>732</b>	<b>904</b>	<b>976</b>	<b>1,019</b>	<b>1,076</b>
(Capital Expenditures)	-1,006	-1,099	-1,062	-1,330	-1,131
Net (Acquisitions), Asset Sales, and Disposals	15	26	-18	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-52	—	91	75
<b>Cash From Investing</b>	<b>-991</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-1,239</b>	<b>-1,056</b>
Common Stock Issuance (or Repurchase)	80	345	24	—	200
Common Stock (Dividends)	-193	-151	-170	-236	-251
Short-Term Debt Issuance (or Retirement)	-48	-343	49	-260	—
Long-Term Debt Issuance (or Retirement)	194	307	36	733	60
Other Financing Cash Flows	250	43	245	-163	-46
<b>Cash From Financing</b>	<b>283</b>	<b>201</b>	<b>184</b>	<b>74</b>	<b>-37</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	170	—
<b>Net Change in Cash</b>	<b>24</b>	<b>-20</b>	<b>80</b>	<b>24</b>	<b>-17</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1.13	15.2	19.2	17.4	11.2	10.8	10.9	-33.4	19.9	NM	1.8	2.1	2.2	2.1	2.5	2.5
TransAlta Corporation TAC USA	0.96	41.2	24.6	15.0	14.9	8.1	8.1	NM	20.7	17.7	1.3	1.0	1.0	1.7	1.4	1.4
Average		28.2	21.9	16.2	13.1	9.5	9.5	-33.4	20.3	17.7	1.6	1.6	1.6	1.9	2.0	2.0
<b>Fortis, Inc. FTS CA</b>	<b>1.02</b>	<b>21.9</b>	<b>19.6</b>	<b>18.3</b>	<b>12.3</b>	<b>10.6</b>	<b>10.0</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	<b>1.8</b>	<b>1.5</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	— USD	6.9	7.1	5.4	6.9	7.1	5.4	11.9	11.0	12.4	3.1	2.8	3.2	3.4	3.0	3.0
TransAlta Corporation TAC USA	— CAD	7.9	6.2	5.8	8.4	6.6	6.1	-24.9	6.9	8.4	-6.4	1.7	2.2	2.6	4.0	6.9
Average		7.4	6.7	5.6	7.7	6.9	5.8	-6.5	9.0	10.4	-1.7	2.3	2.7	3.0	3.5	5.0
<b>Fortis, Inc. FTS CA</b>	<b>14,950 USD</b>	<b>6.6</b>	<b>6.8</b>	<b>7.2</b>	<b>7.6</b>	<b>7.8</b>	<b>8.2</b>	<b>8.0</b>	<b>7.9</b>	<b>8.2</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>	<b>2.6</b>	<b>3.9</b>	<b>4.1</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	14,256 USD	-7.1	6.2	7.9	-3.0	8.1	12.9	-0.7	-2.0	21.0	827.8	-88.1	241.1	9.1	10.2	9.9
TransAlta Corporation TAC USA	2,262 CAD	-15.1	6.6	3.1	-36.1	19.9	12.3	-51.9	24.2	23.6	66.0	4.9	-5.1	—	—	—
Average		-11.1	6.4	5.5	-19.6	14.0	12.6	-26.3	11.1	22.3	446.9	-41.6	118.0	9.1	10.2	9.9
<b>Fortis, Inc. FTS CA</b>	<b>3,654 USD</b>	<b>-2.5</b>	<b>8.5</b>	<b>3.4</b>	<b>3.7</b>	<b>6.7</b>	<b>7.5</b>	<b>-5.1</b>	<b>3.2</b>	<b>6.8</b>	<b>401.6</b>	<b>-62.9</b>	<b>348.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	1,911 USD	64.1	67.2	66.0	35.4	40.1	38.9	23.0	23.4	24.5	13.4	14.0	14.1	-6.2	12.4	-14.1
TransAlta Corporation TAC USA	118 CAD	64.2	63.7	64.6	26.8	41.5	42.2	18.7	21.0	22.9	5.2	6.7	8.5	-8.1	6.8	7.9
Average		64.1	65.5	65.3	31.1	40.8	40.6	20.9	22.2	23.7	9.3	10.4	11.3	-7.2	9.6	-3.1
<b>Fortis, Inc. FTS CA</b>	<b>315 USD</b>	<b>58.4</b>	<b>56.9</b>	<b>57.5</b>	<b>34.6</b>	<b>33.8</b>	<b>34.7</b>	<b>21.7</b>	<b>21.4</b>	<b>22.2</b>	<b>8.6</b>	<b>8.2</b>	<b>8.8</b>	<b>-2.4</b>	<b>-7.9</b>	<b>-1.3</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	27,359 USD	165.1	157.6	169.1	62.3	61.2	62.8	4.9	5.4	5.4	5.4	4.7	5.0	3.9	3.8	3.9
TransAlta Corporation TAC USA	4,217 CAD	140.1	118.4	116.6	58.4	54.2	53.8	2.5	4.6	4.8	7.0	3.8	3.7	3.1	2.9	2.9
Average		152.6	138.0	142.9	60.4	57.7	58.3	3.7	5.0	5.1	6.2	4.3	4.4	3.5	3.4	3.4
<b>Fortis, Inc. FTS CA</b>	<b>6,043 USD</b>	<b>118.5</b>	<b>121.6</b>	<b>116.1</b>	<b>54.2</b>	<b>54.9</b>	<b>53.7</b>	<b>3.5</b>	<b>3.6</b>	<b>3.6</b>	<b>4.8</b>	<b>4.9</b>	<b>4.6</b>	<b>2.9</b>	<b>3.0</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
NextEra Energy Inc NEE USA	40,943 USD	1.98	1.03	0.22	0.65	0.64	0.63	0.53	0.51	0.49	0.20	0.10	0.02	52.5	59.1	53.7
TransAlta Corporation TAC USA	3,125 USD	0.11	0.54	0.58	0.68	1.12	1.15	0.62	1.03	1.06	0.04	0.47	0.53	-44.4	186.9	151.2
Average		1.05	0.79	0.40	0.67	0.88	0.89	0.58	0.77	0.78	0.12	0.29	0.28	4.0	123.0	102.5
<b>Fortis, Inc. FTS CA</b>	<b>6,710 CAD</b>	<b>0.81</b>	<b>0.93</b>	<b>0.82</b>	<b>0.84</b>	<b>1.05</b>	<b>1.04</b>	<b>0.73</b>	<b>0.92</b>	<b>0.91</b>	<b>0.59</b>	—	—	<b>72.4</b>	<b>72.5</b>	<b>70.1</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

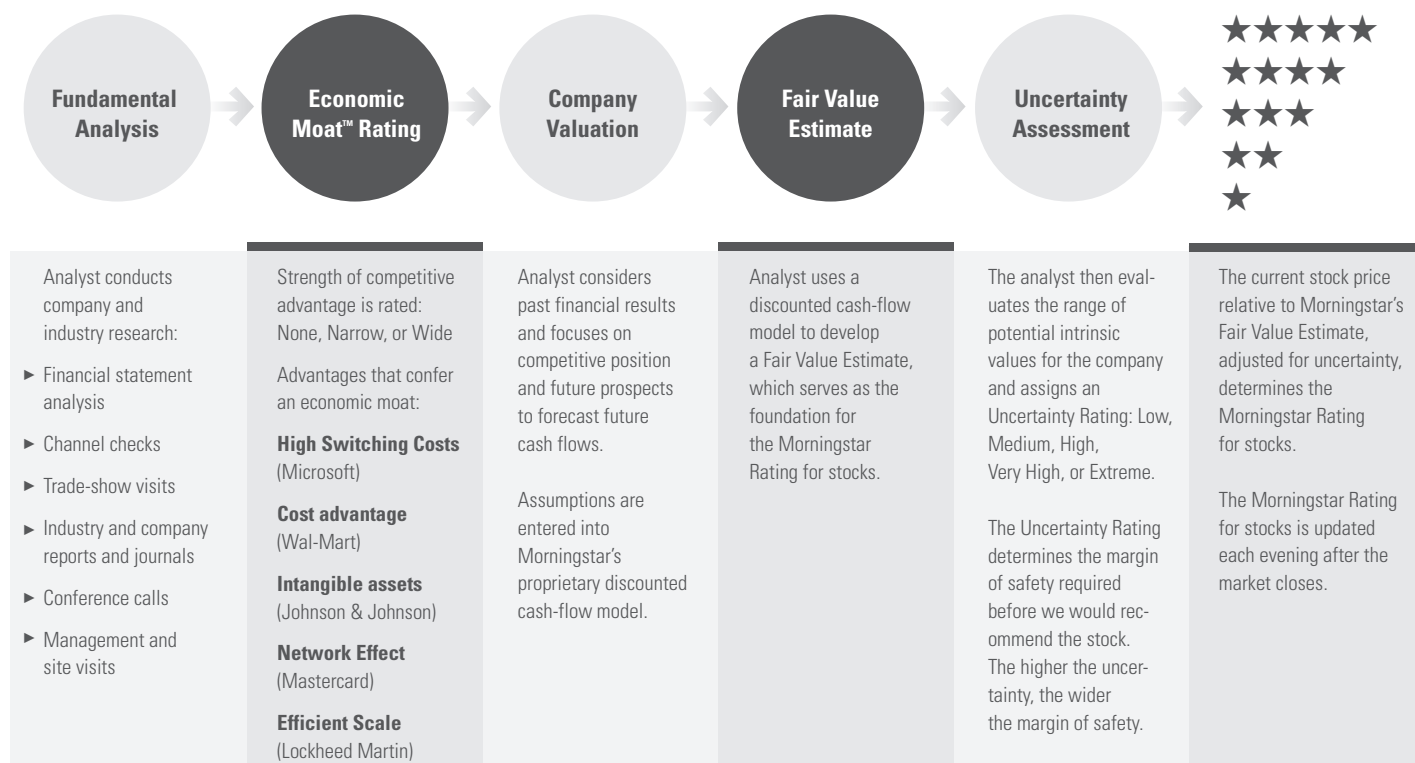
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

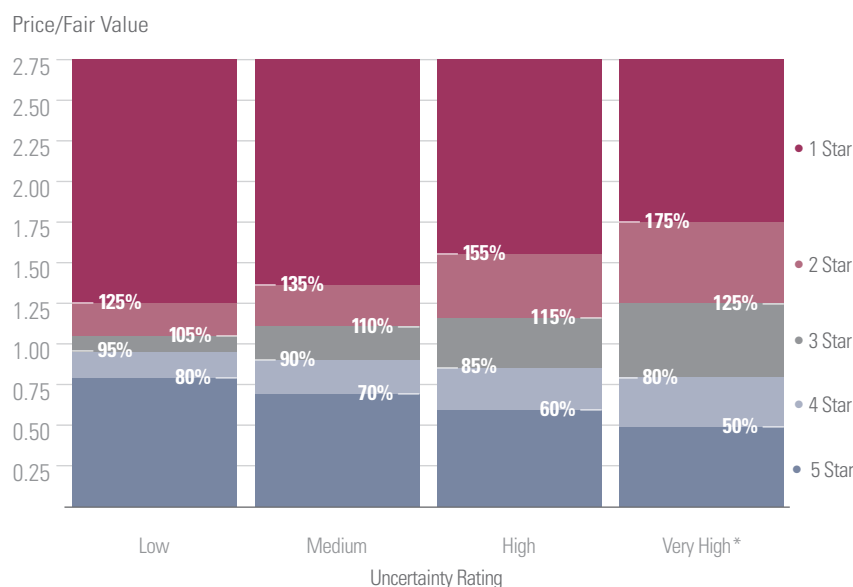
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.



## Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

### Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

### Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

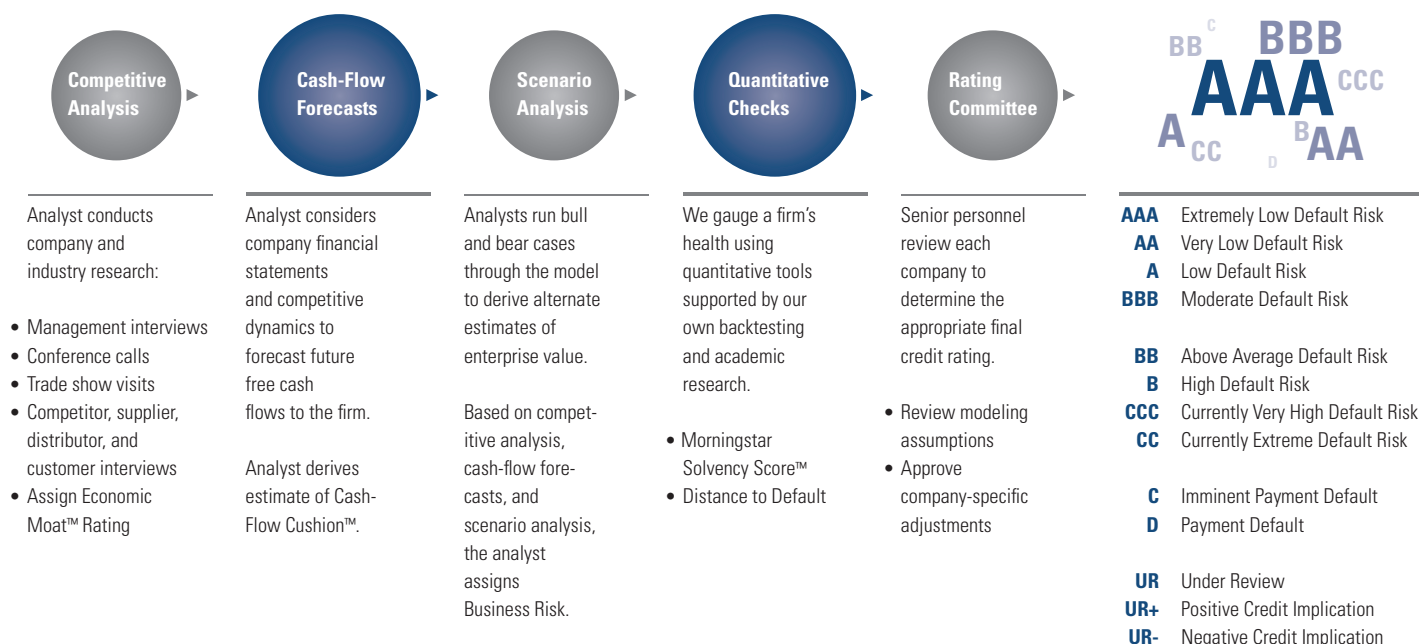
#### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

#### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

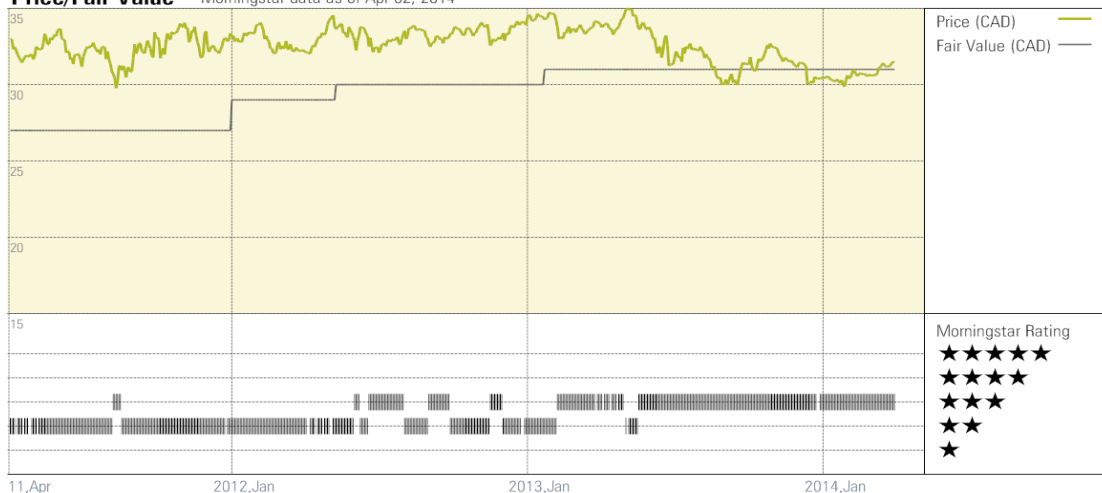
### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.44 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Apr 02, 2014



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Pricey expansion in the U.S. diversifies Fortis' asset base.

Updated Forecasts and Estimates from 03 Apr 2014

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Apr 2014  
Estimates as of 03 Apr 2014  
Pricing data through 04 Apr 2014  
Rating updated as of 04 Apr 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	3
Credit Analysis	
Financial Health	4
Capital Structure	4
Enterprise Risk	4
Management & Ownership	5
Analyst Note Archive	6
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Investment Thesis 03 Apr 2014

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations make up 90% of the company's asset base; noncore generation and real estate holding operations account for the remainder. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2017, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 5.3 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations. In the U.S., CH Energy's allowed return on equity is 10%.

Fortis' management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently announced a \$4.3 billion cash and debt offer for Tucson, Ariz.-based UNS Energy. If the UNS Energy transaction closes, 31% of Fortis' operating earnings will come from U.S. regulated utilities. Management continues to be outspoken about its desire for further U.S. transactions, which increases shareholder risk that management could overpay for future acquisitions.

### Vital Statistics

Market Cap (CAD Mil)	6,708
52-Week High (CAD)	35.14
52-Week Low (CAD)	29.51
52-Week Total Return %	-3.7
YTD Total Return %	4.4
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	0.95

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	22.6	21.0
EV/EBITDA	11.1	10.4	9.6	9.0
EV/EBIT	17.7	17.1	15.5	14.2
Free Cash Flow Yield %	-1.3	-3.6	-3.4	-2.1
Dividend Yield %	2.6	3.0	4.6	4.9

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute roughly 90% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 03 Apr 2014

We are increasing our fair value estimate to CAD 33 per share from CAD 31 after incorporating year-end 2013 results that were in line with our expectations. About half of our fair value increase relates to minor adjustments to our five-year outlook, including minor changes in our operating expense outlook and regulated rate adjustments. The remaining increase is due to time value appreciation since our last update.

In accounting for the UNS Energy acquisition, we adjusted for certain tax and regulatory balance sheet items and assign a 75% probability the deal closes. We expect the transaction to close in the fourth quarter.

We forecast 6% annual earnings growth through 2018 accounting for normalized weather conditions. We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 6.5 billion at the utilities through 2018, leading to 6% annualized rate base growth.

We use an 8.0% cost of equity to arrive at a 6.7% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2013 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

Finally, a 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides essential energy sources: natural gas and electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should allow Fortis to earn its cost of capital in the long run and leads us to assign Fortis' regulated utilities a narrow economic moat.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has a consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from the core regulated operations.

# Fortis, Inc. FTS (TSE) ★★★

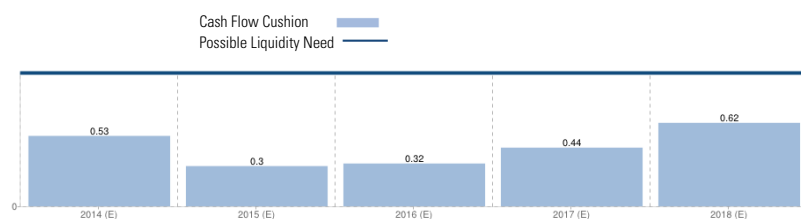
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	72	37	137	61	62
Adjusted Available Cash Flow	569	133	130	183	461
Total Cash Available before Debt Service	641	171	267	243	522
Principal Payments	-780	-103	-360	-79	-344
Interest Payments	-437	-466	-474	-476	-493
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-1,217	-569	-834	-555	-837

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	72	1.8
Sum of 5-Year Adjusted Free Cash Flow	1,475	36.8
Sum of Cash and 5-Year Cash Generation	1,547	38.6
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,547	38.6
Sum of 5-Year Cash Commitments	-4,012	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2018, Fortis has CAD 6.5 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 to help finance its capital expenditure plan, and we expect it to issue additional equity in 2014 to accommodate employee stock-purchase plans, support its capital expenditure plan, and pay for its proposed UNS Energy acquisition.

With a 56% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2018. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.77	1.12	—	31 Jan 2014
iShares S&P/TSX 60 Index	0.97	0.51	-27	28 Feb 2014
Fidelity Dividend Plus	0.88	1.69	-90	31 Dec 2013
Scotia Canadian Dividend	0.78	0.81	—	28 Feb 2014
TD Emerald Low Volatility Cdn Equity PFT	0.72	2.90	152	31 Dec 2013
Concentrated Holders				
iShares S&P/TSX Capped Utilities Fund	0.33	20.83	1	28 Feb 2014
BMO Equal Weight Utilities Indx ETF	0.28	8.42	-97	31 Mar 2014
AGF Monthly High Income Class	0.02	8.22	52	30 Sep 2013
IA Clarington Tactical Income Class	0.25	7.88	535	28 Feb 2014
Utility Corp	0.05	5.31	—	31 Mar 2014

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Industrial Alliance Investment Mgmt Inc.	1.57	1.79	1,307	28 Feb 2014
Phillips, Hager & North Inv Mgmt	0.38	0.76	775	31 Mar 2014
Standard Life Assurance Co. of Canada	0.16	0.63	230	28 Feb 2014
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009
TD Asset Management	0.72	2.90	152	31 Dec 2013
Top 5 Sellers				
RBC Global Asset Management Inc.	1.20	0.42	-394	31 Jan 2014
Franklin Bissett Investment Management	0.35	1.68	-325	31 Dec 2013
Fidelity Investments Canada ULC	1.06	0.30	-184	31 Dec 2013
Pyramis Global Advisors, LLC	0.92	1.18	-94	31 Dec 2013
Hexavest Inc.	0.08	0.08	-71	31 Dec 2013

### Management

03 Apr 2014

Overall, we think Fortis' management team has been fair stewards of shareholder capital. Management has earned at or nears its allowed returns and managed regulatory relationships well, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy, in our view. We think shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall has a significant ownership stake, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. Additionally, we would prefer the board of directors have more direct utility experience.

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

#### Fortis Reports Full-Year Earnings, Increases Dividend 06 Feb 2014

Fortis reported CAD 1.74 of earnings per share for the full year 2013 compared to CAD 1.66 in 2012. The company will pay a CAD 1.28 per share dividend in 2014, a 3.2% increase from 2013. We are reaffirming our CAD 31 per share fair value estimate, 2014 EPS estimate, narrow moat, and stable moat trend.

In December, Fortis management announced a pricey \$4.3 billion acquisition of UNS Energy. In January, Fortis and UNS Energy filed for regulatory approval with the Arizona Corporation Commission, or ACC. Management expects the deal to close by year-end, with regulatory approvals from the ACC and FERC required before closing. When the acquisition closes, one third of Fortis' assets will be located in the U.S., including the company's CH Energy Group acquisition that closed last June. Management has suggested it will continue to look for additional opportunities to acquire regulated utilities in the U.S.

Fortis' Canadian Regulated Utilities reported roughly flat earnings from 2012. Higher operating expenses and lower allowed rates of return were offset by earnings from \$1.2 billion in capital additions. The company plans to invest \$6.5 billion in 2014-18, not including UNS Energy's planned \$1.4 billion spend from 2015-18. Capital projects should continue to drive future earnings and dividend growth.

#### Fortis Management's Zeal for Acquisitions Leads to Pricey UNS Energy Offer 16 Dec 2013

We think Fortis management's enthusiasm for regulated acquisitions led them to offer a pricey \$4.3 billion for UNS Energy, a 31% premium to UNS Energy's close price before the announcement and a lofty 18 times UNS Energy management's 2014 midpoint earnings estimate. The \$2.5 billion equity value offer implies a 2.3 price/book multiple,

well above the median 1.7 price/book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value includes \$1.8 billion of assumed debt and is approximately 1.5 times UNS Energy's consolidated rate base.

We view the transaction negatively for Fortis shareholders, resulting in a CAD 1 per share dilution. We estimate a 75% probability of the deal closing and assume no synergy savings. Offsetting the transaction impact is the time-value appreciation since our last update, and thus we are maintaining our CAD 31 per share fair value estimate, narrow moat and stable trend. Fortis will finance the acquisition with \$1.8 billion in convertible debentures, comprising \$1.6 billion in deal and \$200 million private placement debentures.

The transaction is in line with the price MidAmerican Energy offered in May for NV Energy, which we also viewed as rich. Fortis management recently indicated to us that they would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade, increasing shareholder risk that management might overpay for future U.S. acquisitions.

The appeal of a strong economic recovery, above-average demand growth and constructive regulatory environment has recently lured other utilities to the Southwest. In addition to MidAmerican Energy's offer for NV Energy, TECO Energy in May offered to acquire New Mexico Gas Company. We highlight Pinnacle West Capital (PNW) as another potential target in the Southwest. Valuing PNW at 18 times our 2014 earnings estimate implies a \$66 per share takeout price, well above our \$55 per share fair value estimate

#### Fortis Makes Pricey Offer for UNS Energy 11 Dec 2013

Fortis management made good on its outspoken desire to add to its U.S. utilities holdings with a \$4.3 billion offer to

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

acquire UNS Energy, a predominantly regulated electric and gas utility in Arizona. Management has told us repeatedly in recent meetings it would like to make multiple acquisitions of \$5 billion or less in the U.S. during the next decade. The UNS deal comes less than six months after Fortis closed its \$1.5 billion acquisition of Central Hudson Energy, its first U.S. acquisition.

We are reaffirming our CAD 31 per share fair value estimate, narrow economic moat, and stable moat trend ratings, although we think the price it is paying for UNS is rich relative to where its U.S. regulated utilities peers are trading. Fortis is offering \$60.25 per share, a 31% premium to UNS Energy's closing price on Dec. 11. The \$2.5 billion equity value offer implies a 2.3 price-to-book multiple, well above the median 1.7 price-to-book multiple for 60 U.S.-based regulated utilities as of November. The gross deal value including \$1.8 billion of assumed debt is approximately 1.5 times UNS' consolidated rate base.

We expect Fortis to issue additional debt at the holding company level to fund a portion of the equity, easing some of the equity dilution from the premium price it is paying. The deal will have to receive approval from UNS shareholders, the Arizona Corporation Commission, and the Federal Energy Regulatory Commission. We expect regulatory approvals to take until late 2014. Management said it expects the UNS deal to be accretive to earnings in the first full year after closing, likely in 2015. They expect the CH Energy deal to be accretive in 2015 as well.

#### Management Meeting: Acquisitive Fortis Management Seeks Further U.S. Expansion 14 Nov 2013

Fortis' appetite for further expansion in the U.S. was evident during our executive management meeting at the 48th Edison Electric Institute Financial Conference in Orlando, Fla. We are reaffirming our CAD 31 per share fair value

estimate, narrow moat and stable moat trend ratings.

Management indicated that the integration of the \$1.5 billion acquisition of Central Hudson Energy was complete. A prolonged regulatory approval process, which ultimately led to \$3 million in annual concessions, hasn't deterred management from seeking additional U.S. opportunities. Fortis sees multiple transactions in the U.S. during the next 10 years, indicating a desire for transactions \$5 billion and under. Management prefers regulated transmission and distribution assets but would consider combining with generation assets given the right asset mix. Fortis would not consider merchant assets. Since 2004, Fortis has acquired four regulated Canadian and U.S. utilities (Fortis Alberta, Fortis BCElectric, FortisBC Gas, Central Hudson Energy) for a combined \$6.7 billion. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 6% overvalued, not accounting for a likely 20%-30% takeover premium.

At its regulated Canadian operations, management expects to invest \$1.0 billion-\$1.2 billion annually, with the largest allocation to Fortis Alberta, the company's fastest-growing utility. Build-out of Alberta's oil sand production should support 7%-8% near-term growth and \$400 million of annual capital spend. Fortis Alberta, the company's largest utility, will account for \$250 million in annual investment. Fortis has managed its Wanetta hydro expansion well, with construction on time and on budget for the \$900-million, 335 MW facility.

#### Fortis' Earnings Reflect Lower Allowed Returns and Higher Capital Additions 01 Nov 2013

Fortis reported third-quarter earnings per share of \$0.23, compared with \$0.24 in the year-ago period. Year-to-date EPS were \$1.27, compared to \$1.20 in the same period. The company will pay a CAD 1.24 per share dividend in 2013, a

## Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

### Analyst Notes

3.3% increase from 2012. We are reaffirming our CAD 31 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend.

Fortis recently completed its \$1.5 billion CH Energy Group acquisition. Management expects the transaction to be accretive to EPS in 2015. CH Energy Group contributed \$12 million in the quarter, which was offset by the common share offering and financing costs related to the transaction. We suspect management continues to look for additional regulated opportunities in the U.S.

Fortis' Canadian Regulated Gas Utilities notched a \$14 million loss compared to a \$6 million loss in the year-ago quarter, in a period of low demand from warmer temperatures. Higher operating expenses and lower allowed rates of return attributed to the larger loss. Earnings from capital projects partially offset segment weakness. The company's Canadian Regulated Electric Utilities also showed weakness, earning \$51 million in the third quarter compared to \$55 million in the year-ago quarter. In general, across the segment earnings from completion of infrastructure projects were offset from lower allowed rates of return. Management continues to work towards completing \$1.2 billion in capital projects in 2013, part of a larger \$6 billion program, which will drive future earnings and dividend growth.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	22.6	21.0
EV/EBITDA	11.1	10.4	9.6	9.0
EV/EBIT	17.7	17.1	15.5	14.2
Free Cash Flow Yield %	-1.3	-3.6	-3.4	-2.1
Dividend Yield %	2.6	3.0	4.6	4.9

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>
Projected Diluted Shares	219		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	1.14	19.2	17.5	15.8	10.8	10.9	9.7	19.9	NM	40.3	2.1	2.2	2.0	2.5	2.5	2.4
TransAlta Corporation TAC USA	0.96	24.6	14.9	12.7	8.1	8.1	7.6	20.7	17.5	12.4	1.0	1.0	1.0	1.4	1.4	1.3
Average		21.9	16.2	14.3	9.5	9.5	8.7	20.3	17.5	26.4	1.6	1.6	1.5	2.0	2.0	1.9
<b>Fortis, Inc. FTS CA</b>	<b>0.95</b>	<b>19.3</b>	<b>22.6</b>	<b>21.0</b>	<b>10.4</b>	<b>9.6</b>	<b>9.0</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	69,306 USD	7.1	5.4	6.6	7.1	5.4	6.6	11.0	12.4	13.1	2.8	3.2	3.5	3.0	3.0	3.3
TransAlta Corporation TAC USA	— CAD	6.2	5.8	6.3	6.6	6.1	6.7	6.9	8.4	10.1	1.7	2.2	2.7	4.0	7.0	7.3
Average		6.7	5.6	6.5	6.9	5.8	6.7	9.0	10.4	11.6	2.3	2.7	3.1	3.5	5.0	5.3
<b>Fortis, Inc. FTS CA</b>	<b>17,908 USD</b>	<b>5.7</b>	<b>5.6</b>	<b>5.9</b>	<b>6.7</b>	<b>6.6</b>	<b>6.9</b>	<b>8.1</b>	<b>6.5</b>	<b>6.7</b>	<b>2.2</b>	<b>1.8</b>	<b>1.9</b>	<b>3.0</b>	<b>4.6</b>	<b>4.9</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	15,136 USD	6.2	7.9	5.5	8.1	12.9	16.3	-2.0	21.0	11.0	-88.1	241.1	-291.5	10.2	9.9	8.6
TransAlta Corporation TAC USA	2,411 CAD	6.6	3.1	5.7	19.9	12.3	11.1	24.2	23.6	17.5	4.9	-5.1	20.8	—	—	—
Average		6.4	5.5	5.6	14.0	12.6	13.7	11.1	22.3	14.3	-41.6	118.0	-135.4	10.2	9.9	8.6
<b>Fortis, Inc. FTS CA</b>	<b>4,047 USD</b>	<b>10.8</b>	<b>4.4</b>	<b>3.7</b>	<b>7.3</b>	<b>7.5</b>	<b>8.9</b>	<b>0.9</b>	<b>-11.8</b>	<b>8.0</b>	<b>-547.8</b>	<b>-174.1</b>	<b>-65.7</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>

# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	2,113 USD	67.2	66.0	67.8	40.1	38.9	41.3	23.4	24.5	27.0	14.0	14.1	14.8	12.4	-14.1	5.9
TransAlta Corporation TAC USA	162 CAD	63.7	64.6	64.6	41.5	42.2	42.7	21.0	22.9	24.1	6.7	8.5	9.9	6.8	7.9	10.5
Average		65.5	65.3	66.2	40.8	40.6	42.0	22.2	23.7	25.6	10.4	11.3	12.4	9.6	-3.1	8.2
<b>Fortis, Inc. FTS CA</b>	<b>353 USD</b>	<b>60.0</b>	<b>60.9</b>	<b>61.5</b>	<b>34.4</b>	<b>35.1</b>	<b>36.1</b>	<b>21.1</b>	<b>21.7</b>	<b>22.8</b>	<b>8.7</b>	<b>7.7</b>	<b>8.2</b>	<b>-5.5</b>	<b>-5.0</b>	<b>-3.3</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	28,426 USD	157.6	169.1	153.7	61.2	62.8	60.6	5.4	5.4	5.5	4.7	5.0	4.3	3.8	3.9	3.7
TransAlta Corporation TAC USA	3,850 CAD	118.4	116.6	111.9	54.2	53.8	52.8	4.6	4.8	5.2	3.8	3.7	3.4	2.9	2.9	2.9
Average		138.0	142.9	132.8	57.7	58.3	56.7	5.0	5.1	5.4	4.3	4.4	3.9	3.4	3.4	3.3
<b>Fortis, Inc. FTS CA</b>	<b>7,788 USD</b>	<b>129.8</b>	<b>117.4</b>	<b>118.8</b>	<b>56.5</b>	<b>54.0</b>	<b>54.3</b>	<b>3.6</b>	<b>3.4</b>	<b>3.4</b>	<b>5.6</b>	<b>5.1</b>	<b>5.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	41,187 USD	1.03	0.22	0.75	0.64	0.63	0.91	0.51	0.49	0.72	0.10	0.02	0.15	59.1	53.7	52.5
TransAlta Corporation TAC USA	3,104 USD	0.54	0.58	0.69	1.12	1.15	1.20	1.03	1.06	1.11	0.47	0.53	0.66	186.9	151.2	128.7
Average		0.79	0.40	0.72	0.88	0.89	1.06	0.77	0.78	0.92	0.29	0.28	0.41	123.0	102.5	90.6
<b>Fortis, Inc. FTS CA</b>	<b>6,708 CAD</b>	<b>0.34</b>	<b>0.17</b>	<b>0.61</b>	<b>0.62</b>	<b>0.93</b>	<b>1.01</b>	<b>0.55</b>	<b>0.82</b>	<b>0.90</b>	<b>0.08</b>	—	—	<b>74.1</b>	<b>86.7</b>	<b>82.8</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

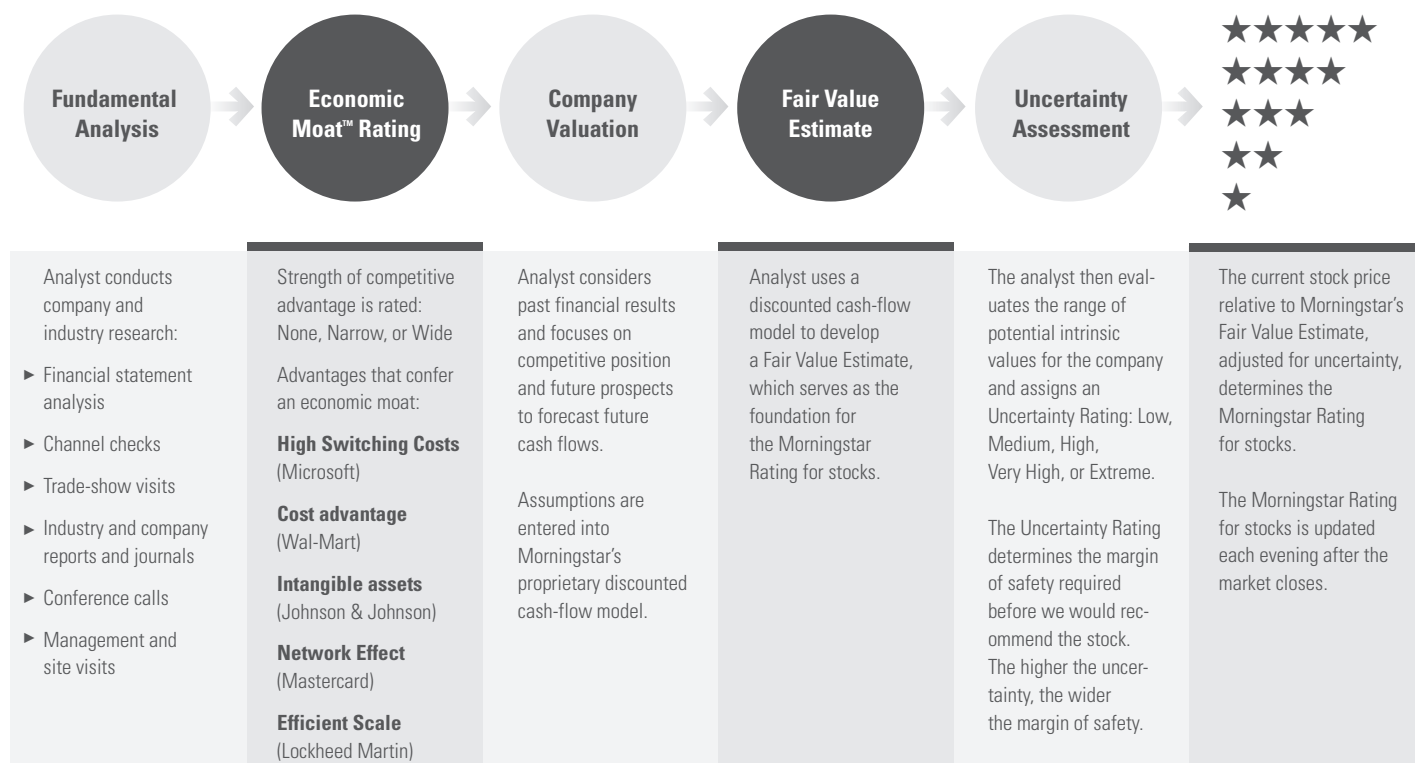
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

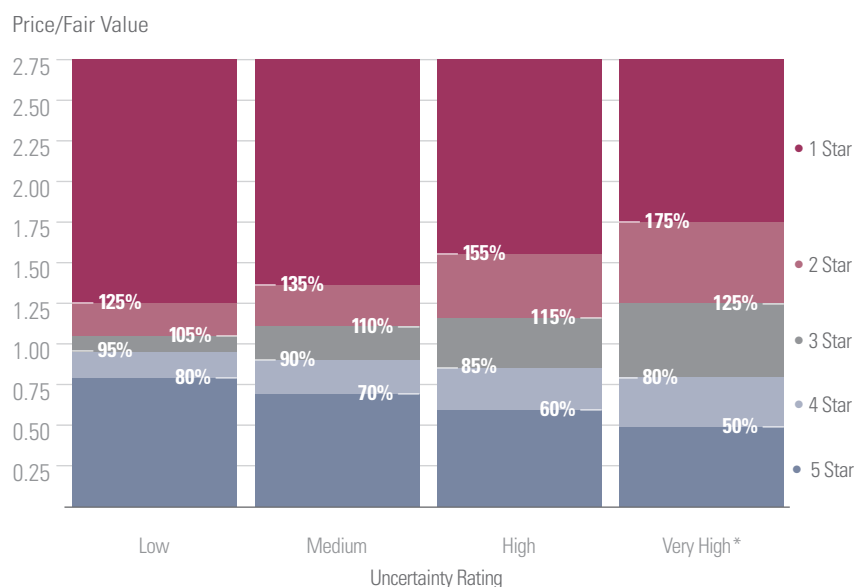
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

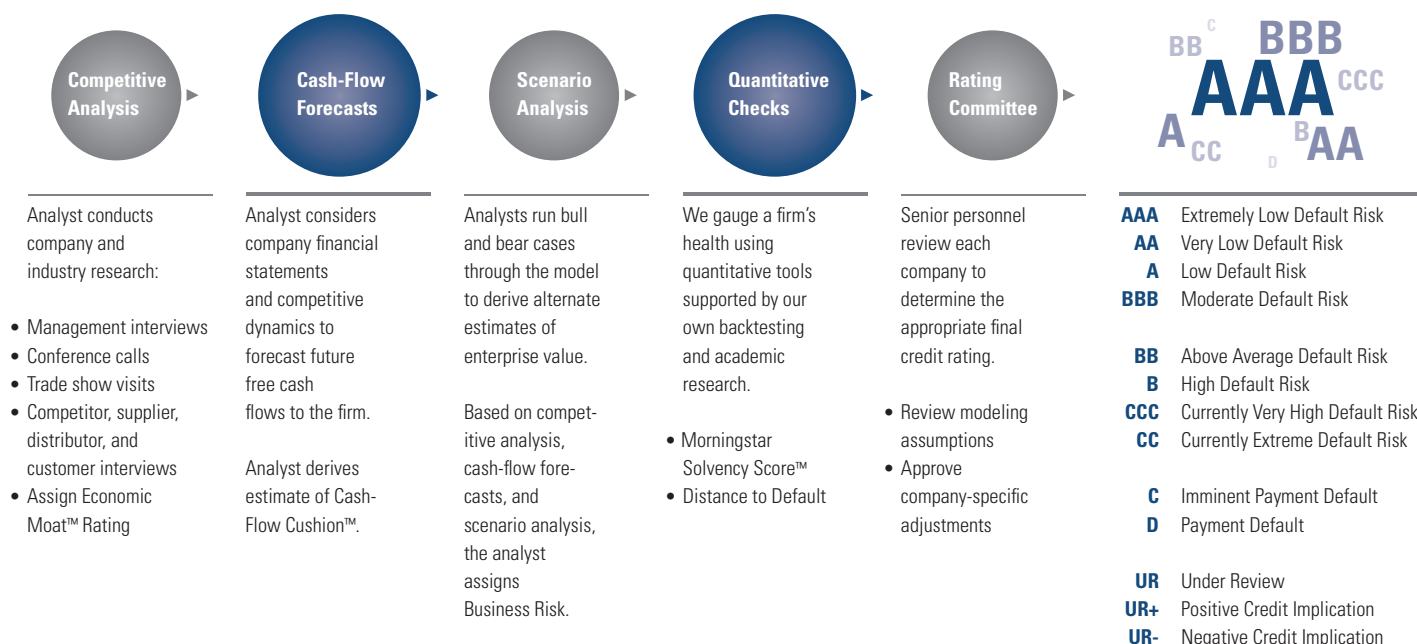
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).



# Fortis, Inc. FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.47 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.46 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Reports First-Quarter Results; UNS Energy Acquisition on Track

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 08 May 2014  
Estimates as of 03 Apr 2014  
Pricing data through 07 May 2014  
Rating updated as of 07 May 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 08 May 2014

Fortis reported CAD 0.67 of earnings per share for the first quarter compared with CAD 0.79 in the year-ago quarter. Quarter-over-quarter comparison includes \$0.02 per share related to Griffith Energy Services, which was acquired as part of CH Energy and sold in March 2014, and a \$0.12 aftertax extraordinary gain related to the expropriation of the Exploits River Hydro Partnership. The company will pay a CAD 1.28 per share dividend in 2014, a 3.2% increase from 2013. We are reaffirming our CAD 33 per share fair value estimate, 2014 EPS estimate, narrow moat, and stable moat trend.

In late 2013, Fortis management announced what we think is a pricey \$4.3 billion acquisition of UNS Energy. In March UNS Energy shareholders approved the acquisition, and in April, Fortis received approval from the Federal Energy Regulatory Commission. Regulatory approval from the Arizona Corporation Commission is pending. The ACC has indicated early support of the merger, subject to certain conditions. Management targets a year-end transaction close. We continue to believe that Fortis will actively be looking for additional opportunities to acquire regulated U.S. utilities.

Regulated utility earnings for the quarter increased \$17 million to \$162 million. Earnings benefited \$18 million from the inclusion of Central Hudson Gas & Electric, which Fortis acquired in June 2013. Newfoundland Power benefited from regulated rate increases and the Caribbean regulated utilities benefited from strong electricity sales. FortisBC Energy was negatively affected by lower rates set in 2013. In the quarter, Fortis invested \$237 million as part of the full-year \$1.4 billion in planned investments.

### Vital Statistics

Market Cap (CAD Mil)	6,919
52-Week High (CAD)	35.10
52-Week Low (CAD)	29.51
52-Week Total Return %	-3.6
YTD Total Return %	7.7
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	0.98

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	23.4	21.6
EV/EBITDA	11.1	10.4	9.8	9.2
EV/EBIT	17.7	17.1	15.9	14.6
Free Cash Flow Yield %	-1.3	-3.6	-3.3	-2.1
Dividend Yield %	2.6	3.0	4.4	4.7

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute roughly 90% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.46 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	23.4	21.6
EV/EBITDA	11.1	10.4	9.8	9.2
EV/EBIT	17.7	17.1	15.9	14.6
Free Cash Flow Yield %	-1.3	-3.6	-3.3	-2.1
Dividend Yield %	2.6	3.0	4.4	4.7

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>

Projected Diluted Shares	219
--------------------------	-----

<b>Fair Value per Share (CAD)</b>	<b>—</b>
-----------------------------------	----------

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.46 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.46 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.46 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.46 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.55 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Reports 2Q Results

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 01 Aug 2014  
Estimates as of 03 Apr 2014  
Pricing data through 31 Jul 2014  
Rating updated as of 31 Jul 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 01 Aug 2014

Fortis reported CAD 0.22 in earnings per share for the second quarter, down from CAD 0.28 in the year-ago quarter. On an adjusted basis, second-quarter earnings were CAD 0.28 compared with CAD 0.32 in the year-ago quarter. Earnings per share were affected by the 18.5 million common share issuance related to the Central Hudson acquisition. We are reaffirming our CAD 33 fair value estimate, 2014 EPS estimate and narrow moat stable moat trend ratings.

Fortis' \$4.3 billion UNS Energy acquisition continues to progress, with the company awaiting approval of the Arizona Corporation Commission. We expect approval from ACC, given a settlement agreement reached in May. Fortis has received approvals from shareholders and the Federal Energy Regulatory Commission. The acquisition is now expected to close by the end of August, pending ACC approval. To fund the transaction, Fortis completed CAD 1.8 billion in convertible unsecured debentures.

Excluding the effect of favorable regulatory outcomes in the second quarter of 2013, core regulated earnings grew CAD 9 million. Earnings benefited CAD 7 million from the inclusion of Central Hudson Gas & Electric, which Fortis acquired in June 2013. Electricity growth at the company's Caribbean regulated utilities accounted for the remaining CAD 2 million in earnings growth. For the first half of the year, Fortis invested CAD 535 million as part of the full-year CAD 1.4 billion in planned investments. Management's five-year plan calls for CAD 8.0 billion in total capital expenditures, including UNS Energy, which is expected to increase the rate base 7.0%.

### Vital Statistics

Market Cap (CAD Mil)	7,189
52-Week High (CAD)	33.88
52-Week Low (CAD)	29.51
52-Week Total Return %	7.8
YTD Total Return %	12.3
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	1.02

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	24.1	22.4
EV/EBITDA	11.1	10.4	10.0	9.4
EV/EBIT	17.7	17.1	16.2	14.9
Free Cash Flow Yield %	-1.3	-3.6	-3.2	-2.0
Dividend Yield %	2.6	3.0	4.3	4.5

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute roughly 90% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.55 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	24.1	22.4
EV/EBITDA	11.1	10.4	10.0	9.4
EV/EBIT	17.7	17.1	16.2	14.9
Free Cash Flow Yield %	-1.3	-3.6	-3.2	-2.0
Dividend Yield %	2.6	3.0	4.3	4.5

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>

Projected Diluted Shares	219
--------------------------	-----

<b>Fair Value per Share (CAD)</b>	<b>—</b>
-----------------------------------	----------

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.55 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.55 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.55 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.55 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Regulated utilities in the U.S. now account for one third of earnings.

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 29 Sep 2014  
Estimates as of 29 Sep 2014  
Pricing data through 26 Sep 2014  
Rating updated as of 26 Sep 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	4
Credit Analysis	
Financial Health	5
Capital Structure	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	8
Comparable Company Analysis	12
Methodology for Valuing Companies	14

### Investment Thesis 29 Sep 2014

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations make up more than 95% of the company's asset base; noncore generation and real estate holding operations account for the remainder. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2018, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 8.0 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is near 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations.

Fortis' management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently announced a \$4.3 billion cash and debt offer for Tucson, Arizona-based UNS Energy. After the transaction's close, about one third of Fortis' operating earnings now come from U.S. regulated utilities. Management continues to be outspoken about its desire for further U.S. transactions, which increases shareholder risk that it could overpay for future acquisitions.

### Vital Statistics

Market Cap (CAD Mil)	7,347
52-Week High (CAD)	34.72
52-Week Low (CAD)	29.51
52-Week Total Return %	12.7
YTD Total Return %	15.2
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	1.03

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	24.5	22.7
EV/EBITDA	11.1	10.4	9.8	9.2
EV/EBIT	17.7	17.1	15.9	14.6
Free Cash Flow Yield %	-1.3	-3.6	-3.2	-1.9
Dividend Yield %	2.6	3.0	4.3	4.5

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 29 Sep 2014

We are maintaining our CAD 33 fair value estimate. We forecast 6% annual earnings growth through 2018, accounting for normalized weather conditions and excluding unannounced acquisitions.

We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 6.5 billion at the utilities through 2018, leading to 6% annualized rate base growth.

We use an 8.0% cost of equity to arrive at a 6.7% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2014 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Service territory monopolies and efficient scale advantages are the primary sources of an economic moat for regulated utilities such as Fortis. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. Fortis has a history of constructive relationships across its North American presence, and we do not expect the regulatory relationship to change. The bulk of its capital plan is toward the moaty regulated assets, which should strengthen Fortis' narrow moat. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

For regulated utilities like Fortis, our moat trends consider changes in the regulatory environment, near-term investment requirements and growth opportunities, energy demand trends, and management's strategic direction. In assessing the changing regulatory environment, we consider the level of automatic rate mechanisms, allowed returns on equity versus interest rates, fuel cost recovery mechanisms, and the history of regulatory relations. Using these factors, we assess whether fundamental changes will give a utility a better opportunity to earn or overearn its cost of capital in the near term, or whether fundamental changes will make it more difficult for a utility to earn its cost of

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has a consistent dividend growth history, paying consecutive quarterly dividends for four decades and increasing the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from the core regulated operations.

# Fortis Inc FTS (TSE) ★★★

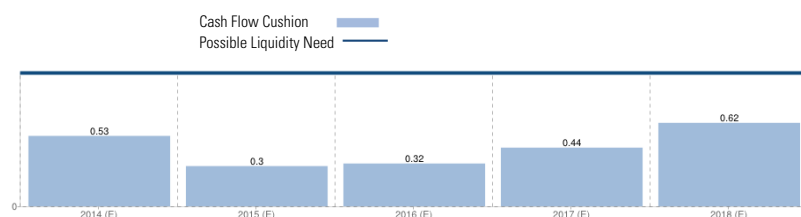
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	72	37	137	61	62
Adjusted Available Cash Flow	569	133	130	183	461
Total Cash Available before Debt Service	641	171	267	243	522
Principal Payments	-780	-103	-360	-79	-344
Interest Payments	-437	-466	-474	-476	-493
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-1,217	-569	-834	-555	-837

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	72	1.8
Sum of 5-Year Adjusted Free Cash Flow	1,475	36.8
Sum of Cash and 5-Year Cash Generation	1,547	38.6
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,547	38.6
Sum of 5-Year Cash Commitments	-4,012	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2018, Fortis has CAD 8.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 to help finance its capital expenditure plan and has issued additional equity in 2014 to accommodate employee stock-purchase plans, support its capital expenditure plan, and pay for its proposed UNS Energy acquisition.

With a 56% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2018. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.74	1.11	—	30 Jun 2014
Assumption/CI Harbour Growth & Inc	1.24	1.46	400	31 Mar 2014
Fidelity Dividend Plus Fund	1.14	2.25	—	30 Jun 2014
iShares S&P/TSX 60	0.89	0.50	0	31 Aug 2014
TD Emerald Low Volatility Cdn Equity PFT	0.87	3.03	28	30 Jun 2014

#### Concentrated Holders

iShares S&P/TSX Capped Utilities	0.31	19.94	—	31 Aug 2014
BMO Equal Weight Utilities ETF	0.24	8.45	-13	31 Aug 2014
Newgrowth Corp A	0.15	5.35	—	31 Aug 2014
VPI Canadian Equity Pool	0.40	5.33	30	31 Aug 2014
Utility Corp	0.05	5.32	5	31 Aug 2014

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
RBC Global Asset Management Inc.	1.90	0.64	712	31 Aug 2014
Harbour Advisors	1.24	1.46	400	31 Mar 2014
London Capital Management Ltd	0.53	0.89	215	31 Aug 2014
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009
Hexavest Inc.	0.09	0.09	102	30 Jun 2014

#### Top 5 Sellers

TD Asset Management	0.87	3.03	-543	30 Jun 2014
Industrial Alliance Investment Mgmt Inc.	1.30	1.58	-470	31 Aug 2014
Pyramis Global Advisors, LLC	1.20	1.49	-321	30 Jun 2014
1832 Asset Management L.P	0.18	0.48	-234	30 Jun 2014
Fidelity Investments Canada ULC	1.66	0.48	-201	30 Jun 2014

### Management 29 Sep 2014

Overall, we think Fortis' management team has been fair stewards of shareholder capital. Management has earned at or near its allowed returns and managed regulatory relationships well, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy, in our view. We think shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall had been president and CEO since 1995, leading a group of experienced utility executives. Marshall recently relinquished his role of president to Barry Perry, who plans to replace Marshall as CEO when Marshall retires in December. We think Perry is a suitable replacement, given his previous experience as Fortis' CFO and as CFO of Newfoundland Power.

Total direct compensation is in line with Fortis' industry group. Management's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Management has a significant ownership stake, which we believe aligns shareholder and management interests.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

### Fortis Reports 2Q Results 01 Aug 2014

Fortis reported CAD 0.22 in earnings per share for the second quarter, down from CAD 0.28 in the year-ago quarter. On an adjusted basis, second-quarter earnings were CAD 0.28 compared with CAD 0.32 in the year-ago quarter. Earnings per share were affected by the 18.5 million common share issuance related to the Central Hudson acquisition. We are reaffirming our CAD 33 fair value estimate, 2014 EPS estimate and narrow moat stable moat trend ratings.

Fortis' \$4.3 billion UNS Energy acquisition continues to progress, with the company awaiting approval of the Arizona Corporation Commission. We expect approval from ACC, given a settlement agreement reached in May. Fortis has received approvals from shareholders and the Federal Energy Regulatory Commission. The acquisition is now expected to close by the end of August, pending ACC approval. To fund the transaction, Fortis completed CAD 1.8 billion in convertible unsecured debentures.

Excluding the effect of favorable regulatory outcomes in the second quarter of 2013, core regulated earnings grew CAD 9 million. Earnings benefited CAD 7 million from the inclusion of Central Hudson Gas & Electric, which Fortis acquired in June 2013. Electricity growth at the company's Caribbean regulated utilities accounted for the remaining CAD 2 million in earnings growth. For the first half of the year, Fortis invested CAD 535 million as part of the full-year CAD 1.4 billion in planned investments. Management's five-year plan calls for CAD 8.0 billion in total capital expenditures, including UNS Energy, which is expected to increase the rate base 7.0%.

### Fortis Reports First-Quarter Results; UNS Energy Acquisition on Track 08 May 2014

Fortis reported CAD 0.67 of earnings per share for the first quarter compared with CAD 0.79 in the year-ago quarter.

Quarter-over-quarter comparison includes \$0.02 per share related to Griffith Energy Services, which was acquired as part of CH Energy and sold in March 2014, and a \$0.12 aftertax extraordinary gain related to the expropriation of the Exploits River Hydro Partnership. The company will pay a CAD 1.28 per share dividend in 2014, a 3.2% increase from 2013. We are reaffirming our CAD 33 per share fair value estimate, 2014 EPS estimate, narrow moat, and stable moat trend.

In late 2013, Fortis management announced what we think is a pricey \$4.3 billion acquisition of UNS Energy. In March UNS Energy shareholders approved the acquisition, and in April, Fortis received approval from the Federal Energy Regulatory Commission. Regulatory approval from the Arizona Corporation Commission is pending. The ACC has indicated early support of the merger, subject to certain conditions. Management targets a year-end transaction close. We continue to believe that Fortis will actively be looking for additional opportunities to acquire regulated U. S. utilities.

Regulated utility earnings for the quarter increased \$17 million to \$162 million. Earnings benefited \$18 million from the inclusion of Central Hudson Gas & Electric, which Fortis acquired in June 2013. Newfoundland Power benefited from regulated rate increases and the Caribbean regulated utilities benefited from strong electricity sales. FortisBC Energy was negatively affected by lower rates set in 2013. In the quarter, Fortis invested \$237 million as part of the full-year \$1.4 billion in planned investments.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	24.5	22.7
EV/EBITDA	11.1	10.4	9.8	9.2
EV/EBIT	17.7	17.1	15.9	14.6
Free Cash Flow Yield %	-1.3	-3.6	-3.2	-1.9
Dividend Yield %	2.6	3.0	4.3	4.5

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>
Projected Diluted Shares	219		
<b>Fair Value per Share (CAD)</b>	<b>—</b>		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.



# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	1.13	19.2	17.6	16.5	10.8	11.0	10.0	19.9	NM	41.5	2.1	2.1	2.0	2.5	2.5	2.4
TransAlta Corp TAC USA	0.81	40.9	25.8	19.9	8.5	7.7	7.2	17.7	NM	256.9	1.2	1.1	1.1	1.6	1.3	1.2
Average		30.1	21.7	18.2	9.7	9.4	8.6	18.8	—	149.2	1.7	1.6	1.6	2.1	1.9	1.8
<b>Fortis Inc FTS CA</b>	<b>1.03</b>	<b>19.3</b>	<b>24.5</b>	<b>22.7</b>	<b>10.4</b>	<b>9.8</b>	<b>9.2</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.5</b>	<b>1.6</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	69,306 USD	7.1	5.5	6.5	7.1	5.5	6.5	11.0	12.5	12.6	2.8	3.3	3.4	3.0	3.1	3.4
TransAlta Corp TAC USA	9,783 CAD	2.5	7.3	5.6	2.7	7.8	6.0	-3.3	5.3	6.8	-0.7	1.1	1.5	3.2	4.3	4.6
Average		4.8	6.4	6.1	4.9	6.7	6.3	3.9	8.9	9.7	1.1	2.2	2.5	3.1	3.7	4.0
<b>Fortis Inc FTS CA</b>	<b>17,908 USD</b>	<b>5.7</b>	<b>5.6</b>	<b>5.9</b>	<b>6.7</b>	<b>6.6</b>	<b>6.9</b>	<b>8.1</b>	<b>6.5</b>	<b>6.7</b>	<b>2.2</b>	<b>1.8</b>	<b>1.9</b>	<b>3.0</b>	<b>4.3</b>	<b>4.5</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	15,136 USD	6.2	8.1	4.8	8.1	13.8	13.6	-2.0	18.7	6.8	-88.1	237.3	-291.3	10.2	9.9	8.6
TransAlta Corp TAC USA	2,292 CAD	1.3	6.7	5.9	-29.6	63.9	11.4	-38.0	32.7	27.8	-24.0	-26.8	20.6	—	-37.9	—
Average		3.8	7.4	5.4	-10.8	38.9	12.5	-20.0	25.7	17.3	-56.1	105.3	-135.4	10.2	-14.0	8.6
<b>Fortis Inc FTS CA</b>	<b>4,047 USD</b>	<b>10.8</b>	<b>4.4</b>	<b>3.7</b>	<b>7.3</b>	<b>7.5</b>	<b>8.9</b>	<b>0.9</b>	<b>-11.8</b>	<b>8.0</b>	<b>-547.8</b>	<b>-174.1</b>	<b>-65.7</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	2,113 USD	67.2	66.1	67.6	40.1	39.0	41.1	23.4	24.6	26.7	14.0	14.2	14.6	12.4	-14.0	5.7
TransAlta Corp TAC USA	82 CAD	59.6	62.4	62.7	44.6	43.7	44.0	13.0	20.0	21.0	3.6	4.6	5.6	8.9	-0.4	0.5
Average		63.4	64.3	65.2	42.4	41.4	42.6	18.2	22.3	23.9	8.8	9.4	10.1	10.7	-7.2	3.1
<b>Fortis Inc FTS CA</b>	<b>353 USD</b>	<b>60.0</b>	<b>60.9</b>	<b>61.5</b>	<b>34.4</b>	<b>35.1</b>	<b>36.1</b>	<b>21.1</b>	<b>21.7</b>	<b>22.8</b>	<b>8.7</b>	<b>7.7</b>	<b>8.2</b>	<b>-5.5</b>	<b>-5.0</b>	<b>-3.3</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	28,426 USD	157.6	165.1	147.7	61.2	62.3	59.6	5.4	5.4	5.5	4.7	5.0	4.3	3.8	3.8	3.6
TransAlta Corp TAC USA	4,322 CAD	148.7	151.8	152.8	59.8	60.3	60.4	4.0	4.1	4.3	4.2	4.1	4.0	3.4	3.4	3.4
Average		153.2	158.5	150.3	60.5	61.3	60.0	4.7	4.8	4.9	4.5	4.6	4.2	3.6	3.6	3.5
<b>Fortis Inc FTS CA</b>	<b>7,788 USD</b>	<b>129.8</b>	<b>117.4</b>	<b>118.8</b>	<b>56.5</b>	<b>54.0</b>	<b>54.3</b>	<b>3.6</b>	<b>3.4</b>	<b>3.4</b>	<b>5.6</b>	<b>5.1</b>	<b>5.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	40,773 USD	1.03	0.21	0.72	0.64	0.65	0.98	0.51	0.51	0.78	0.10	0.02	0.19	59.1	54.7	55.6
TransAlta Corp TAC USA	2,870 USD	0.16	0.21	0.15	0.90	1.01	0.99	0.81	0.91	0.89	0.20	0.28	0.21	-431.3	175.0	136.9
Average		0.60	0.21	0.44	0.77	0.83	0.99	0.66	0.71	0.84	0.15	0.15	0.20	-186.1	114.9	96.3
<b>Fortis Inc FTS CA</b>	<b>7,347 CAD</b>	<b>0.34</b>	<b>0.17</b>	<b>0.61</b>	<b>0.62</b>	<b>0.93</b>	<b>1.01</b>	<b>0.55</b>	<b>0.82</b>	<b>0.90</b>	<b>0.08</b>	—	—	<b>74.1</b>	<b>86.7</b>	<b>82.8</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

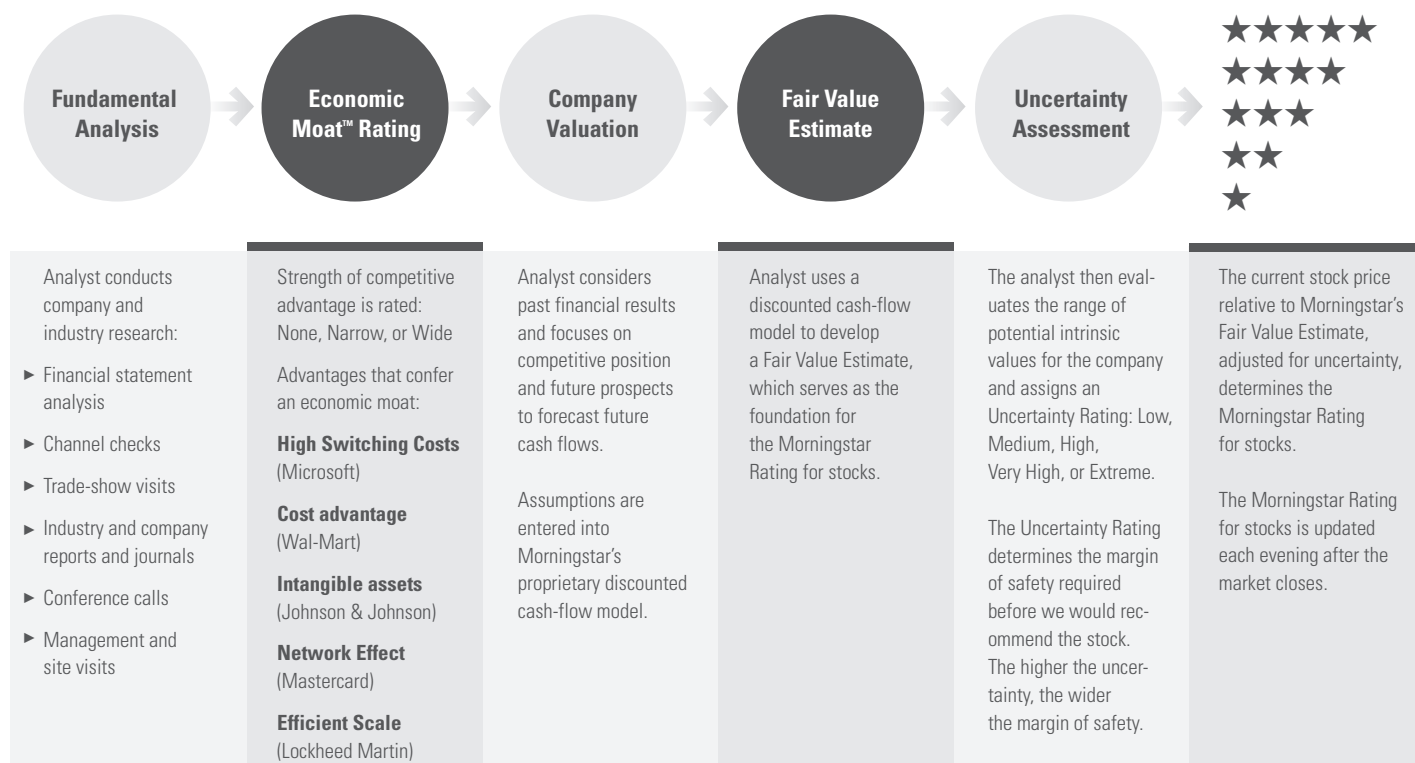
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

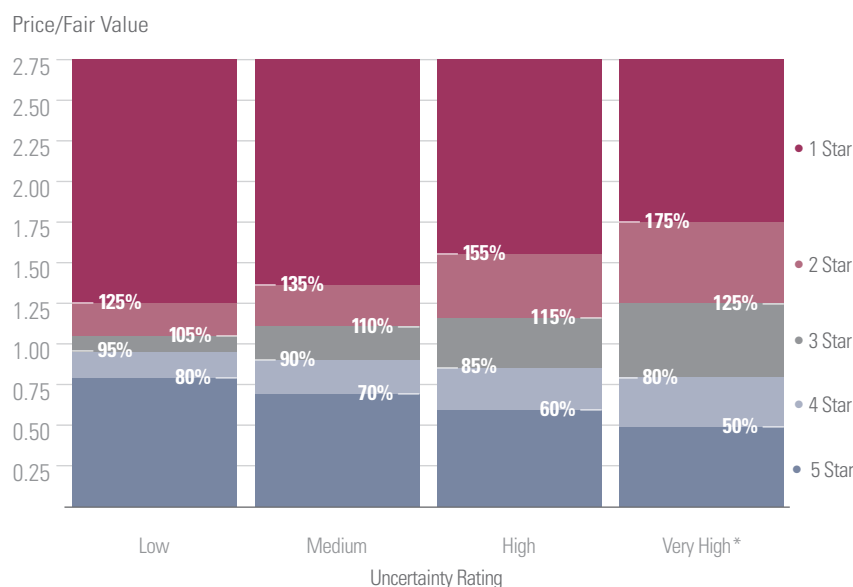
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.



# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

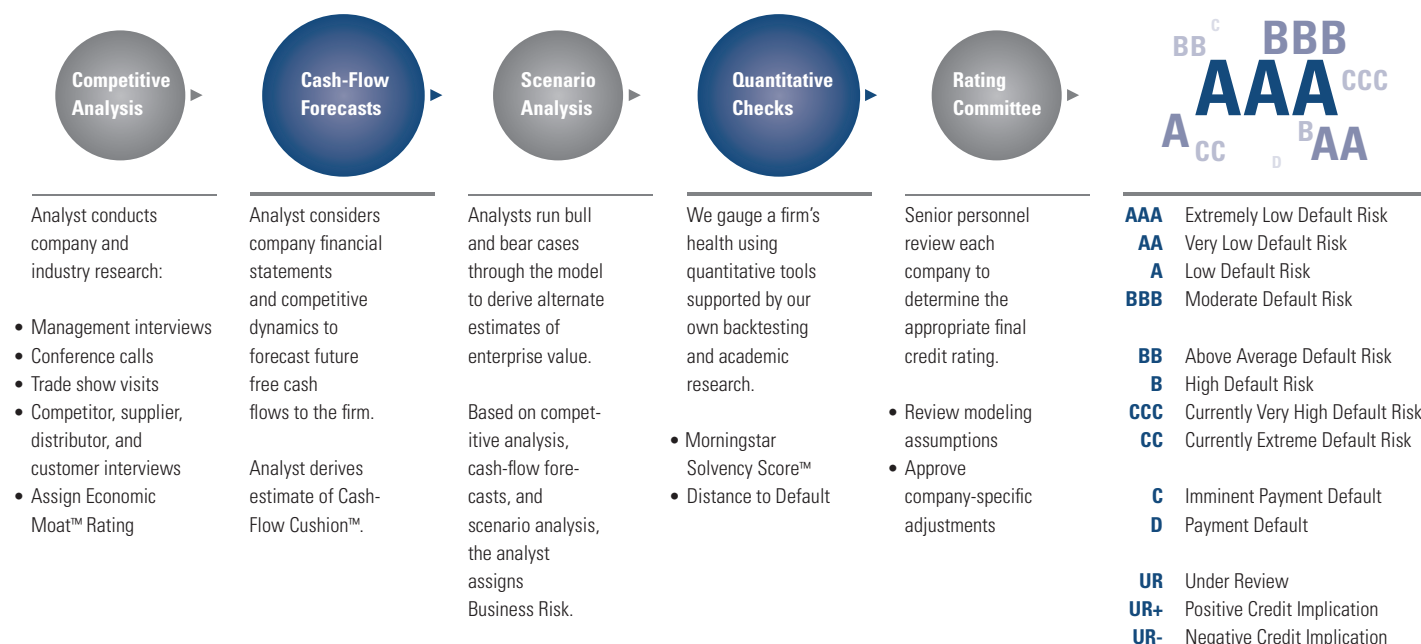
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



## Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

### *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

### *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

### **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

### **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.12 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.42 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Regulated Business Additions Drive Earnings Growth

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 07 Nov 2014  
Estimates as of 29 Sep 2014  
Pricing data through 06 Nov 2014  
Rating updated as of 06 Nov 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 07 Nov 2014

Fortis reported CAD 0.06 in ongoing earnings per share for the third quarter, down from CAD 0.23 in the year-ago quarter. We are reaffirming our CAD 33 per share fair value estimate, 2014 EPS estimate, and narrow moat and stable moat trend ratings. On an adjusted basis, which included several nonrecurring items related to the company's UNS Energy acquisition, third-quarter earnings were CAD 0.33 compared with CAD 0.23 in the year-ago quarter.

During the quarter, the company completed several strategic objectives. The company closed on its \$4.3 billion UNS Energy acquisition, which completes the company's initial push into the U.S. market after purchasing Central Hudson Gas & Electric in June 2013. We are also encouraged by management's announcement in the quarter to seek strategic alternatives in 2015 for its no-moat Fortis Properties subsidiary as the company seeks to focus on regulated assets. Finally, management continues to progress on the company's CAD 9.0 billion capital program, which should drive 7% annual rate base growth. Additional opportunities at Tilbury Phase 1B and Woodfire could drive rate base growth up to 8.5%.

In the quarter, the acquisition of UNS Energy boosted earnings. Strength at the company's FortisAlberta and Caribbean segments were partially offset by a rate freeze at CH Energy. The upcoming regulatory calendar includes a rate case at CH Energy with rates effective in July 2015, a decision on British Columbia 2014-18 PBR and annual rates application at FortisAlberta.

### Vital Statistics

Market Cap (CAD Mil)	8,058
52-Week High (CAD)	37.93
52-Week Low (CAD)	29.51
52-Week Total Return %	20.6
YTD Total Return %	27.1
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	1.13

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	26.9	24.9
EV/EBITDA	11.1	10.4	10.0	9.4
EV/EBIT	17.7	17.1	16.2	14.9
Free Cash Flow Yield %	-1.3	-3.6	-3.0	-1.8
Dividend Yield %	2.6	3.0	4.0	4.2

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.42 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	26.9	24.9
EV/EBITDA	11.1	10.4	10.0	9.4
EV/EBIT	17.7	17.1	16.2	14.9
Free Cash Flow Yield %	-1.3	-3.6	-3.0	-1.8
Dividend Yield %	2.6	3.0	4.0	4.2

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>

Projected Diluted Shares 219

Fair Value per Share (CAD) —

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.42 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.42 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>



# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.42 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.42 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Nov 06, 2014



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.96 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Management Meeting: Attractive Rate Base Growth Opportunities for Fortis

Andrew Bischof, CFA  
Stock Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 12 Nov 2014  
Estimates as of 29 Sep 2014  
Pricing data through 12 Nov 2014  
Rating updated as of 12 Nov 2014

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 12 Nov 2014

We are reaffirming our CAD 33 per share fair value estimate, narrow economic moat, and stable moat trend ratings for Fortis after discussing the company's outlook with senior management during the Edison Electric Institute Financial Conference in Dallas, Texas.

Management has diversified its regulated operations through the acquisitions of UNS Energy this year and CH Energy in 2013, which now account for 40% of regulated rate base. Fortis is also currently seeking strategic alternatives for its no-moat Fortis Properties business, with bids expected in early 2015. Management likes its current portfolio mix, and we welcome the focus on its narrow moat regulated businesses.

Management has indicated that it will take a pause from acquisitions in 2015 and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer-term management views the U.S. attractively and we continue to believe management will look for additional regulated U.S. opportunities. Management is not interested in merchant assets. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 9% overvalued, not accounting for a likely 20% to 30% takeover premium.

Driving rate base growth opportunities are the company's current CAD 9.0 billion capital program, which should drive 7% annual rate base growth. Additional opportunities at Tilbury Phase 1B and Woodfire could drive rate base growth up to 8.5%. An upcoming rate case at CH Energy will be instrumental in earning allowed returns at the subsidiary, after an agreed-upon rate freeze.

### Vital Statistics

Market Cap (CAD Mil)	8,201
52-Week High (CAD)	38.09
52-Week Low (CAD)	29.51
52-Week Total Return %	24.8
YTD Total Return %	28.9
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	1.15

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	27.3	25.3
EV/EBITDA	11.1	10.4	13.0	12.2
EV/EBIT	17.7	17.1	21.1	19.3
Free Cash Flow Yield %	-1.3	-3.6	-2.9	-1.7
Dividend Yield %	2.6	3.0	3.9	4.1

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.96 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	27.3	25.3
EV/EBITDA	11.1	10.4	13.0	12.2
EV/EBIT	17.7	17.1	21.1	19.3
Free Cash Flow Yield %	-1.3	-3.6	-2.9	-1.7
Dividend Yield %	2.6	3.0	3.9	4.1

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>

Projected Diluted Shares	219
--------------------------	-----

<b>Fair Value per Share (CAD)</b>	<b>—</b>
-----------------------------------	----------

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.96 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.96 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.96 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>



# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.96 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Nov 12, 2014



© 2014 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

It has not been determined in advance whether and in what intervals this document will be updated. No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product issuer. Regarding Morningstar's conflicts of interest: 1) Equity Analysts are required to

comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct and 2) Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock; however Equity Analysts are neither allowed to participate directly or try to influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The original distributor of this document is Morningstar Inc.. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without written permission.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis Focuses on Asset Integration and Capital Plan in 2015

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 19 Feb 2015  
Estimates as of 29 Sep 2014  
Pricing data through 18 Feb 2015  
Rating updated as of 18 Feb 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

### Analyst Note 19 Feb 2015

We are reaffirming our CAD 33 per share fair value estimate, narrow economic moat rating, and stable moat trend after Fortis reported full-year ongoing operating earnings of \$1.81 per share, compared with \$1.70 in the same year-ago period.

During the year, management closed its \$4.3 billion acquisition of UNS Energy, transitioning the company to a diversified North American utility with nearly 40% of total regulated assets in the U.S. We like that management has stated its intent to take a pause from further acquisitions, instead focusing on acquisition integration and its \$2.2 billion in attractive growth projects in 2015 alone. Management will also look to complete its divestiture of its no-moat Fortis Properties, which we view positively as allowing management to focus on its core regulated utilities.

Major capital projects at the Waneta hydroelectric generating facility and the Tilbury liquefied natural gas facility expansion should help boost rate base an annualized 6.5% through 2019. Additional investment opportunities at the Tilbury and Woodfire LNG projects could boost rate-base growth to 7.5% annually. New rates effective July 2015 at Fortis' Central Hudson subsidiary will be key to the unit earning allowed returns after a two-year rate freeze. We will also keep a watchful eye on FortisAlberta's upcoming capital tracker and cost of capital proceedings.

### Vital Statistics

Market Cap (CAD Mil)	8,490
52-Week High (CAD)	42.23
52-Week Low (CAD)	30.50
52-Week Total Return %	32.1
YTD Total Return %	1.8
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	1.19

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	21.9	19.3	28.3	26.2
EV/EBITDA	11.1	10.4	12.0	11.2
EV/EBIT	17.7	17.1	19.4	17.8
Free Cash Flow Yield %	-1.3	-3.6	-3.1	-1.7
Dividend Yield %	2.6	3.0	4.1	4.4

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.56	1.58	1.39	1.50
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	6.1	6.0	6.6	5.7	5.6	5.9	6.3
Adjusted ROIC %	7.1	7.0	7.6	6.7	6.6	6.9	7.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4

	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	21.9	19.3	28.3	26.2
EV/EBITDA	11.1	10.4	12.0	11.2
EV/EBIT	17.7	17.1	19.4	17.8
Free Cash Flow Yield %	-1.3	-3.6	-3.1	-1.7
Dividend Yield %	2.6	3.0	4.1	4.4

### Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	6.3
Weighted Average Cost of Capital %	6.7
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,857	11.3	8.48
Present Value Stage II	2,116	12.8	9.66
Present Value Stage III	12,518	75.9	57.14
<b>Total Firm Value</b>	<b>16,491</b>	<b>100.0</b>	<b>75.28</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>7,587</b>	<b>—</b>	<b>34.64</b>

Projected Diluted Shares 219

Fair Value per Share (CAD) —

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2011	2012	2013	2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Feb 18, 2015



© 2015 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this report. Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.



## Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.30 CAD	33.00 CAD	23.10 CAD	44.55 CAD	Medium	Narrow	Stable	Standard	—	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms length basis including software products and licences, research and consulting services, data services, licences to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous research reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based.

The original distributor of this document is Morningstar Inc. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any Redistribution is prohibited without written permission.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Fortis now gets one third of its earnings from regulated utilities in the U.S.

Updated Forecasts and Estimates from 17 Feb 2015

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 23 Feb 2015  
Estimates as of 17 Feb 2015  
Pricing data as of 20 Feb 2015 15:15  
Rating updated as of 23 Feb 2015 08:41

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	4
Credit Analysis	
Financial Health	5
Capital Structure	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	16

### Investment Thesis 23 Feb 2015

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations make up more than 95% of the company's asset base; noncore generation and real estate holding operations account for the remainder. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2018, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 8.0 billion investment plans. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is near 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations.

Fortis' management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis acquired Tucson, AZ-based UNS Energy for \$4.3 billion in cash and debt. After the transaction's close, about one third of Fortis' operating earnings now come from U.S. regulated utilities. Management continues to be outspoken about its desire for further U.S. transactions, which increases shareholder risk that it could overpay for future acquisitions.

### Vital Statistics

Market Cap (CAD Mil)	10,960
52-Week High (CAD)	42.23
52-Week Low (CAD)	30.50
52-Week Total Return %	33.7
YTD Total Return %	2.8
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	3.5
5-Yr Forward EPS CAGR %	5.4
Price/Fair Value	1.20

### Valuation Summary and Forecasts

Fiscal Year:	2012	2013	2014(E)	2015(E)
Price/Earnings	25.7	22.7	—	31.3
EV/EBITDA	11.1	10.4	—	12.2
EV/EBIT	17.7	17.1	—	19.3
Free Cash Flow Yield %	-1.3	-3.6	—	-1.6
Dividend Yield %	2.6	3.0	—	3.4

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	2014(E)	2015(E)
Revenue	3,654	4,047	4,225	4,381
Revenue YoY %	-2.5	10.8	4.4	3.7
EBIT	794	852	916	998
EBIT YoY %	3.7	7.3	7.5	8.9
Net Income, Adjusted	315	353	323	359
Net Income YoY %	-0.9	12.1	-8.4	11.1
Diluted EPS	1.33	1.34	1.18	1.27
Diluted EPS YoY %	-5.1	0.9	-11.8	8.0
Free Cash Flow	198	-886	657	225
Free Cash Flow YoY %	401.6	-547.8	-174.1	-65.7

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 23 Feb 2015

We are raising our fair value estimate to CAD 37 per share from CAD 33 per share after recalibrating our capital cost assumptions to better align with the returns equity and debt investors are likely to demand over the long run. We now assume a 7.5% cost of equity, down from 8%. This is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. Our pre-tax cost of debt assumption falls to 5.8% from 6.3% as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

We forecast 6% annual earnings growth through 2018, accounting for normalized weather conditions and excluding unannounced acquisitions.

We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 6.5 billion at the utilities through 2018, leading to 6% annualized rate base growth.

We use an 7.5% cost of equity to arrive at a 6.1% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

Our uncertainty rating for Fortis is low. In our bull-case scenario, we assume rate case outcomes are 25% higher and operating expenses are 5% less than in our base-case scenario, increasing our fair value estimate \$5 per share. In our bear-case scenario, a similar decline in rate case outcomes and increase in operating expense results in a \$5 per share decrease in our fair value estimate.

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2014 and beyond, our

fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Service territory monopolies and efficient scale advantages are the primary sources of an economic moat for regulated utilities such as Fortis. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. Fortis has a history of constructive relationships across its North

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

Price/Fair Value Morningstar data as of Feb 20, 2015



American presence, and we do not expect the regulatory relationship to change. The bulk of its capital plan is toward the moaty regulated assets, which should strengthen Fortis' narrow moat. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

For regulated utilities like Fortis, our moat trends consider changes in the regulatory environment, near-term investment requirements and growth opportunities, energy demand trends, and management's strategic direction. In assessing the changing regulatory environment, we consider the level of automatic rate mechanisms, allowed returns on equity versus interest rates, fuel cost recovery mechanisms, and the history of regulatory relations. Using these factors, we assess whether fundamental changes will give a utility a better opportunity to earn or overearn its cost of capital in the near term, or whether fundamental changes will make it more difficult for a utility to earn its cost of capital.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile of regulated utilities, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan in the coming years, we forecast Fortis' rate base to grow 6% annually.
- ▶ Fortis has paid consecutive quarterly dividends for four decades and raised the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from the core regulated operations.

# Fortis Inc FTS (TSE) ★★

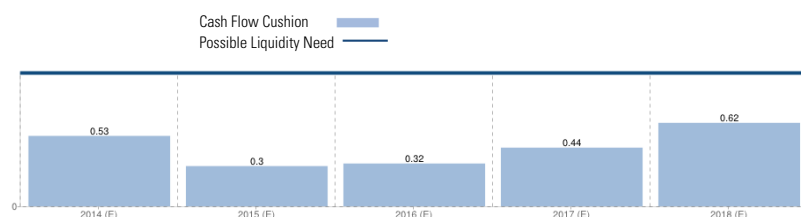
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Credit Analysis

### Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	72	37	137	61	62
Adjusted Available Cash Flow	569	133	130	183	461
Total Cash Available before Debt Service	641	171	267	243	522
Principal Payments	-780	-103	-360	-79	-344
Interest Payments	-437	-466	-474	-476	-493
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-1,217	-569	-834	-555	-837

### Cumulative Annual Cash Flow Cushion



### Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	72	1.8
Sum of 5-Year Adjusted Free Cash Flow	1,475	36.8
Sum of Cash and 5-Year Cash Generation	1,547	38.6
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,547	38.6
Sum of 5-Year Cash Commitments	-4,012	—

### Credit Rating Pillars—Peer Group Comparison

	FTS	Sector	Universe
Business Risk	4	—	—
Cash Flow Cushion	9	—	—
Solvency Score	9	—	—
Distance to Default	4	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

### Financial Health & Capital Structure

Through 2018, Fortis has CAD 8.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 to help finance its capital expenditure plan and has issued additional equity in 2014 to accommodate employee stock-purchase plans, support its capital expenditure plan, and pay for its proposed UNS Energy acquisition.

With a 56% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

### Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2018. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.73	1.35	—	30 Nov 2014
RBC Canadian Dividend GIF	2.01	0.89	4,348	31 Oct 2014
Assumption/CI Harbour Growth & Inc	1.33	1.81	—	30 Sep 2014
iShares S&P/TSX 60	0.80	0.83	-181	31 Jan 2015
Fidelity Dividend Plus Fund	1.07	2.35	—	30 Sep 2014

#### Concentrated Holders

iShares S&P/TSX Capped Utilities	0.27	24.76	38	31 Jan 2015
Portland Canadian Focused Fund	0.01	8.34	—	31 Jan 2015
BMO Equal Weight Utilities ETF	0.15	8.32	-10	31 Jan 2015
Newgrowth Corp A	0.11	7.12	—	31 Jan 2015
Utility Corp	0.04	7.07	—	31 Jan 2015

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
RBC Global Asset Management Inc.	5.13	0.75	6,620	31 Dec 2014
1832 Asset Management L.P.	1.23	0.82	2,465	31 Oct 2014
Phillips, Hager & North Inv Mgmt	0.63	0.79	619	31 Jan 2015
Connor Clark & Lunn Financial Group	0.30	0.53	287	31 Jan 2015
AGF Investments	0.10	0.32	227	30 Sep 2014

#### Top 5 Sellers

BMO Asset Management Inc.	1.46	1.21	-519	31 Jan 2015
BlackRock Asset Management Canada Ltd	1.74	1.24	-454	31 Jan 2015
Canoe Financial LP	0.60	3.17	-145	30 Nov 2014
Fiera Capital Corporation	0.16	1.15	-92	31 Jan 2015
London Capital Management Ltd	0.40	0.97	-89	31 Jan 2015

### Management 23 Feb 2015

Overall, we think Fortis' management team has been fair stewards of shareholder capital. Management has earned at or near its allowed returns and managed regulatory relationships well, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy, in our view. We think Fortis' shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall had been president and CEO since 1995, leading a group of experienced utility executives. Marshall recently relinquished his role of president to Barry Perry, who plans to replace Marshall as CEO when Marshall retires in December. We think Perry is a suitable replacement, given his previous experience as Fortis' CFO and as CFO of Newfoundland Power.

Total direct compensation is in line with Fortis' industry group. Management's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Management has a significant ownership stake, which we believe aligns shareholder and management interests.



# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

### Fortis Focuses on Asset Integration and Capital Plan in 2015 19 Feb 2015

We are reaffirming our CAD 33 per share fair value estimate, narrow economic moat rating, and stable moat trend after Fortis reported full-year ongoing operating earnings of \$1.81 per share, compared with \$1.70 in the same year-ago period.

During the year, management closed its \$4.3 billion acquisition of UNS Energy, transitioning the company to a diversified North American utility with nearly 40% of total regulated assets in the U.S. We like that management has stated its intent to take a pause from further acquisitions, instead focusing on acquisition integration and its \$2.2 billion in attractive growth projects in 2015 alone. Management will also look to complete its divestiture of its no-moat Fortis Properties, which we view positively as allowing management to focus on its core regulated utilities.

Major capital projects at the Waneta hydroelectric generating facility and the Tilbury liquefied natural gas facility expansion should help boost rate base an annualized 6.5% through 2019. Additional investment opportunities at the Tilbury and Woodfire LNG projects could boost rate-base growth to 7.5% annually. New rates effective July 2015 at Fortis' Central Hudson subsidiary will be key to the unit earning allowed returns after a two-year rate freeze. We will also keep a watchful eye on FortisAlberta's upcoming capital tracker and cost of capital proceedings.

### Management Meeting: Attractive Rate Base Growth Opportunities for Fortis 12 Nov 2014

We are reaffirming our CAD 33 per share fair value estimate, narrow economic moat, and stable moat trend ratings for Fortis after discussing the company's outlook with senior management during the Edison Electric Institute Financial

Conference in Dallas, Texas.

Management has diversified its regulated operations through the acquisitions of UNS Energy this year and CH Energy in 2013, which now account for 40% of regulated rate base. Fortis is also currently seeking strategic alternatives for its no-moat Fortis Properties business, with bids expected in early 2015. Management likes its current portfolio mix, and we welcome the focus on its narrow moat regulated businesses.

Management has indicated that it will take a pause from acquisitions in 2015 and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer-term management views the U.S. attractively and we continue to believe management will look for additional regulated U.S. opportunities. Management is not interested in merchant assets. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 9% overvalued, not accounting for a likely 20% to 30% takeover premium.

Driving rate base growth opportunities are the company's current CAD 9.0 billion capital program, which should drive 7% annual rate base growth. Additional opportunities at Tilbury Phase 1B and Woodfire could drive rate base growth up to 8.5%. An upcoming rate case at CH Energy will be instrumental in earning allowed returns at the subsidiary, after an agreed-upon rate freeze.

### Fortis Regulated Business Additions Drive Earnings Growth 07 Nov 2014

Fortis reported CAD 0.06 in ongoing earnings per share for the third quarter, down from CAD 0.23 in the year-ago quarter. We are reaffirming our CAD 33 per share fair value estimate, 2014 EPS estimate, and narrow moat and stable moat trend ratings. On an adjusted basis, which included

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Analyst Notes

several nonrecurring items related to the company's UNS Energy acquisition, third-quarter earnings were CAD 0.33 compared with CAD 0.23 in the year-ago quarter.

During the quarter, the company completed several strategic objectives. The company closed on its \$4.3 billion UNS Energy acquisition, which completes the company's initial push into the U.S. market after purchasing Central Hudson Gas & Electric in June 2013. We are also encouraged by management's announcement in the quarter to seek strategic alternatives in 2015 for its no-moat Fortis Properties subsidiary as the company seeks to focus on regulated assets. Finally, management continues to progress on the company's CAD 9.0 billion capital program, which should drive 7% annual rate base growth. Additional opportunities at Tilbury Phase 1B and Woodfire could drive rate base growth up to 8.5%.

In the quarter, the acquisition of UNS Energy boosted earnings. Strength at the company's FortisAlberta and Caribbean segments were partially offset by a rate freeze at CH Energy. The upcoming regulatory calendar includes a rate case at CH Energy with rates effective in July 2015, a decision on British Columbia 2014-18 PBR and annual rates application at FortisAlberta.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2011	2012	2013	2014	2015	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	3.4	2.3	-2.5	10.8	4.4	3.7	3.5
EBIT	4.8	3.5	3.7	7.3	7.5	8.9	7.1
EBITDA	6.6	3.5	6.2	10.2	6.3	6.9	5.8
Net Income	7.4	11.6	-0.9	12.1	-8.4	11.1	6.8
Diluted EPS	0.5	6.1	-5.1	0.9	-11.8	8.0	5.4
Earnings Before Interest, after Tax	9.0	6.4	13.6	7.1	0.0	10.6	10.0
Free Cash Flow	-448.9	89.0	401.6	-547.8	-174.1	-65.7	—
Profitability							
Operating Margin %	21.1	20.4	21.7	21.1	21.7	22.8	23.5
EBITDA Margin %	33.6	31.8	34.6	34.4	35.1	36.1	36.8
Net Margin %	8.6	8.5	8.6	8.7	7.7	8.2	9.0
Free Cash Flow Margin %	-5.1	1.1	5.4	-21.9	15.5	5.1	10.0
ROIC %	—	—	—	—	—	—	—
Adjusted ROIC %	5.8	5.9	6.0	5.3	5.6	6.0	6.3
Return on Assets %	2.3	2.4	2.2	2.2	1.8	1.9	2.1
Return on Equity %	8.3	8.9	8.0	8.1	6.5	6.7	7.4
Leverage							
Debt/Capital	0.56	0.57	0.54	0.56	0.54	0.54	0.55
Total Debt/EBITDA	5.12	5.00	4.78	5.59	5.11	5.03	5.05
EBITDA/Interest Expense	3.42	3.22	3.45	3.58	3.39	3.40	3.55

### Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	1.14	0.98	—	—
Price/Earnings	25.7	22.7	—	31.3
EV/EBITDA	11.1	10.4	—	12.2
EV/EBIT	17.7	17.1	—	19.3
Free Cash Flow Yield %	-1.3	-3.6	—	-1.6
Dividend Yield %	2.6	3.0	—	3.4

### Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,888	10.1	8.62
Present Value Stage II	2,212	11.9	10.10
Present Value Stage III	14,535	78.0	66.35
<b>Total Firm Value</b>	<b>18,635</b>	<b>100.0</b>	<b>85.07</b>
Cash and Equivalents	72	—	0.33
Debt	-7,788	—	-35.55
Preferred Stock	-1,229	—	-5.61
Other Adjustments	41	—	0.19
<b>Equity Value</b>	<b>9,732</b>	<b>—</b>	<b>44.42</b>

Projected Diluted Shares 219

Fair Value per Share (CAD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2011	2012	2013	2014	2015
<b>Revenue</b>	<b>3,747</b>	<b>3,654</b>	<b>4,047</b>	<b>4,225</b>	<b>4,381</b>
Cost of Goods Sold	1,697	1,522	1,617	1,653	1,686
<b>Gross Profit</b>	<b>2,050</b>	<b>2,132</b>	<b>2,430</b>	<b>2,572</b>	<b>2,695</b>
Selling, General & Administrative Expenses	865	868	1,037	1,091	1,111
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	419	470	541	565	585
<b>Operating Income (ex charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>766</b>	<b>794</b>	<b>852</b>	<b>916</b>	<b>998</b>
Interest Expense	370	366	389	437	466
Interest Income	40	4	-31	5	—
<b>Pre-Tax Income</b>	<b>436</b>	<b>432</b>	<b>432</b>	<b>484</b>	<b>532</b>
Income Tax Expense	80	61	32	92	101
Other After-Tax Cash Gains (Losses)	—	—	20	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-9	-10	-9	-9
(Preferred Dividends)	-29	-47	-57	-60	-63
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>353</b>	<b>323</b>	<b>359</b>
Weighted Average Diluted Shares Outstanding	182	190	211	219	226
<b>Diluted Earnings Per Share</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Adjusted Net Income	318	315	353	323	359
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.75</b>	<b>1.66</b>	<b>1.67</b>	<b>1.48</b>	<b>1.59</b>
Dividends Per Common Share	1.16	1.20	1.24	1.28	1.32
<b>EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>
<b>Adjusted EBITDA</b>	<b>1,190</b>	<b>1,264</b>	<b>1,393</b>	<b>1,481</b>	<b>1,583</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Cash and Equivalents	89	154	72	37	137
Investments	—	—	—	—	—
Accounts Receivable	644	587	732	721	748
Inventory	134	133	143	145	148
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	253	219	349	349	349
<b>Current Assets</b>	<b>1,120</b>	<b>1,093</b>	<b>1,296</b>	<b>1,253</b>	<b>1,382</b>
Net Property Plant, and Equipment	8,687	9,623	11,618	12,483	13,114
Goodwill	1,557	1,568	2,075	2,075	2,075
Other Intangibles	341	325	345	345	345
Deferred Tax Assets (Long-Term)	8	—	7	20	20
Other Long-Term Operating Assets	1,849	2,341	2,567	2,317	2,317
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,908</b>	<b>18,493</b>	<b>19,253</b>
Accounts Payable	914	966	957	1,014	1,034
Short-Term Debt	265	260	947	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	141	82	180	330	330
<b>Current Liabilities</b>	<b>1,320</b>	<b>1,308</b>	<b>2,084</b>	<b>1,344</b>	<b>1,364</b>
Long-Term Debt	5,679	5,783	6,841	7,561	7,958
Deferred Tax Liabilities (Long-Term)	685	718	1,078	1,140	1,205
Other Long-Term Operating Liabilities	881	1,731	1,529	1,804	1,804
Long-Term Non-Operating Liabilities	320	—	—	—	—
<b>Total Liabilities</b>	<b>8,885</b>	<b>9,540</b>	<b>11,532</b>	<b>11,848</b>	<b>12,331</b>
Preferred Stock	592	1,108	1,229	1,229	1,229
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,725	2,963	3,627	3,877	4,077
Retained Earnings (Deficit)	905	952	1,044	1,087	1,149
(Treasury Stock)	—	—	—	—	—
Other Equity	74	-96	-72	74	74
<b>Shareholder's Equity</b>	<b>4,469</b>	<b>5,100</b>	<b>6,001</b>	<b>6,440</b>	<b>6,702</b>
Minority Interest	208	310	375	205	220
<b>Total Equity</b>	<b>4,677</b>	<b>5,410</b>	<b>6,376</b>	<b>6,645</b>	<b>6,922</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	Forecast	
				2014	2015
Net Income	356	371	420	392	431
Depreciation	424	470	541	565	585
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	4	17	-6	49	65
Other Non-Cash Adjustments	22	40	-11	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	11	-27
(Increase) Decrease in Inventory	—	—	—	-2	-3
Change in Other Short-Term Assets	98	78	-45	—	—
Increase (Decrease) in Accounts Payable	—	—	—	57	20
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>904</b>	<b>976</b>	<b>899</b>	<b>1,221</b>	<b>1,072</b>
(Capital Expenditures)	-1,099	-1,062	-1,121	-1,430	-1,216
Net (Acquisitions), Asset Sales, and Disposals	26	-18	-1,035	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-52	—	-8	525	—
<b>Cash From Investing</b>	<b>-1,125</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-905</b>	<b>-1,216</b>
Common Stock Issuance (or Repurchase)	345	24	596	250	200
Common Stock (Dividends)	-151	-170	-181	-280	-298
Short-Term Debt Issuance (or Retirement)	-343	49	178	-947	—
Long-Term Debt Issuance (or Retirement)	307	36	480	720	397
Other Financing Cash Flows	43	245	238	-239	-57
<b>Cash From Financing</b>	<b>201</b>	<b>184</b>	<b>1,311</b>	<b>-496</b>	<b>242</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	146	—
<b>Net Change in Cash</b>	<b>-20</b>	<b>80</b>	<b>46</b>	<b>-35</b>	<b>99</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	1.26	19.2	19.9	18.7	10.8	11.8	10.7	19.9	NM	46.9	2.1	2.4	2.2	2.5	2.8	2.7
TransAlta Corp TAC USA	0.80	40.9	36.7	28.9	8.5	8.1	7.6	17.7	NM	NM	1.2	1.2	1.2	1.6	1.4	1.3
Average		30.1	28.3	23.8	9.7	10.0	9.2	18.8	—	46.9	1.7	1.8	1.7	2.1	2.1	2.0
<b>Fortis Inc FTS CA</b>	<b>1.20</b>	<b>22.7</b>	<b>—</b>	<b>31.3</b>	<b>10.4</b>	<b>—</b>	<b>12.2</b>	<b>NM</b>	<b>—</b>	<b>NM</b>	<b>1.0</b>	<b>—</b>	<b>1.3</b>	<b>1.5</b>	<b>—</b>	<b>2.0</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	— USD	—	—	—	4.6	4.4	5.0	11.0	12.5	12.6	2.8	3.3	3.4	3.0	2.8	3.0
TransAlta Corp TAC USA	9,783 CAD	2.5	6.8	5.0	2.7	7.3	5.3	-3.3	3.3	4.5	-0.7	0.7	0.9	3.2	4.7	4.8
Average		2.5	6.8	5.0	3.7	5.9	5.2	3.9	7.9	8.6	1.1	2.0	2.2	3.1	3.8	3.9
<b>Fortis Inc FTS CA</b>	<b>— USD</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5.3</b>	<b>5.6</b>	<b>6.0</b>	<b>8.1</b>	<b>6.5</b>	<b>6.7</b>	<b>2.2</b>	<b>1.8</b>	<b>1.9</b>	<b>3.0</b>	<b>—</b>	<b>3.4</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	15,136 USD	6.2	8.1	4.8	8.1	13.8	13.6	-2.0	18.7	6.8	-88.1	237.3	-291.3	10.2	9.9	8.6
TransAlta Corp TAC USA	2,292 CAD	1.3	3.1	6.0	-29.6	47.3	10.3	-38.0	-16.9	28.8	-24.0	-38.2	14.4	—	-37.9	—
Average		3.8	5.6	5.4	-10.8	30.6	12.0	-20.0	0.9	17.8	-56.1	99.6	-138.5	10.2	-14.0	8.6
<b>Fortis Inc FTS CA</b>	<b>4,047 USD</b>	<b>10.8</b>	<b>4.4</b>	<b>3.7</b>	<b>7.3</b>	<b>7.5</b>	<b>8.9</b>	<b>0.9</b>	<b>-11.8</b>	<b>8.0</b>	<b>-547.8</b>	<b>-174.1</b>	<b>-65.7</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>



# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	2,113 USD	67.2	66.1	67.6	40.1	39.0	41.1	23.4	24.6	26.7	14.0	14.2	14.6	12.4	-14.0	5.7
TransAlta Corp TAC USA	82 CAD	59.6	61.9	61.8	44.6	43.1	43.1	13.0	18.6	19.3	3.6	2.9	3.6	8.9	-1.8	-1.6
Average		63.4	64.0	64.7	42.4	41.1	42.1	18.2	21.6	23.0	8.8	8.6	9.1	10.7	-7.9	2.1
<b>Fortis Inc FTS CA</b>	<b>353 USD</b>	<b>60.0</b>	<b>60.9</b>	<b>61.5</b>	<b>34.4</b>	<b>35.1</b>	<b>36.1</b>	<b>21.1</b>	<b>21.7</b>	<b>22.8</b>	<b>8.7</b>	<b>7.7</b>	<b>8.2</b>	<b>-5.5</b>	<b>-5.0</b>	<b>-3.3</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	28,426 USD	157.6	165.1	147.7	61.2	62.3	59.6	5.4	5.4	5.5	4.7	5.0	4.3	3.8	3.8	3.6
TransAlta Corp TAC USA	4,322 CAD	148.7	157.9	166.6	59.8	61.2	62.5	4.0	3.9	4.0	4.2	4.4	4.3	3.4	3.5	3.6
Average		153.2	161.5	157.2	60.5	61.8	61.1	4.7	4.7	4.8	4.5	4.7	4.3	3.6	3.7	3.6
<b>Fortis Inc FTS CA</b>	<b>7,788 USD</b>	<b>129.8</b>	<b>117.4</b>	<b>118.8</b>	<b>56.5</b>	<b>54.0</b>	<b>54.3</b>	<b>3.6</b>	<b>3.4</b>	<b>3.4</b>	<b>5.6</b>	<b>5.1</b>	<b>5.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
NextEra Energy Inc NEE USA	46,093 USD	1.03	0.21	0.72	0.64	0.65	0.98	0.51	0.51	0.78	0.10	0.02	0.19	59.1	54.7	55.6
TransAlta Corp TAC USA	2,624 USD	0.16	0.13	0.18	0.90	0.97	0.99	0.81	0.87	0.89	0.20	0.17	0.25	-431.3	279.6	217.0
Average		0.60	0.17	0.45	0.77	0.81	0.99	0.66	0.69	0.84	0.15	0.10	0.22	-186.1	167.2	136.3
<b>Fortis Inc FTS CA</b>	<b>10,960 CAD</b>	<b>0.34</b>	<b>0.17</b>	<b>0.61</b>	<b>0.62</b>	<b>0.93</b>	<b>1.01</b>	<b>0.55</b>	<b>0.82</b>	<b>0.90</b>	<b>0.08</b>	—	—	<b>74.1</b>	<b>86.7</b>	<b>82.8</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

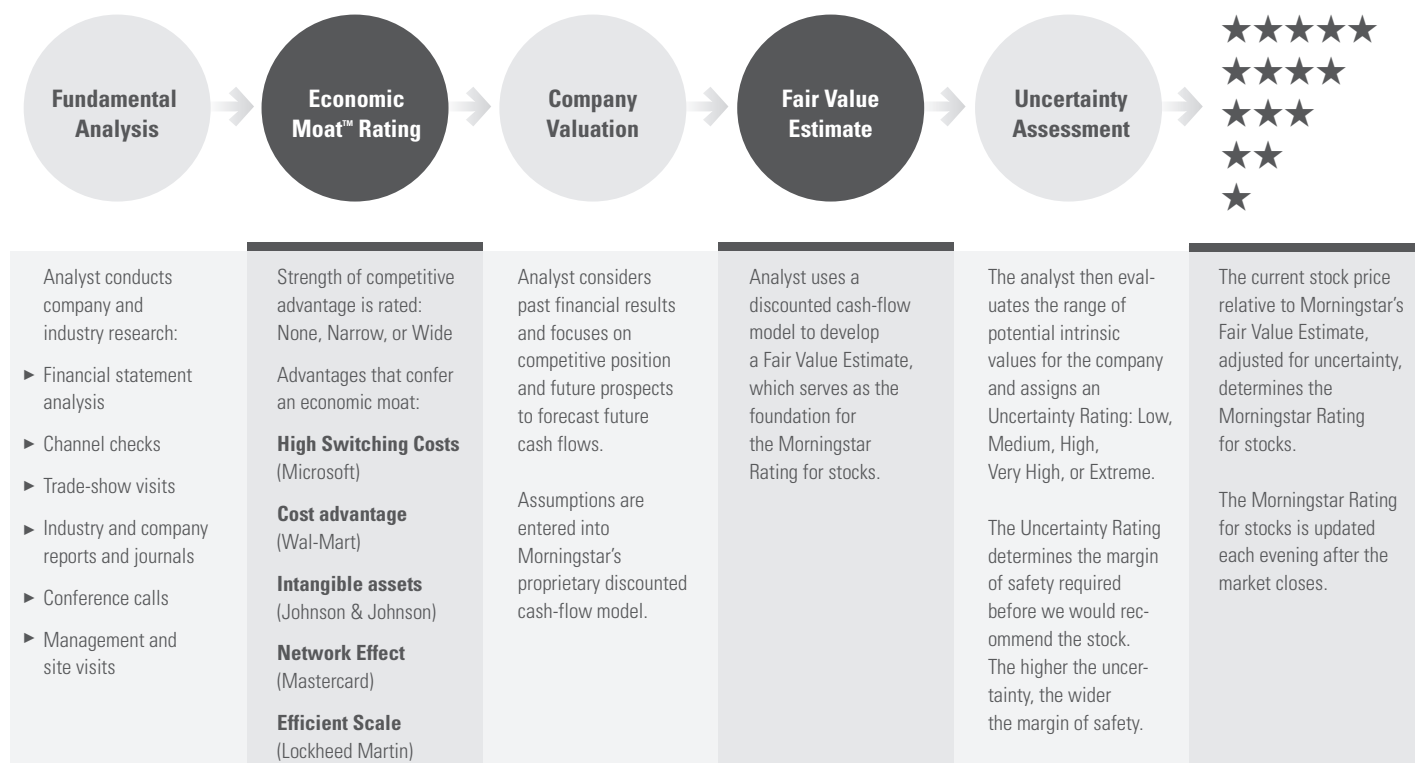
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

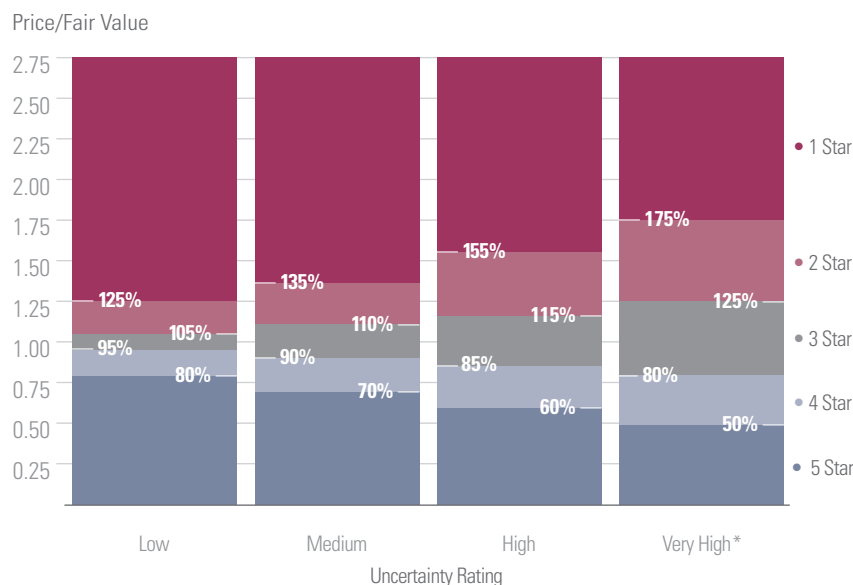
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

## Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at [select.morningstar.com](http://select.morningstar.com).

## Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

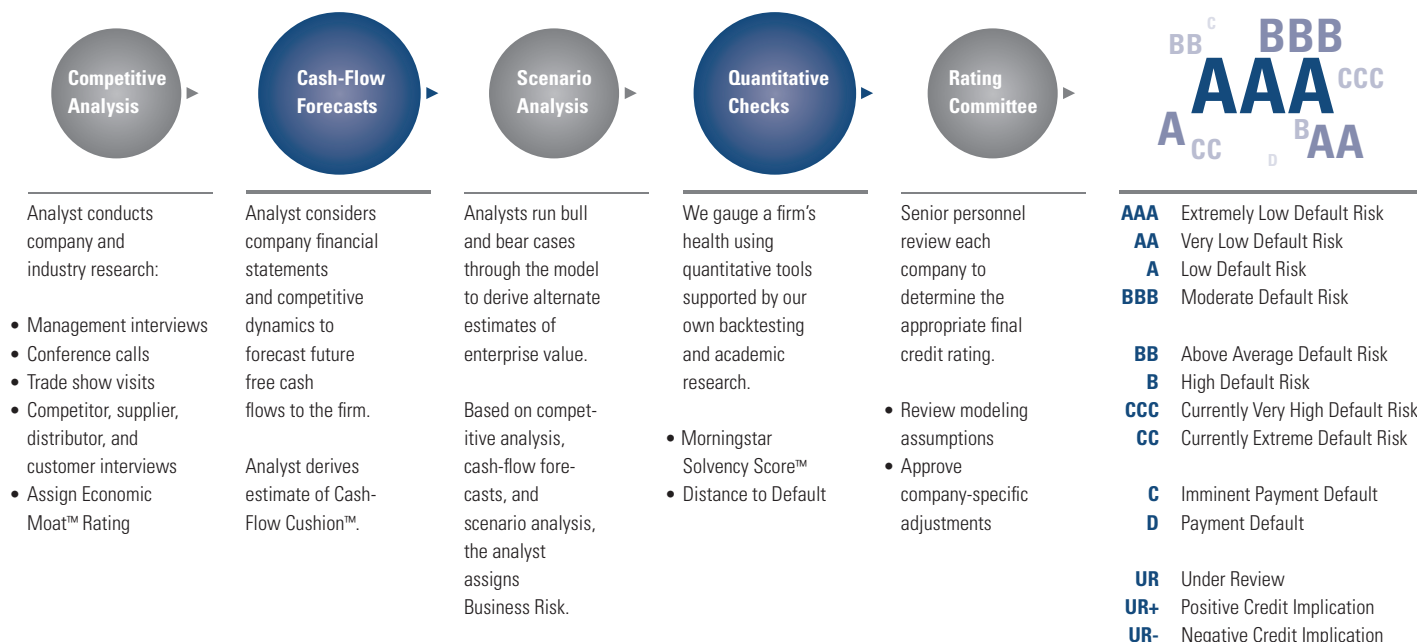
### Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

### Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

## Morningstar Research Methodology for Determining Corporate Credit Ratings



# Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

## *Morningstar Solvency Score™*

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

## *Distance to Default*

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

## **Overall Credit Rating**

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

## **Investor Access**

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at [select.morningstar.com](http://select.morningstar.com).

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Feb 20, 2015



© 2015 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., including its global affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this report. Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
39.71 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	—	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms length basis including software products and licences, research and consulting services, data services, licences to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous research reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based.

The original distributor of this document is Morningstar Inc. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any Redistribution is prohibited without written permission.



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Nearly 40% of Fortis' assets are regulated U.S. utilities.

Updated Forecasts and Estimates from 01 Apr 2015

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 07 Apr 2015  
Estimates as of 01 Apr 2015  
Pricing data through 06 Apr 2015  
Rating updated as of 06 Apr 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	4
Financial Health	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Investment Thesis 07 Apr 2015

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations make up more than 95% of the company's asset base; noncore generation and real estate holding operations account for the remainder. While we are less excited about the distractions of these noncore operations, management continues to focus on electric and natural gas distribution in North America. Fortis is currently seeking strategic alternatives for its no-moat Fortis Properties business.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2018, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 9.0 billion investment plans. This should allow the firm to increase its rate base a projected 7% annually during this expansion period.

On a weighted-average basis, Fortis' allowed return on equity in its Canadian service territories is near 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations.

Fortis' management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently acquired Tucson, AZ-based UNS Energy for \$4.3 billion in cash and debt. After the transaction's close, about 40% of Fortis' operating assets are U.S. regulated utilities. Management has indicated that it will take a pause from acquisitions in 2015 and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer-term, management views the U.S. attractively and we continue to believe they will look for additional regulated U.S. opportunities.

### Vital Statistics

Market Cap (CAD Mil)	10,764
52-Week High (CAD)	42.23
52-Week Low (CAD)	31.26
52-Week Total Return %	28.1
YTD Total Return %	1.0
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	14.5
Price/Fair Value	1.05

### Valuation Summary and Forecasts

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings		22.7	34.5	26.9	23.2
EV/EBITDA		10.5	12.1	9.7	8.9
EV/EBIT		17.1	20.2	15.2	13.7
Free Cash Flow Yield %		-3.6	-7.3	-5.6	-1.5
Dividend Yield %		3.0	2.1	4.2	4.3

### Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue		4,047	5,401	5,652	5,890
Revenue YoY %		10.8	33.5	4.6	4.2
EBIT		852	1,023	1,268	1,404
EBIT YoY %		7.3	20.1	24.0	10.8
Net Income, Adjusted		353	317	496	575
Net Income YoY %		12.1	-10.2	56.4	16.0
Diluted EPS		1.34	1.13	1.45	1.68
Diluted EPS YoY %		0.9	-15.8	28.7	16.0
Free Cash Flow		-886	-2,740	236	326
Free Cash Flow YoY %		-547.8	209.2	-108.6	38.0

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 07 Apr 2015

We are maintaining our CAD 37 per share fair value estimate after incorporating full-year results that were in line with our expectations. We forecast 6% annual earnings growth through 2018, accounting for normalized weather conditions and excluding unannounced acquisitions.

We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 8.5 billion at the utilities through 2019, leading to 7% annualized rate base growth.

We use an 7.5% cost of equity to arrive at a 6.1% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

Our uncertainty rating for Fortis is low. In our bull-case scenario, we assume rate case outcomes are 25% higher and operating expenses are 5% less than in our base-case scenario, increasing our fair value estimate \$5 per share. In our bear-case scenario, a similar decline in rate case outcomes and increase in operating expense results in a \$5 per share decrease in our fair value estimate.

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2015 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Service territory monopolies and efficient scale advantages are the primary sources of an economic moat for regulated

utilities such as Fortis. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. Fortis has a history of constructive relationships across its North American presence, and we do not expect the regulatory relationship to change. The bulk of its capital plan is toward the moaty regulated assets, which should strengthen Fortis' narrow moat. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

For regulated utilities like Fortis, our moat trends consider changes in the regulatory environment, near-term investment requirements and growth opportunities, energy

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Apr 06, 2015



demand trends, and management's strategic direction. In assessing the changing regulatory environment, we consider the level of automatic rate mechanisms, allowed returns on equity versus interest rates, fuel cost recovery mechanisms, and the history of regulatory relations. Using these factors, we assess whether fundamental changes will give a utility a better opportunity to earn or overearn its cost of capital in the near term, or whether fundamental changes will make it more difficult for a utility to earn its cost of capital.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile of regulated utilities, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan in the coming years, we forecast Fortis' rate base to grow 7% annually.
- ▶ Fortis has paid consecutive quarterly dividends for four decades and raised the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.
- ▶ Fortis operates noncore hotel and commercial real estate assets, potentially distracting management from the core regulated operations.

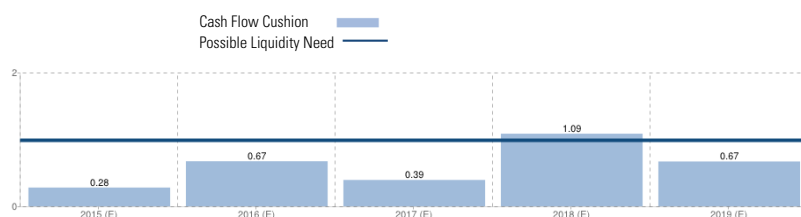
# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	230	239	114	430	171
Adjusted Available Cash Flow	148	234	276	372	513
Total Cash Available before Debt Service	378	473	391	803	683
Principal Payments	-780	-103	-360	-79	-344
Interest Payments	-570	-599	-633	-661	-676
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-1,350	-702	-993	-740	-1,020

## Cumulative Annual Cash Flow Cushion



## Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	230	4.8
Sum of 5-Year Adjusted Free Cash Flow	1,543	32.1
Sum of Cash and 5-Year Cash Generation	1,773	36.9
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,773	36.9
Sum of 5-Year Cash Commitments	-4,804	—

## Financial Health

Through 2019, Fortis has CAD 9.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 and 2014 to help finance employee stock-purchase plans, support its capital expenditure plan, and pay for its U.S. acquisitions.

With a 57% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

## Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2019. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.14	1.44	—	31 Jan 2015
MFC Global E&P Monthly High Income	1.94	2.19	—	31 Dec 2014
RBC Canadian Dividend GIF	1.22	0.73	-972	31 Dec 2014
Assumption/CI Harbour Growth & Inc	1.33	1.81	—	30 Sep 2014
Fidelity Dividend Plus Fund	0.83	2.48	-15	31 Dec 2014

#### Concentrated Holders

iShares S&P/TSX Capped Utilities	0.27	23.85	-13	28 Feb 2015
BMO Equal Weight Utilities ETF	0.16	8.87	49	31 Mar 2015
Portland Canadian Focused Fund	0.01	7.09	—	31 Mar 2015
Newgrowth Corp A	0.11	6.73	—	31 Mar 2015
Utility Corp	0.04	6.64	—	31 Mar 2015

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Scotia Asset Management	0.70	0.98	267	28 Feb 2015
AGF Investments	0.10	0.32	227	30 Sep 2014
Allra Pension AB	0.07	0.51	191	31 Dec 2014
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009
Sumitomo Mitsui Asset Management Co., Ltd.	0.01	0.03	132	01 Dec 2014

#### Top 5 Sellers

RBC Global Asset Management Inc.	3.52	0.69	-794	31 Jan 2015
1832 Asset Management L.P	0.90	0.82	-167	31 Dec 2014
Pyramis Global Advisors, LLC	1.41	0.98	-132	31 Dec 2014
Phillips, Hager & North Inv Mgmt	0.59	0.81	-99	31 Mar 2015
Connor Clark & Lunn Financial Group	0.23	0.96	-91	31 Mar 2015

### Management

23 Feb 2015

Overall, we think Fortis' management team has been fair stewards of shareholder capital. Management has earned at or near its allowed returns and managed regulatory relationships well, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy, in our view. We think Fortis' shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall had been president and CEO since 1995, leading a group of experienced utility executives. Marshall recently relinquished his role of president to Barry Perry, who plans to replace Marshall as CEO when Marshall retires in December. We think Perry is a suitable replacement, given his previous experience as Fortis' CFO and as CFO of Newfoundland Power.

Total direct compensation is in line with Fortis' industry group. Management's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Management has a significant ownership stake, which we believe aligns shareholder and management interests.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Analyst Notes

### Fortis Focuses on Asset Integration and Capital Plan in 2015 19 Feb 2015

We are reaffirming our CAD 33 per share fair value estimate, narrow economic moat rating, and stable moat trend after Fortis reported full-year ongoing operating earnings of \$1.81 per share, compared with \$1.70 in the same year-ago period.

During the year, management closed its \$4.3 billion acquisition of UNS Energy, transitioning the company to a diversified North American utility with nearly 40% of total regulated assets in the U.S. We like that management has stated its intent to take a pause from further acquisitions, instead focusing on acquisition integration and its \$2.2 billion in attractive growth projects in 2015 alone. Management will also look to complete its divestiture of its no-moat Fortis Properties, which we view positively as allowing management to focus on its core regulated utilities.

Major capital projects at the Waneta hydroelectric generating facility and the Tilbury liquefied natural gas facility expansion should help boost rate base an annualized 6.5% through 2019. Additional investment opportunities at the Tilbury and Woodfire LNG projects could boost rate-base growth to 7.5% annually. New rates effective July 2015 at Fortis' Central Hudson subsidiary will be key to the unit earning allowed returns after a two-year rate freeze. We will also keep a watchful eye on FortisAlberta's upcoming capital tracker and cost of capital proceedings.

### Management Meeting: Attractive Rate Base Growth Opportunities for Fortis 12 Nov 2014

We are reaffirming our CAD 33 per share fair value estimate, narrow economic moat, and stable moat trend ratings for Fortis after discussing the company's outlook with senior management during the Edison Electric Institute Financial

Conference in Dallas, Texas.

Management has diversified its regulated operations through the acquisitions of UNS Energy this year and CH Energy in 2013, which now account for 40% of regulated rate base. Fortis is also currently seeking strategic alternatives for its no-moat Fortis Properties business, with bids expected in early 2015. Management likes its current portfolio mix, and we welcome the focus on its narrow moat regulated businesses.

Management has indicated that it will take a pause from acquisitions in 2015 and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer-term management views the U.S. attractively and we continue to believe management will look for additional regulated U.S. opportunities. Management is not interested in merchant assets. We caution management's enthusiasm for acquisitions as we currently view regulated utilities 9% overvalued, not accounting for a likely 20% to 30% takeover premium.

Driving rate base growth opportunities are the company's current CAD 9.0 billion capital program, which should drive 7% annual rate base growth. Additional opportunities at Tilbury Phase 1B and Woodfire could drive rate base growth up to 8.5%. An upcoming rate case at CH Energy will be instrumental in earning allowed returns at the subsidiary, after an agreed-upon rate freeze.

### Fortis Regulated Business Additions Drive Earnings Growth 07 Nov 2014

Fortis reported CAD 0.06 in ongoing earnings per share for the third quarter, down from CAD 0.23 in the year-ago quarter. We are reaffirming our CAD 33 per share fair value estimate, 2014 EPS estimate, and narrow moat and stable moat trend ratings. On an adjusted basis, which included



## Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

### Analyst Notes

several nonrecurring items related to the company's UNS Energy acquisition, third-quarter earnings were CAD 0.33 compared with CAD 0.23 in the year-ago quarter.

During the quarter, the company completed several strategic objectives. The company closed on its \$4.3 billion UNS Energy acquisition, which completes the company's initial push into the U.S. market after purchasing Central Hudson Gas & Electric in June 2013. We are also encouraged by management's announcement in the quarter to seek strategic alternatives in 2015 for its no-moat Fortis Properties subsidiary as the company seeks to focus on regulated assets. Finally, management continues to progress on the company's CAD 9.0 billion capital program, which should drive 7% annual rate base growth. Additional opportunities at Tilbury Phase 1B and Woodfire could drive rate base growth up to 8.5%.

In the quarter, the acquisition of UNS Energy boosted earnings. Strength at the company's FortisAlberta and Caribbean segments were partially offset by a rate freeze at CH Energy. The upcoming regulatory calendar includes a rate case at CH Energy with rates effective in July 2015, a decision on British Columbia 2014-18 PBR and annual rates application at FortisAlberta.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	13.0	-2.5	10.8	33.5	4.6	4.2	3.8
EBIT	10.1	3.7	7.3	20.1	24.0	10.8	10.9
EBITDA	12.9	6.2	10.2	22.8	16.4	8.3	8.4
Net Income	-0.1	-0.9	12.1	-10.2	56.4	16.0	19.0
Diluted EPS	-6.9	-5.1	0.9	-15.8	28.7	16.0	14.5
Earnings Before Interest, after Tax	11.7	13.6	7.1	14.5	40.2	9.3	13.5
Free Cash Flow	-511.0	401.6	-547.8	209.2	-108.6	38.0	—

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Profitability							
Operating Margin %	20.6	21.7	21.1	18.9	22.4	23.9	24.6
EBITDA Margin %	33.6	34.6	34.4	31.7	35.2	36.6	37.5
Net Margin %	7.7	8.6	8.7	5.9	8.8	9.8	10.3
Free Cash Flow Margin %	-22.4	5.4	-21.9	-50.7	4.2	5.5	7.5
ROIC %	—	—	—	—	—	—	—
Adjusted ROIC %	5.4	6.0	5.3	5.0	6.2	6.4	6.5
Return on Assets %	1.9	2.2	2.2	1.4	1.8	2.0	2.1
Return on Equity %	7.2	8.0	8.1	5.5	6.6	6.9	7.4

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.54	0.56	0.57	0.53	0.53	0.54
Total Debt/EBITDA	5.70	4.78	5.59	6.74	5.63	5.41	5.39
EBITDA/Interest Expense	3.39	3.45	3.58	3.13	3.50	3.60	3.64

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.98	1.18	—	—
Price/Earnings	22.7	34.5	26.9	23.2
EV/EBITDA	10.5	12.1	9.7	8.9
EV/EBIT	17.1	20.2	15.2	13.7
Free Cash Flow Yield %	-3.6	-7.3	-5.6	-1.5
Dividend Yield %	3.0	2.1	4.2	4.3

### Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,892	7.8	6.92
Present Value Stage II	2,958	12.2	10.82
Present Value Stage III	19,436	80.0	71.11
<b>Total Firm Value</b>	<b>24,286</b>	<b>100.0</b>	<b>88.86</b>
Cash and Equivalents	230	—	0.84
Debt	-11,534	—	-42.20
Preferred Stock	-1,820	—	-6.66
Other Adjustments	1,250	—	4.57
<b>Equity Value</b>	<b>12,412</b>	<b>—</b>	<b>45.41</b>

Projected Diluted Shares 273

Fair Value per Share (CAD) —

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
<b>Revenue</b>	<b>3,654</b>	<b>4,047</b>	<b>5,401</b>	<b>5,652</b>	<b>5,890</b>
Cost of Goods Sold	1,522	1,617	2,197	2,227	2,271
<b>Gross Profit</b>	<b>2,132</b>	<b>2,430</b>	<b>3,204</b>	<b>3,425</b>	<b>3,619</b>
Selling, General & Administrative Expenses	868	1,037	1,493	1,434	1,462
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	470	541	688	723	753
<b>Operating Income (ex charges)</b>	<b>794</b>	<b>852</b>	<b>1,023</b>	<b>1,268</b>	<b>1,404</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>794</b>	<b>852</b>	<b>1,023</b>	<b>1,268</b>	<b>1,404</b>
Interest Expense	366	389	547	570	599
Interest Income	4	-31	-25	5	—
<b>Pre-Tax Income</b>	<b>432</b>	<b>432</b>	<b>451</b>	<b>704</b>	<b>805</b>
Income Tax Expense	61	32	66	134	153
Other After-Tax Cash Gains (Losses)	—	20	5	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-10	-11	-9	-9
(Preferred Dividends)	-47	-57	-62	-65	-68
<b>Net Income</b>	<b>315</b>	<b>353</b>	<b>317</b>	<b>496</b>	<b>575</b>
Weighted Average Diluted Shares Outstanding	190	211	225	273	273
<b>Diluted Earnings Per Share</b>	<b>1.66</b>	<b>1.67</b>	<b>1.41</b>	<b>1.81</b>	<b>2.10</b>
Adjusted Net Income	315	353	317	496	575
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.66</b>	<b>1.67</b>	<b>1.41</b>	<b>1.81</b>	<b>2.10</b>
Dividends Per Common Share	1.20	1.24	1.24	1.32	1.36
<b>EBITDA</b>	<b>1,264</b>	<b>1,393</b>	<b>1,711</b>	<b>1,991</b>	<b>2,157</b>
<b>Adjusted EBITDA</b>	<b>1,264</b>	<b>1,393</b>	<b>1,711</b>	<b>1,991</b>	<b>2,157</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	154	72	230	239	114
Investments	—	—	—	—	—
Accounts Receivable	587	732	900	982	1,023
Inventory	133	143	321	261	266
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	219	349	512	512	512
<b>Current Assets</b>	<b>1,093</b>	<b>1,296</b>	<b>1,963</b>	<b>1,994</b>	<b>1,916</b>
Net Property Plant, and Equipment	9,623	11,618	17,152	18,522	19,549
Goodwill	1,568	2,075	3,732	3,732	3,732
Other Intangibles	325	345	488	488	488
Deferred Tax Assets (Long-Term)	—	7	62	62	62
Other Long-Term Operating Assets	2,341	2,567	3,231	3,231	3,231
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>14,950</b>	<b>17,908</b>	<b>26,628</b>	<b>28,029</b>	<b>28,978</b>
Accounts Payable	966	957	1,440	1,389	1,416
Short-Term Debt	260	947	1,043	—	63
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	82	180	201	351	351
<b>Current Liabilities</b>	<b>1,308</b>	<b>2,084</b>	<b>2,684</b>	<b>1,740</b>	<b>1,830</b>
Long-Term Debt	5,783	6,841	10,491	11,211	11,608
Deferred Tax Liabilities (Long-Term)	718	1,078	1,837	2,074	2,316
Other Long-Term Operating Liabilities	1,731	1,529	2,504	2,779	2,779
Long-Term Non-Operating Liabilities	—	—	—	—	—
<b>Total Liabilities</b>	<b>9,540</b>	<b>11,532</b>	<b>17,516</b>	<b>17,803</b>	<b>18,533</b>
Preferred Stock	1,108	1,229	1,820	1,820	1,820
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,963	3,627	5,509	6,759	6,759
Retained Earnings (Deficit)	952	1,044	1,060	1,195	1,398
(Treasury Stock)	—	—	—	—	—
Other Equity	-96	-72	129	74	74
<b>Shareholder's Equity</b>	<b>5,100</b>	<b>6,001</b>	<b>8,691</b>	<b>10,021</b>	<b>10,224</b>
Minority Interest	310	375	421	205	220
<b>Total Equity</b>	<b>5,410</b>	<b>6,376</b>	<b>9,112</b>	<b>10,226</b>	<b>10,444</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	371	420	390	570	652
Depreciation	470	541	688	723	753
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	17	-6	23	237	242
Other Non-Cash Adjustments	40	-11	5	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-82	-41
(Increase) Decrease in Inventory	—	—	—	60	-5
Change in Other Short-Term Assets	78	-45	-124	—	—
Increase (Decrease) in Accounts Payable	—	—	—	-51	28
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>976</b>	<b>899</b>	<b>982</b>	<b>1,606</b>	<b>1,629</b>
(Capital Expenditures)	-1,062	-1,121	-1,656	-2,093	-1,779
Net (Acquisitions), Asset Sales, and Disposals	-18	-1,035	-2,539	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-8	-4	275	—
<b>Cash From Investing</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-4,199</b>	<b>-1,818</b>	<b>-1,779</b>
Common Stock Issuance (or Repurchase)	24	596	51	1,250	—
Common Stock (Dividends)	-170	-181	-194	-361	-372
Short-Term Debt Issuance (or Retirement)	49	178	777	-1,043	63
Long-Term Debt Issuance (or Retirement)	36	480	2,175	720	397
Other Financing Cash Flows	245	238	552	-290	-62
<b>Cash From Financing</b>	<b>184</b>	<b>1,311</b>	<b>3,361</b>	<b>276</b>	<b>26</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	-55	—
<b>Net Change in Cash</b>	<b>80</b>	<b>46</b>	<b>144</b>	<b>9</b>	<b>-125</b>

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	1.16	19.0	18.5	17.6	10.4	10.5	10.1	23.6	NM	NM	2.4	2.2	2.0	2.8	2.6	2.6
TransAlta Corp TAC USA	0.79	36.4	28.7	19.7	8.0	7.6	7.1	NM	NM	100.2	1.1	1.2	1.2	1.4	1.3	1.2
Average		27.7	23.6	18.7	9.2	9.1	8.6	23.6	—	100.2	1.8	1.7	1.6	2.1	2.0	1.9
<b>Fortis Inc FTS CA</b>	<b>1.05</b>	<b>34.5</b>	<b>26.9</b>	<b>23.2</b>	<b>12.1</b>	<b>9.7</b>	<b>8.9</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.1</b>	<b>0.9</b>	<b>0.8</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	74,929 USD	—	—	—	5.2	4.5	4.6	13.0	12.1	11.9	3.4	3.2	3.3	2.7	2.7	3.0
TransAlta Corp TAC USA	— CAD	6.8	5.0	5.4	7.3	5.3	5.8	3.3	4.5	6.5	0.7	0.9	1.3	4.8	4.9	4.9
Average		6.8	5.0	5.4	6.3	4.9	5.2	8.2	8.3	9.2	2.1	2.1	2.3	3.8	3.8	4.0
<b>Fortis Inc FTS CA</b>	<b>26,628 USD</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5.0</b>	<b>6.2</b>	<b>6.4</b>	<b>5.5</b>	<b>6.6</b>	<b>6.9</b>	<b>1.4</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>4.2</b>	<b>4.3</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	17,021 USD	12.5	4.1	2.7	24.1	-0.3	4.0	25.4	1.7	5.1	-31.2	567.2	-108.2	—	9.9	8.6
TransAlta Corp TAC USA	2,363 CAD	3.1	6.0	6.2	47.3	10.3	13.0	-16.9	28.8	43.9	-38.2	14.4	39.1	-37.9	—	—
Average		7.8	5.1	4.5	35.7	5.0	8.5	4.3	15.3	24.5	-34.7	290.8	-34.6	-37.9	9.9	8.6
<b>Fortis Inc FTS CA</b>	<b>5,401 USD</b>	<b>33.5</b>	<b>4.6</b>	<b>4.2</b>	<b>20.1</b>	<b>24.0</b>	<b>10.8</b>	<b>-15.8</b>	<b>28.7</b>	<b>16.0</b>	<b>209.2</b>	<b>-108.6</b>	<b>38.0</b>	<b>—</b>	<b>6.5</b>	<b>3.0</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	2,472 USD	67.1	65.9	66.7	42.8	40.3	41.1	25.8	24.7	25.0	14.5	14.1	14.5	11.7	-14.9	-1.0
TransAlta Corp TAC USA	69 CAD	61.9	61.8	62.2	43.1	43.1	43.6	18.6	19.3	20.6	2.9	3.6	5.0	-1.8	-1.6	1.2
Average		64.5	63.9	64.5	43.0	41.7	42.4	22.2	22.0	22.8	8.7	8.9	9.8	5.0	-8.3	0.1
<b>Fortis Inc FTS CA</b>	<b>317 USD</b>	<b>59.3</b>	<b>60.6</b>	<b>61.4</b>	<b>31.7</b>	<b>35.2</b>	<b>36.6</b>	<b>18.9</b>	<b>22.4</b>	<b>23.9</b>	<b>5.9</b>	<b>8.8</b>	<b>9.8</b>	<b>-12.5</b>	<b>-8.6</b>	<b>-2.6</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	29,024 USD	145.7	153.4	148.7	59.3	60.5	59.8	5.8	5.5	5.5	4.0	4.6	4.6	3.8	3.7	3.6
TransAlta Corp TAC USA	4,450 CAD	157.9	166.6	169.4	61.2	62.5	62.9	3.9	4.0	4.2	4.4	4.3	4.1	3.5	3.6	3.7
Average		151.8	160.0	159.1	60.3	61.5	61.4	4.9	4.8	4.9	4.2	4.5	4.4	3.7	3.7	3.7
<b>Fortis Inc FTS CA</b>	<b>11,534 USD</b>	<b>132.7</b>	<b>111.9</b>	<b>114.2</b>	<b>57.0</b>	<b>52.8</b>	<b>53.3</b>	<b>3.1</b>	<b>3.5</b>	<b>3.6</b>	<b>6.7</b>	<b>5.6</b>	<b>5.4</b>	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	46,802 USD	1.31	0.97	1.24	0.72	0.76	0.78	0.58	0.61	0.63	0.12	0.09	0.11	47.1	50.9	52.7
TransAlta Corp TAC USA	2,602 USD	0.13	0.18	0.12	0.97	0.99	0.98	0.87	0.89	0.88	0.17	0.25	0.17	279.6	217.0	150.8
Average		0.72	0.58	0.68	0.85	0.88	0.88	0.73	0.75	0.76	0.15	0.17	0.14	163.4	134.0	101.8
<b>Fortis Inc FTS CA</b>	<b>10,764 CAD</b>	<b>1.02</b>	<b>0.87</b>	<b>0.42</b>	<b>0.73</b>	<b>1.15</b>	<b>1.05</b>	<b>0.61</b>	<b>1.00</b>	<b>0.90</b>	<b>0.22</b>	<b>—</b>	<b>1.82</b>	<b>88.0</b>	<b>72.8</b>	<b>64.6</b>



# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

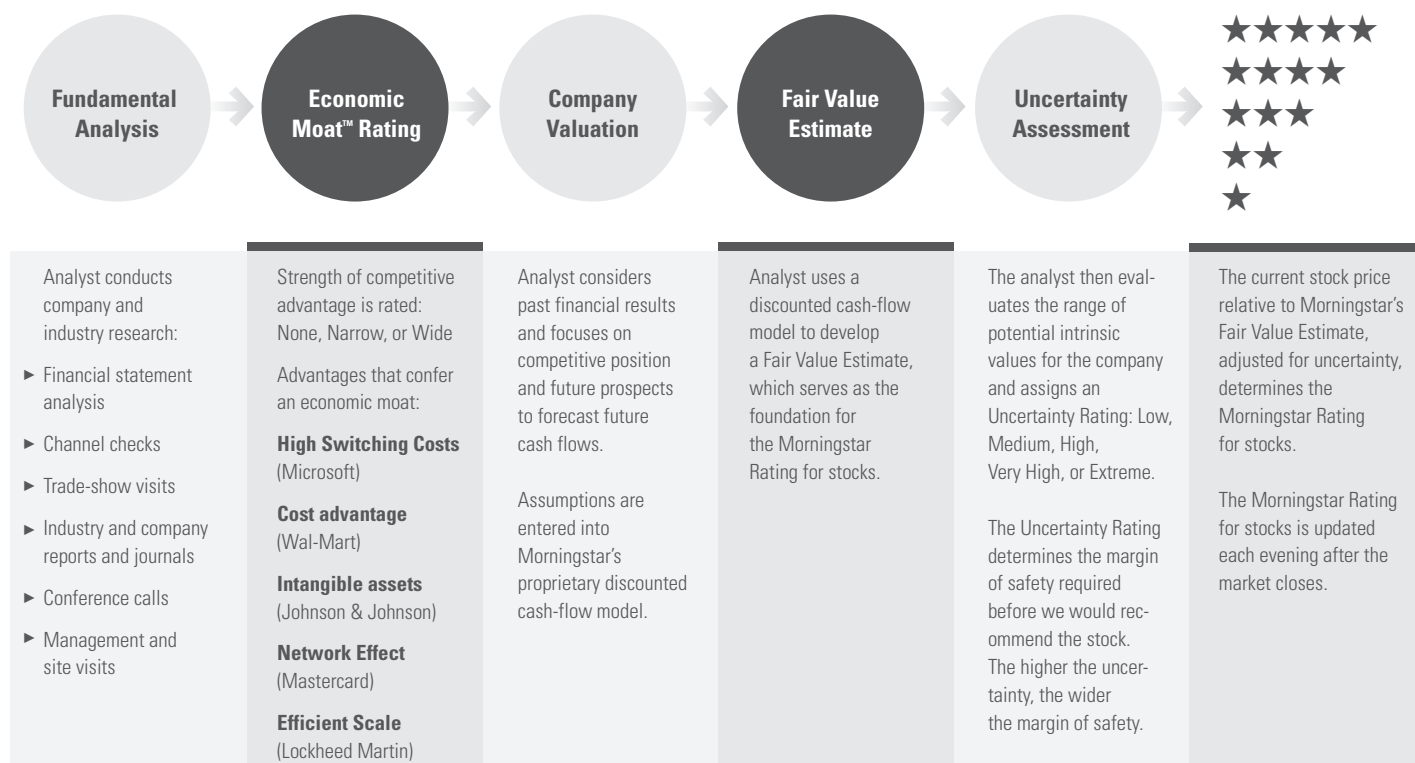
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

## Morningstar Research Methodology for Valuing Companies



# Research Methodology for Valuing Companies

## Detailed Methodology Documents and Materials\*

- Comprehensive
  - Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

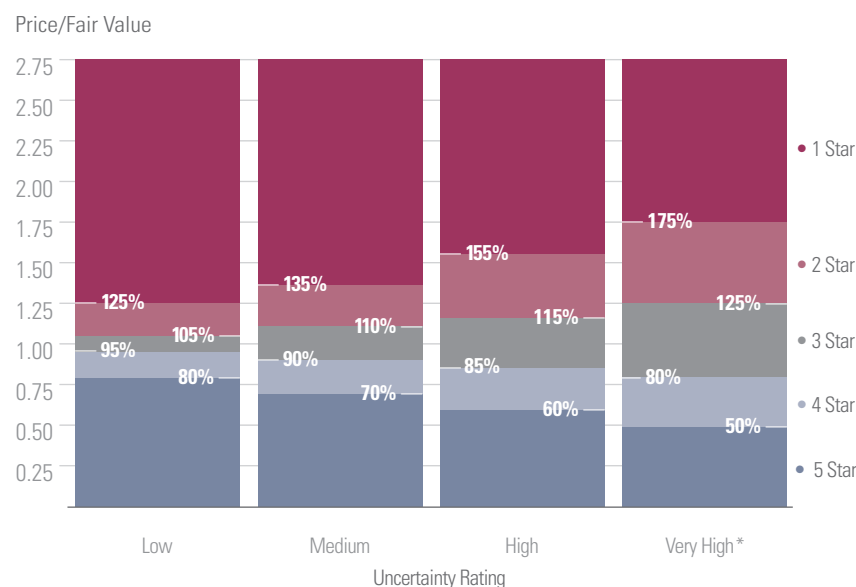
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated



© 2015 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., or one of its affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this report. Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.00 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous research reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its distributor is based.

Unless stated otherwise, the original distributor of this document is Morningstar Inc. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without permission.

For Recipients in Hong Kong: The research is prepared and issued by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide investment research, non-discretionary investment consulting services, and discretionary investment management services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment manager or advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this

information, please contact a Morningstar Investment Management Asia Limited Licensed Representative at <http://global.morningstar.com/equitydisclosures>.

For Recipients in India: Research on securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 ("Investment Research") is prepared by Morningstar Investment Adviser India Private Limited, which is registered with the Securities and Exchange Board of India. Investment Research is intended for educational purposes only; it is not intended to be an offer, solicitation, or call-to-action for the purchase or sale of a security. You should seek the advice of a financial professional before making an investment decision to ensure, among other things, that the security is suitable based on your particular needs and circumstances.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Fortis Management Focusing on Regulated Utilities and Organic Growth Opportunities

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

### Analyst Note 05 May 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported first-quarter ongoing operating earnings of \$0.65 per share, compared with \$0.68 in the year-ago period.

The primary analyst covering this company does not own its stock.

Research as of 05 May 2015  
Estimates as of 01 Apr 2015  
Pricing data through 04 May 2015  
Rating updated as of 04 May 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Analyst Note	1
Morningstar Analyst Forecasts	2

Management is now focused on building organic growth opportunities, a stark change from the company's acquisitive path. We applaud this strategic shift as the company has an attractive lineup of growth opportunities supporting management's five-year, \$9 billion capital plan. In the quarter, the company's Waneta hydroelectric facility entered into service and will begin contributing to earnings in the second quarter. Additional opportunities at the Tilbury and Woodfibre LNG project should support 7.5% annual rate base growth. Management plans to wrap up its strategic review of the no-moat Fortis Properties unit in the second quarter.

During the first quarter, the company received some key regulatory decisions. In Fortis Alberta, the company received support for the majority of its capital programs through its capital tracker. Its allowed return on equity fell to 8.30% from 8.75% for 2013-15, but we continue to appreciate the constructive Alberta regulatory environment. Future decisions related to its cost of capital for trackers will be key to determining constructiveness. At Central Hudson, the company entered into a joint settlement agreement for proposed rates with a 9.0% allowed return on equity.

During the quarter, dilution from the UNS Energy acquisition depressed earnings. We expect a significant earnings benefit from the acquisition in the second and third quarters due to the seasonality of UNS' operations. Fortis recently announced a strong 6.25% dividend increase.

### Vital Statistics

Market Cap (CAD Mil)	10,814
52-Week High (CAD)	42.23
52-Week Low (CAD)	31.26
52-Week Total Return %	24.4
YTD Total Return %	1.4
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	14.5
Price/Fair Value	1.06

### Valuation Summary and Forecasts

Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings	22.7	34.5	27.0	23.3
EV/EBITDA	10.5	12.1	9.9	9.2
EV/EBIT	17.1	20.2	15.6	14.1
Free Cash Flow Yield %	-3.6	-7.3	-5.5	-1.5
Dividend Yield %	3.0	2.1	4.0	4.2

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue	4,047	5,401	5,652	5,890
Revenue YoY %	10.8	33.5	4.6	4.2
EBIT	852	1,023	1,268	1,404
EBIT YoY %	7.3	20.1	24.0	10.8
Net Income, Adjusted	353	317	496	575
Net Income YoY %	12.1	-10.2	56.4	16.0
Diluted EPS	1.34	1.13	1.45	1.68
Diluted EPS YoY %	0.9	-15.8	28.7	16.0
Free Cash Flow	-886	-2,740	236	326
Free Cash Flow YoY %	-547.8	209.2	-108.6	38.0

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	13.0	-2.5	10.8	33.5	4.6	4.2	3.8
EBIT	10.1	3.7	7.3	20.1	24.0	10.8	10.9
EBITDA	12.9	6.2	10.2	22.8	16.4	8.3	8.4
Net Income	-0.1	-0.9	12.1	-10.2	56.4	16.0	19.0
Diluted EPS	-6.9	-5.1	0.9	-15.8	28.7	16.0	14.5
Earnings Before Interest, after Tax	11.7	13.6	7.1	14.5	40.2	9.3	13.5
Free Cash Flow	-511.0	401.6	-547.8	209.2	-108.6	38.0	—

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Profitability							
Operating Margin %	20.6	21.7	21.1	18.9	22.4	23.9	24.6
EBITDA Margin %	33.6	34.6	34.4	31.7	35.2	36.6	37.5
Net Margin %	7.7	8.6	8.7	5.9	8.8	9.8	10.3
Free Cash Flow Margin %	-22.4	5.4	-21.9	-50.7	4.2	5.5	7.5
ROIC %	—	—	—	—	—	—	—
Adjusted ROIC %	5.4	6.0	5.3	5.0	6.2	6.4	6.5
Return on Assets %	1.9	2.2	2.2	1.4	1.8	2.0	2.1
Return on Equity %	7.2	8.0	8.1	5.5	6.6	6.9	7.4

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.54	0.56	0.57	0.53	0.53	0.54
Total Debt/EBITDA	5.70	4.78	5.59	6.74	5.63	5.41	5.39
EBITDA/Interest Expense	3.39	3.45	3.58	3.13	3.50	3.60	3.64

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.98	1.18	—	—
Price/Earnings	22.7	34.5	27.0	23.3
EV/EBITDA	10.5	12.1	9.9	9.2
EV/EBIT	17.1	20.2	15.6	14.1
Free Cash Flow Yield %	-3.6	-7.3	-5.5	-1.5
Dividend Yield %	3.0	2.1	4.0	4.2

### Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,892	7.8	6.92
Present Value Stage II	2,958	12.2	10.82
Present Value Stage III	19,436	80.0	71.11
<b>Total Firm Value</b>	<b>24,286</b>	<b>100.0</b>	<b>88.86</b>
Cash and Equivalents	230	—	0.84
Debt	-11,534	—	-42.20
Preferred Stock	-1,820	—	-6.66
Other Adjustments	1,250	—	4.57
<b>Equity Value</b>	<b>12,412</b>	<b>—</b>	<b>45.41</b>

Projected Diluted Shares 273

Fair Value per Share (CAD)

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December				Forecast	
	2012	2013	2014	2015	2016
Revenue	3,654	4,047	5,401	5,652	5,890
Cost of Goods Sold	1,522	1,617	2,197	2,227	2,271
Gross Profit	2,132	2,430	3,204	3,425	3,619
Selling, General & Administrative Expenses	868	1,037	1,493	1,434	1,462
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	470	541	688	723	753
Operating Income (ex charges)	794	852	1,023	1,268	1,404
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	794	852	1,023	1,268	1,404
Interest Expense	366	389	547	570	599
Interest Income	4	-31	-25	5	—
Pre-Tax Income	432	432	451	704	805
Income Tax Expense	61	32	66	134	153
Other After-Tax Cash Gains (Losses)	—	20	5	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-10	-11	-9	-9
(Preferred Dividends)	-47	-57	-62	-65	-68
Net Income	315	353	317	496	575
Weighted Average Diluted Shares Outstanding	190	211	225	273	273
Diluted Earnings Per Share	1.66	1.67	1.41	1.81	2.10
Adjusted Net Income	315	353	317	496	575
Diluted Earnings Per Share (Adjusted)	1.66	1.67	1.41	1.81	2.10
Dividends Per Common Share	1.20	1.24	1.24	1.32	1.36
EBITDA	1,264	1,393	1,711	1,991	2,157
Adjusted EBITDA	1,264	1,393	1,711	1,991	2,157



# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	154	72	230	239	114
Investments	—	—	—	—	—
Accounts Receivable	587	732	900	982	1,023
Inventory	133	143	321	261	266
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	219	349	512	512	512
<b>Current Assets</b>	<b>1,093</b>	<b>1,296</b>	<b>1,963</b>	<b>1,994</b>	<b>1,916</b>
Net Property Plant, and Equipment	9,623	11,618	17,152	18,522	19,549
Goodwill	1,568	2,075	3,732	3,732	3,732
Other Intangibles	325	345	488	488	488
Deferred Tax Assets (Long-Term)	—	7	62	62	62
Other Long-Term Operating Assets	2,341	2,567	3,231	3,231	3,231
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>14,950</b>	<b>17,908</b>	<b>26,628</b>	<b>28,029</b>	<b>28,978</b>
Accounts Payable	966	957	1,440	1,389	1,416
Short-Term Debt	260	947	1,043	—	63
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	82	180	201	351	351
<b>Current Liabilities</b>	<b>1,308</b>	<b>2,084</b>	<b>2,684</b>	<b>1,740</b>	<b>1,830</b>
Long-Term Debt	5,783	6,841	10,491	11,211	11,608
Deferred Tax Liabilities (Long-Term)	718	1,078	1,837	2,074	2,316
Other Long-Term Operating Liabilities	1,731	1,529	2,504	2,779	2,779
Long-Term Non-Operating Liabilities	—	—	—	—	—
<b>Total Liabilities</b>	<b>9,540</b>	<b>11,532</b>	<b>17,516</b>	<b>17,803</b>	<b>18,533</b>
Preferred Stock	1,108	1,229	1,820	1,820	1,820
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,963	3,627	5,509	6,759	6,759
Retained Earnings (Deficit)	952	1,044	1,060	1,195	1,398
(Treasury Stock)	—	—	—	—	—
Other Equity	-96	-72	129	74	74
<b>Shareholder's Equity</b>	<b>5,100</b>	<b>6,001</b>	<b>8,691</b>	<b>10,021</b>	<b>10,224</b>
Minority Interest	310	375	421	205	220
<b>Total Equity</b>	<b>5,410</b>	<b>6,376</b>	<b>9,112</b>	<b>10,226</b>	<b>10,444</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	371	420	390	570	652
Depreciation	470	541	688	723	753
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	17	-6	23	237	242
Other Non-Cash Adjustments	40	-11	5	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-82	-41
(Increase) Decrease in Inventory	—	—	—	60	-5
Change in Other Short-Term Assets	78	-45	-124	—	—
Increase (Decrease) in Accounts Payable	—	—	—	-51	28
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>976</b>	<b>899</b>	<b>982</b>	<b>1,606</b>	<b>1,629</b>
(Capital Expenditures)	-1,062	-1,121	-1,656	-2,093	-1,779
Net (Acquisitions), Asset Sales, and Disposals	-18	-1,035	-2,539	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-8	-4	275	—
<b>Cash From Investing</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-4,199</b>	<b>-1,818</b>	<b>-1,779</b>
Common Stock Issuance (or Repurchase)	24	596	51	1,250	—
Common Stock (Dividends)	-170	-181	-194	-361	-372
Short-Term Debt Issuance (or Retirement)	49	178	777	-1,043	63
Long-Term Debt Issuance (or Retirement)	36	480	2,175	720	397
Other Financing Cash Flows	245	238	552	-290	-62
<b>Cash From Financing</b>	<b>184</b>	<b>1,311</b>	<b>3,361</b>	<b>276</b>	<b>26</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	-55	—
<b>Net Change in Cash</b>	<b>80</b>	<b>46</b>	<b>144</b>	<b>9</b>	<b>-125</b>

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated



© 2015 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., or one of its affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this report. Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

# Fortis Inc FTS (TSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
39.18 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous research reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its distributor is based.

Unless stated otherwise, the original distributor of this document is Morningstar Inc. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without permission.

For Recipients in Hong Kong: The research is prepared and issued by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide investment research, non-discretionary investment consulting services, and discretionary investment management services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment manager or advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this

information, please contact a Morningstar Investment Management Asia Limited Licensed Representative at <http://global.morningstar.com/equitydisclosures>.

For Recipients in India: Research on securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 ("Investment Research") is prepared by Morningstar Investment Adviser India Private Limited, which is registered with the Securities and Exchange Board of India. Investment Research is intended for educational purposes only; it is not intended to be an offer, solicitation, or call-to-action for the purchase or sale of a security. You should seek the advice of a financial professional before making an investment decision to ensure, among other things, that the security is suitable based on your particular needs and circumstances.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Fortis is smartly divesting its no-moat real estate and merchant generation.

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Aug 2015  
Estimates as of 31 Jul 2015  
Pricing data through 02 Sep 2015  
Rating updated as of 02 Sep 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	4
Financial Health	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Investment Thesis 03 Aug 2015

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations will make up nearly all of the company's asset base after management recently divested noncore New York hydro generation and is under contract to sell the company's real estate holdings. We like that management has divested these operations, allowing it to focus on electric and natural gas distribution in North America and acquisition integration.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2018, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 9.0 billion investment plans. This should allow the firm to increase its rate base a projected 7% annually during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is near 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations.

Management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently acquired Tucson, Arizona-based UNS Energy for \$4.3 billion in cash and debt. Now 40% of Fortis' operating assets are U.S. regulated utilities. Management has indicated that it will take a pause from acquisitions and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer term, management views the U.S. attractively, and we believe it will look for additional regulated U.S. opportunities.

### Vital Statistics

Market Cap (CAD Mil)	9,546
52-Week High (CAD)	42.23
52-Week Low (CAD)	33.41
52-Week Total Return %	5.0
YTD Total Return %	-10.3
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.6
5-Yr Forward EPS CAGR %	6.3
Price/Fair Value	0.93

### Valuation Summary and Forecasts

Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings	14.2	15.8	13.1	12.2
EV/EBITDA	7.5	10.3	7.9	7.3
EV/EBIT	12.1	16.8	12.5	11.6
Free Cash Flow Yield %	9.9	5.6	-6.4	1.8
Dividend Yield %	6.4	4.2	5.6	5.8

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue	5,838	6,053	6,310	6,562
Revenue YoY %	-14.5	3.7	4.3	4.0
EBIT	1,184	1,254	1,373	1,483
EBIT YoY %	-11.5	5.9	9.5	8.0
Net Income, Adjusted	518	593	638	706
Net Income YoY %	-4.8	14.5	7.7	10.6
Diluted EPS	2.14	2.46	2.61	2.81
Diluted EPS YoY %	-153.1	14.7	6.2	7.5
Free Cash Flow	713	772	32	375
Free Cash Flow YoY %	-14.5	8.3	-95.9	NM

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 03 Aug 2015

We are maintaining our CAD 37 fair value estimate after incorporating second-quarter results that were in line with our expectations. We forecast 6% annual earnings growth through 2018, accounting for normalized weather conditions and excluding unannounced acquisitions.

We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 8.5 billion at the utilities through 2019, leading to 7% annualized rate base growth.

We use a 7.5% cost of equity to arrive at a 6.1% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

Our uncertainty rating for Fortis is low. In our bull-case scenario, we assume rate case outcomes are 25% higher and operating expenses are 5% less than in our base-case scenario, increasing our fair value estimate by \$5 per share. In our bear-case scenario, a similar decline in rate case outcomes and increase in operating expense results in a \$5 per share decrease in our fair value estimate.

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2015 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Service territory monopolies and efficient scale advantages are the primary sources of an economic moat for regulated

utilities such as Fortis. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. Fortis has a history of constructive relationships across its North American presence, and we do not expect the regulatory relationship to change. The bulk of its capital plan is toward the moaty regulated assets, which should strengthen Fortis' narrow moat. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

For regulated utilities like Fortis, our moat trends consider changes in the regulatory environment, near-term investment requirements and growth opportunities, energy

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated



demand trends, and management's strategic direction. In assessing the changing regulatory environment, we consider the level of automatic rate mechanisms, allowed returns on equity versus interest rates, fuel cost recovery mechanisms, and the history of regulatory relations. Using these factors, we assess whether fundamental changes will give a utility a better opportunity to earn or overearn its cost of capital in the near term, or whether fundamental changes will make it more difficult for a utility to earn its cost of capital.



# Fortis Inc FTS (TSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile of regulated utilities, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan in the coming years, we forecast Fortis' rate base to grow 7% annually.
- ▶ Fortis has paid consecutive quarterly dividends for four decades and raised the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.

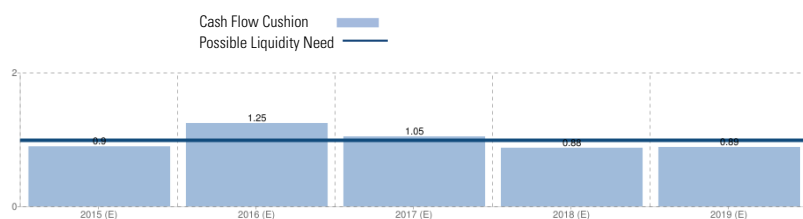
# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	5	155	197	234	210
Adjusted Available Cash Flow	961	1,577	1,390	1,255	1,146
Total Cash Available before Debt Service	966	1,733	1,587	1,489	1,357
Principal Payments	-120	-395	-681	-840	-681
Interest Payments	-369	-378	-357	-364	-378
Other Cash Obligations and Commitments	-588	-618	-480	-496	-470
Total Cash Obligations and Commitments	-1,077	-1,391	-1,518	-1,700	-1,529

## Cumulative Annual Cash Flow Cushion



## Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	5	0.1
Sum of 5-Year Adjusted Free Cash Flow	6,330	87.7
Sum of Cash and 5-Year Cash Generation	6,335	87.8
Revolver Availability	1,937	26.9
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	8,272	114.7
Sum of 5-Year Cash Commitments	-7,214	—

## Financial Health

Through 2019, Fortis has CAD 9.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 and 2014 to help finance employee stock-purchase plans, support its capital expenditure plan, and pay for its U.S. acquisitions.

With a 57% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

## Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2019. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.12	1.29	—	31 May 2015
MFC Global E&P Monthly High Income	1.93	2.08	—	31 Mar 2015
RBC Canadian Dividend GIF	1.22	0.73	—	30 Apr 2015
Scotia Canadian Dividend Fund	1.31	1.75	650	30 Jun 2015
Assumption/CI Harbour Growth & Inc	0.89	1.84	-275	31 Mar 2015

#### Concentrated Holders

iShares S&P/TSX Capped Utilities	0.28	25.87	0	31 Jul 2015
BMO Equal Weight Utilities ETF	0.16	9.22	-11	31 Jul 2015
Portland Canadian Focused Fund	0.01	6.84	—	31 Jul 2015
Utility Corp	0.03	6.65	—	31 Jul 2015
Newgrowth Corp A	0.10	6.41	-18	31 Jul 2015

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Scotia Asset Management	1.31	1.75	650	30 Jun 2015
RBC Global Asset Management Inc.	3.85	0.71	534	30 Jun 2015
Vanguard Group, Inc.	1.14	0.04	189	31 Jul 2015
CIBC Asset Management Inc.	0.24	0.87	167	31 Jul 2015
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009

#### Top 5 Sellers

CI Investments Inc.	0.89	1.84	-275	31 Mar 2015
Canoe Financial LP	0.13	0.97	-170	31 May 2015
Invesco Canada Ltd.	0.03	0.96	-143	31 Jul 2015
Manulife Asset Management Accord (2015) Inc.	0.04	0.57	-122	31 Jul 2015
National Bank Trust Inc.	0.20	1.10	-58	31 Jul 2015

### Management 03 Aug 2015

Overall, we think management has been fair stewards of shareholder capital. Fortis has earned at or near its allowed returns, and management has established good regulatory relationships, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy. We think Fortis' shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall had been president and CEO since 1995, leading a group of experienced utility executives. He was recently placed by Barry Perry, who we think is a suitable replacement, given his previous experience as Fortis' CFO and as CFO of Newfoundland Power.

Total direct compensation is in line with Fortis' industry group. Management's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as earnings per share can be manipulated and may not be an indication of shareholder value creation. Management has a significant ownership stake, which we believe aligns shareholder and management interests.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Analyst Notes

### Divestitures During Quarter Move Fortis Toward Fully Regulated Utility 31 Jul 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported second-quarter GAAP earnings of \$0.88 per share, compared with \$0.22 in the year-ago period. Earnings were boosted by significant one-time gains. Excluding nonoperating items, earnings per share were \$0.44 in the quarter compared with \$0.30 in the same year-ago period.

Management made significant progress in the quarter divesting no-moat units and focusing on delivering value from its recent acquisitions. We continue to applaud this strategic shift by management. During the quarter, Fortis agreed to the sale of its Fortis Properties commercial real estate portfolio for \$430 million and plans to close the transaction in fall 2015. The sale of nonregulated hydro assets in New York was completed for \$77 million. Management marked sale proceeds mainly to pay down credit facility borrowings used to fund the UNS Energy acquisition.

Organic growth opportunities also continue to progress well. One of the company's larger projects, the \$900 million 335 MW Wanetta expansion was completed in the quarter. The \$440 million FortisBC Tilbury expansion is on time and expected to be completed in late 2016. The company's \$9 billion, five-year capital plan should support 6.5% rate base growth. Additional capital opportunities could push rate base growth to 7.5%. Capital and earnings growth has also equated to robust dividend growth, with a recent 6.25% dividend increase.

During the quarter, the UNS Energy acquisition significantly added to earnings, given the differentiated earnings profile from its other operations. In the quarter, New York regulators approved Central Hudson's three-year rate request, allowing a 9% allowed return on equity, below the

U.S. average.

### Fortis Management Focusing on Regulated Utilities and Organic Growth Opportunities 05 May 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported first-quarter ongoing operating earnings of \$0.65 per share, compared with \$0.68 in the year-ago period.

Management is now focused on building organic growth opportunities, a stark change from the company's acquisitive path. We applaud this strategic shift as the company has an attractive lineup of growth opportunities supporting management's five-year, \$9 billion capital plan. In the quarter, the company's Waneta hydroelectric facility entered into service and will begin contributing to earnings in the second quarter. Additional opportunities at the Tilbury and Woodfibre LNG project should support 7.5% annual rate base growth. Management plans to wrap up its strategic review of the no-moat Fortis Properties unit in the second quarter.

During the first quarter, the company received some key regulatory decisions. In Fortis Alberta, the company received support for the majority of its capital programs through its capital tracker. Its allowed return on equity fell to 8.30% from 8.75% for 2013-15, but we continue to appreciate the constructive Alberta regulatory environment. Future decisions related to its cost of capital for trackers will be key to determining constructiveness. At Central Hudson, the company entered into a joint settlement agreement for proposed rates with a 9.0% allowed return on equity.

During the quarter, dilution from the UNS Energy acquisition depressed earnings. We expect a significant earnings benefit from the acquisition in the second and third quarters due to the seasonality of UNS' operations. Fortis recently

Fortis Inc FTS (TSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

announced a strong 6.25% dividend increase.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	-7.0	-9.3	-14.5	3.7	4.3	4.0	3.6
EBIT	-2.8	-2.1	-11.5	5.9	9.5	8.0	6.4
EBITDA	-2.0	-0.8	-10.9	6.5	6.4	7.8	6.1
Net Income	-0.2	-8.9	-4.8	14.5	7.7	10.6	7.8
Diluted EPS	-0.6	-287.7	-153.1	14.7	6.2	7.5	6.6
Earnings Before Interest, after Tax	-6.6	-4.5	32.6	-35.6	6.4	7.9	2.4
Free Cash Flow	-10.6	-22.9	-14.5	8.3	-95.9	NM	-17.0

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Profitability							
Operating Margin %	20.2	19.6	20.3	20.7	21.8	22.6	22.9
EBITDA Margin %	32.8	31.6	32.9	33.8	34.5	35.7	36.5
Net Margin %	8.9	8.0	8.9	9.8	10.1	10.8	11.2
Free Cash Flow Margin %	12.4	12.2	12.2	12.8	0.5	5.7	4.0
ROIC %	4.8	0.6	6.7	7.0	5.4	5.5	5.4
Adjusted ROIC %	4.9	0.6	6.8	7.2	5.5	5.6	5.5
Return on Assets %	0.3	-4.3	2.4	2.8	2.7	2.9	3.0
Return on Equity %	1.2	-13.4	8.0	9.1	9.4	9.8	9.9

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Leverage							
Debt/Capital	0.51	0.51	0.49	0.51	0.53	0.51	0.50
Total Debt/EBITDA	3.32	3.24	3.33	3.40	3.55	3.31	3.25
EBITDA/Interest Expense	5.21	4.81	4.83	6.00	5.90	6.20	6.72

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.98	1.18	—	—
Price/Earnings	14.2	15.8	13.1	12.2
EV/EBITDA	7.5	10.3	7.9	7.3
EV/EBIT	12.1	16.8	12.5	11.6
Free Cash Flow Yield %	9.9	5.6	-6.4	1.8
Dividend Yield %	6.4	4.2	5.6	5.8

### Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.7
Long-Run Tax Rate %	38.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	55.6
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,127	6.6	4.61
Present Value Stage II	1,747	10.3	7.15
Present Value Stage III	14,172	83.1	57.99
<b>Total Firm Value</b>	<b>17,046</b>	<b>100.0</b>	<b>69.75</b>
Cash and Equivalents	5	—	0.02
Debt	-6,954	—	-28.45
Preferred Stock	—	—	—
Other Adjustments	17	—	0.07
<b>Equity Value</b>	<b>10,114</b>	<b>—</b>	<b>41.38</b>

Projected Diluted Shares

244

Fair Value per Share (CAD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
<b>Revenue</b>	<b>6,828</b>	<b>5,838</b>	<b>6,053</b>	<b>6,310</b>	<b>6,562</b>
Cost of Goods Sold	2,495	1,873	1,895	1,941	1,980
<b>Gross Profit</b>	<b>4,333</b>	<b>3,965</b>	<b>4,158</b>	<b>4,369</b>	<b>4,582</b>
Selling, General & Administrative Expenses	1,752	1,617	1,691	1,716	1,751
Other Operating Expense (Income)	468	458	468	477	487
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	775	706	745	802	862
<b>Operating Income (ex charges)</b>	<b>1,338</b>	<b>1,184</b>	<b>1,254</b>	<b>1,373</b>	<b>1,483</b>
Restructuring & Other Cash Charges	2,578	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>-1,240</b>	<b>1,184</b>	<b>1,254</b>	<b>1,373</b>	<b>1,483</b>
Interest Expense	448	398	341	369	378
Interest Income	34	43	57	25	34
<b>Pre-Tax Income</b>	<b>-1,654</b>	<b>829</b>	<b>970</b>	<b>1,030</b>	<b>1,138</b>
Income Tax Expense	-680	311	377	391	433
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	6	8	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
<b>Net Income</b>	<b>-974</b>	<b>524</b>	<b>601</b>	<b>638</b>	<b>706</b>
Weighted Average Diluted Shares Outstanding	242	245	244	244	251
<b>Diluted Earnings Per Share</b>	<b>-4.03</b>	<b>2.14</b>	<b>2.46</b>	<b>2.61</b>	<b>2.81</b>
Adjusted Net Income	544	518	593	638	706
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>2.25</b>	<b>2.12</b>	<b>2.43</b>	<b>2.61</b>	<b>2.81</b>
Dividends Per Common Share	1.60	1.60	1.60	1.64	1.67
<b>EBITDA</b>	<b>-422</b>	<b>1,921</b>	<b>2,045</b>	<b>2,175</b>	<b>2,344</b>
<b>Adjusted EBITDA</b>	<b>2,156</b>	<b>1,921</b>	<b>2,045</b>	<b>2,175</b>	<b>2,344</b>



# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	209	30	5	155	197
Investments	—	—	—	—	—
Accounts Receivable	818	904	769	889	719
Inventory	704	526	524	541	515
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	638	512	748	748	748
<b>Current Assets</b>	<b>2,369</b>	<b>1,972</b>	<b>2,046</b>	<b>2,334</b>	<b>2,179</b>
Net Property Plant, and Equipment	16,096	16,205	17,424	18,607	19,525
Goodwill	411	411	411	411	411
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,786	1,240	1,582	1,600	1,600
Long-Term Non-Operating Assets	1,173	1,214	1,213	1,213	1,213
<b>Total Assets</b>	<b>21,835</b>	<b>21,042</b>	<b>22,676</b>	<b>24,164</b>	<b>24,929</b>
Accounts Payable	625	806	711	782	797
Short-Term Debt	355	902	834	721	165
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	718	753	704	700	700
<b>Current Liabilities</b>	<b>1,698</b>	<b>2,461</b>	<b>2,249</b>	<b>2,202</b>	<b>1,662</b>
Long-Term Debt	6,626	5,504	6,120	7,000	7,605
Deferred Tax Liabilities (Long-Term)	2,792	3,166	3,923	4,075	4,237
Other Long-Term Operating Liabilities	1,589	1,705	1,850	2,150	2,150
Long-Term Non-Operating Liabilities	2,363	1,520	1,679	1,679	1,679
<b>Total Liabilities</b>	<b>15,068</b>	<b>14,356</b>	<b>15,821</b>	<b>17,106</b>	<b>17,334</b>
Preferred Stock	—	—	—	—	—
Common Stock	2	2	2	2	2
Additional Paid-in Capital	5,616	5,632	5,617	5,617	5,867
Retained Earnings (Deficit)	1,006	907	1,103	1,341	1,627
(Treasury Stock)	—	—	—	—	—
Other Equity	-8	3	-9	-50	-50
<b>Shareholder's Equity</b>	<b>6,616</b>	<b>6,544</b>	<b>6,713</b>	<b>6,910</b>	<b>7,446</b>
Minority Interest	151	142	142	149	149
<b>Total Equity</b>	<b>6,767</b>	<b>6,686</b>	<b>6,855</b>	<b>7,059</b>	<b>7,595</b>

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	-974	295	592	638	706
Depreciation	818	737	791	802	862
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-714	410	451	152	163
Other Non-Cash Adjustments	2,548	308	-283	—	—
(Increase) Decrease in Accounts Receivable	33	-60	31	-120	170
(Increase) Decrease in Inventory	5	60	3	-17	26
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	-29	81	10	71	16
Change in Other Short-Term Liabilities	3	-195	-44	-4	—
<b>Cash From Operations</b>	<b>1,690</b>	<b>1,636</b>	<b>1,551</b>	<b>1,522</b>	<b>1,942</b>
(Capital Expenditures)	-1,030	-1,030	-1,030	-1,985	-1,780
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-70	-344	68	282	—
<b>Cash From Investing</b>	<b>-1,100</b>	<b>-1,374</b>	<b>-962</b>	<b>-1,703</b>	<b>-1,780</b>
Common Stock Issuance (or Repurchase)	—	—	—	—	250
Common Stock (Dividends)	-382	-388	-390	-401	-420
Short-Term Debt Issuance (or Retirement)	-148	368	346	-113	-556
Long-Term Debt Issuance (or Retirement)	122	-121	202	880	605
Other Financing Cash Flows	-18	-8	-17	7	—
<b>Cash From Financing</b>	<b>-426</b>	<b>-149</b>	<b>141</b>	<b>373</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	-41	—
<b>Net Change in Cash</b>	<b>164</b>	<b>113</b>	<b>730</b>	<b>150</b>	<b>42</b>

# Fortis Inc FTS (TSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	1.03	19.0	16.8	15.9	10.4	10.1	9.7	23.6	NM	NM	2.4	2.0	1.9	2.8	2.4	2.4
TransAlta Corp TAC USA	0.63	36.2	31.4	18.8	6.6	6.9	6.7	9.3	14.7	7.2	0.9	0.5	0.5	1.1	0.7	0.7
Average		27.6	24.1	17.4	8.5	8.5	8.2	16.5	14.7	7.2	1.7	1.3	1.2	2.0	1.6	1.6
<b>Fortis Inc FTS CA</b>	<b>0.93</b>	<b>15.8</b>	<b>13.1</b>	<b>12.2</b>	<b>10.3</b>	<b>7.9</b>	<b>7.3</b>	<b>17.8</b>	<b>NM</b>	<b>44.7</b>	<b>1.4</b>	<b>1.0</b>	<b>1.0</b>	<b>1.5</b>	<b>1.1</b>	<b>1.1</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	74,929 USD	5.2	4.5	4.6	5.2	4.5	4.6	13.0	12.1	12.0	3.4	3.2	3.3	2.7	3.1	3.6
TransAlta Corp TAC USA	9,833 CAD	6.1	4.1	5.0	6.5	4.3	5.3	6.3	1.8	3.1	1.4	0.4	0.7	4.9	9.2	6.4
Average		5.7	4.3	4.8	5.9	4.4	5.0	9.7	7.0	7.6	2.4	1.8	2.0	3.8	6.2	5.0
<b>Fortis Inc FTS CA</b>	<b>22,676 USD</b>	<b>7.0</b>	<b>5.4</b>	<b>5.5</b>	<b>7.2</b>	<b>5.5</b>	<b>5.6</b>	<b>9.1</b>	<b>9.4</b>	<b>9.8</b>	<b>2.8</b>	<b>2.7</b>	<b>2.9</b>	<b>4.2</b>	<b>5.6</b>	<b>5.8</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	17,021 USD	12.5	4.1	2.7	24.1	-0.3	4.0	25.4	1.7	5.1	-31.2	567.2	-108.2	—	16.7	13.6
TransAlta Corp TAC USA	2,623 CAD	14.4	-2.9	2.9	41.6	-8.2	8.8	-18.8	-40.8	70.1	63.0	4.2	-3.3	—	-37.9	-30.6
Average		13.5	0.6	2.8	32.9	-4.3	6.4	3.3	-19.6	37.6	15.9	285.7	-55.8	—	-10.6	-8.5
<b>Fortis Inc FTS CA</b>	<b>6,053 USD</b>	<b>3.7</b>	<b>4.3</b>	<b>4.0</b>	<b>5.9</b>	<b>9.5</b>	<b>8.0</b>	<b>14.7</b>	<b>6.2</b>	<b>7.5</b>	<b>8.3</b>	<b>-95.9</b>	<b>NM</b>	—	<b>2.5</b>	<b>1.8</b>

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	2,472 USD	67.1	65.9	66.7	42.8	40.3	41.1	25.8	24.7	25.0	14.5	14.1	14.5	11.7	-14.9	-1.0
TransAlta Corp TAC USA	68 CAD	58.4	60.5	60.8	44.9	37.9	38.0	16.1	15.2	16.1	2.6	1.6	2.7	11.8	4.6	9.2
Average		62.8	63.2	63.8	43.9	39.1	39.6	21.0	20.0	20.6	8.6	7.9	8.6	11.8	-5.2	4.1
<b>Fortis Inc FTS CA</b>	<b>593 USD</b>	<b>68.7</b>	<b>69.2</b>	<b>69.8</b>	<b>33.8</b>	<b>34.5</b>	<b>35.7</b>	<b>20.7</b>	<b>21.8</b>	<b>22.6</b>	<b>9.8</b>	<b>10.1</b>	<b>10.8</b>	<b>8.6</b>	<b>-7.3</b>	<b>2.5</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	29,024 USD	145.7	154.3	151.3	59.3	60.7	60.2	5.8	5.5	5.5	4.0	4.6	4.6	3.8	3.7	3.7
TransAlta Corp TAC USA	4,056 CAD	123.5	119.0	116.4	55.3	54.4	53.8	4.6	4.3	4.5	3.4	3.9	3.7	3.0	3.0	3.1
Average		134.6	136.7	133.9	57.3	57.6	57.0	5.2	4.9	5.0	3.7	4.3	4.2	3.4	3.4	3.4
<b>Fortis Inc FTS CA</b>	<b>6,954 USD</b>	<b>103.6</b>	<b>111.7</b>	<b>104.4</b>	<b>50.9</b>	<b>52.8</b>	<b>51.1</b>	<b>6.0</b>	<b>5.9</b>	<b>6.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	43,108 USD	1.31	0.97	1.24	0.72	0.75	0.76	0.58	0.60	0.61	0.12	0.09	0.11	47.1	54.1	58.5
TransAlta Corp TAC USA	1,313 USD	0.16	0.09	0.27	0.59	0.76	0.80	0.54	0.68	0.73	0.06	0.05	0.15	139.4	488.2	199.3
Average		0.74	0.53	0.76	0.66	0.76	0.78	0.56	0.64	0.67	0.09	0.07	0.13	93.3	271.2	128.9
<b>Fortis Inc FTS CA</b>	<b>9,546 CAD</b>	<b>0.02</b>	<b>0.64</b>	<b>0.78</b>	<b>0.91</b>	<b>1.06</b>	<b>1.31</b>	<b>0.68</b>	<b>0.81</b>	<b>1.00</b>	<b>0.01</b>	<b>0.22</b>	<b>1.19</b>	<b>65.1</b>	<b>62.8</b>	<b>59.5</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of “economic outperformance” that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

## Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

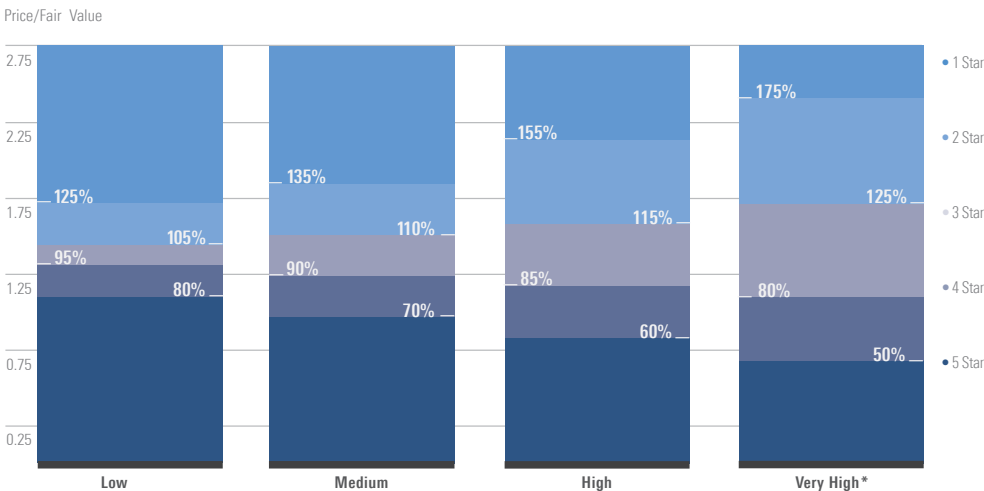
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■■

Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Sep 02, 2015



© 2015 Morningstar. All Rights Reserved. Unless stated otherwise, this report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., or one of its affiliates. It has not been made available to the issuer prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Research Report is current as of the date on the report until it is replaced, updated or withdrawn. This report may be withdrawn or changed at any time as other information becomes available to us. This report will be updated if events affecting the report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the research reports or the product.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earning and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not influence Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this report. Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.



# Fortis Inc FTS (TSE) ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
34.26 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous research reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this report only in the country in which its distributor is based.

Unless stated otherwise, the original distributor of this document is Morningstar Inc. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security. Redistribution is prohibited without permission.

For Recipients in Hong Kong: The research is prepared and issued by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide investment research, non-discretionary investment consulting services, and discretionary investment management services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment manager or advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this

information, please contact a Morningstar Investment Management Asia Limited Licensed Representative at <http://global.morningstar.com/equitydisclosures>.

For Recipients in India: Research on securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 ("Investment Research") is prepared by Morningstar Investment Adviser India Private Limited, which is registered with the Securities and Exchange Board of India. Investment Research is intended for educational purposes only; it is not intended to be an offer, solicitation, or call-to-action for the purchase or sale of a security. You should seek the advice of a financial professional before making an investment decision to ensure, among other things, that the security is suitable based on your particular needs and circumstances.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Fortis is smartly divesting its no-moat real estate and merchant generation.

Updated Forecasts and Estimates from 31 Jul 2015

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Aug 2015  
Estimates as of 31 Jul 2015  
Pricing data through 23 Sep 2015  
Rating updated as of 23 Sep 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	4
Financial Health	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Investment Thesis 03 Aug 2015

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations will make up nearly all of the company's asset base after management recently divested noncore New York hydro generation and is under contract to sell the company's real estate holdings. We like that management has divested these operations, allowing it to focus on electric and natural gas distribution in North America and acquisition integration.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2018, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 9.0 billion investment plans. This should allow the firm to increase its rate base a projected 7% annually during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is near 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations.

Management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently acquired Tucson, Arizona-based UNS Energy for \$4.3 billion in cash and debt. Now 40% of Fortis' operating assets are U.S. regulated utilities. Management has indicated that it will take a pause from acquisitions and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer term, management views the U.S. attractively, and we believe it will look for additional regulated U.S. opportunities.

### Vital Statistics

Market Cap (CAD Mil)	10,175
52-Week High (CAD)	42.23
52-Week Low (CAD)	33.69
52-Week Total Return %	9.4
YTD Total Return %	-4.5
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	14.5
Price/Fair Value	0.99

### Valuation Summary and Forecasts

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings		22.7	34.5	25.2	21.7
EV/EBITDA		10.3	12.3	8.8	8.2
EV/EBIT		16.8	20.6	13.9	12.5
Free Cash Flow Yield %		-3.6	-7.3	-6.4	-1.6
Dividend Yield %		3.0	2.1	4.7	4.9

### Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue		4,047	5,401	5,652	5,890
Revenue YoY %		10.8	33.5	4.6	4.2
EBIT		852	1,023	1,268	1,404
EBIT YoY %		7.3	20.1	24.0	10.8
Net Income, Adjusted		353	317	496	575
Net Income YoY %		12.1	-10.2	56.4	16.0
Diluted EPS		1.34	1.13	1.45	1.68
Diluted EPS YoY %		0.9	-15.8	28.7	16.0
Free Cash Flow		-886	-2,740	236	326
Free Cash Flow YoY %		-547.8	209.2	-108.6	38.0

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 03 Aug 2015

We are maintaining our CAD 37 fair value estimate after incorporating second-quarter results that were in line with our expectations. We forecast 6% annual earnings growth through 2018, accounting for normalized weather conditions and excluding unannounced acquisitions.

We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 8.5 billion at the utilities through 2019, leading to 7% annualized rate base growth.

We use a 7.5% cost of equity to arrive at a 6.1% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

Our uncertainty rating for Fortis is low. In our bull-case scenario, we assume rate case outcomes are 25% higher and operating expenses are 5% less than in our base-case scenario, increasing our fair value estimate by \$5 per share. In our bear-case scenario, a similar decline in rate case outcomes and increase in operating expense results in a \$5 per share decrease in our fair value estimate.

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2015 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Service territory monopolies and efficient scale advantages are the primary sources of an economic moat for regulated

utilities such as Fortis. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. Fortis has a history of constructive relationships across its North American presence, and we do not expect the regulatory relationship to change. The bulk of its capital plan is toward the moaty regulated assets, which should strengthen Fortis' narrow moat. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

For regulated utilities like Fortis, our moat trends consider changes in the regulatory environment, near-term investment requirements and growth opportunities, energy

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated



demand trends, and management's strategic direction. In assessing the changing regulatory environment, we consider the level of automatic rate mechanisms, allowed returns on equity versus interest rates, fuel cost recovery mechanisms, and the history of regulatory relations. Using these factors, we assess whether fundamental changes will give a utility a better opportunity to earn or overearn its cost of capital in the near term, or whether fundamental changes will make it more difficult for a utility to earn its cost of capital.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile of regulated utilities, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan in the coming years, we forecast Fortis' rate base to grow 7% annually.
- ▶ Fortis has paid consecutive quarterly dividends for four decades and raised the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.

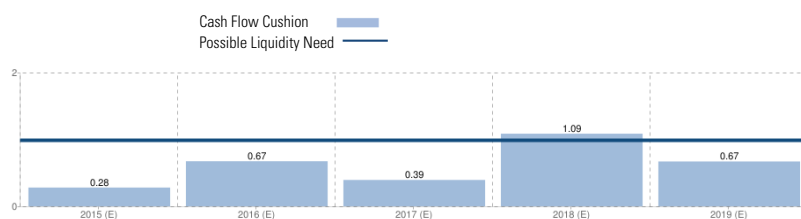
# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	230	239	114	430	171
Adjusted Available Cash Flow	148	234	276	372	513
Total Cash Available before Debt Service	378	473	391	803	683
Principal Payments	-780	-103	-360	-79	-344
Interest Payments	-570	-599	-633	-661	-676
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-1,350	-702	-993	-740	-1,020

## Cumulative Annual Cash Flow Cushion



## Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	230	4.8
Sum of 5-Year Adjusted Free Cash Flow	1,543	32.1
Sum of Cash and 5-Year Cash Generation	1,773	36.9
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,773	36.9
Sum of 5-Year Cash Commitments	-4,804	—

## Financial Health

Through 2019, Fortis has CAD 9.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 and 2014 to help finance employee stock-purchase plans, support its capital expenditure plan, and pay for its U.S. acquisitions.

With a 57% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

## Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2019. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.35	1.35	685	30 Jun 2015
MFC Global E&P Monthly High Income	1.91	1.91	—	30 Jun 2015
Scotia Canadian Dividend Fund	1.32	1.81	—	31 Jul 2015
RBC Canadian Dividend GIF	1.22	0.72	—	31 May 2015
Assumption/CI Harbour Growth & Inc	0.89	1.84	-275	31 Mar 2015

#### Concentrated Holders

iShares S&P/TSX Capped Utilities	0.28	25.87	0	31 Jul 2015
BMO Equal Weight Utilities ETF	0.16	8.81	-4	31 Aug 2015
Utility Corp	0.03	7.21	—	31 Aug 2015
Portland Canadian Focused Fund	0.01	7.02	—	31 Aug 2015
Newgrowth Corp A	0.14	6.76	—	31 Aug 2015

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
IG Investment Management Ltd	2.53	1.14	688	30 Jun 2015
RBC Global Asset Management Inc.	3.95	0.72	431	31 Jul 2015
Vanguard Group, Inc.	1.14	0.04	189	31 Jul 2015
Manulife Asset Management Limited	0.53	1.46	183	30 Jun 2015
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009

#### Top 5 Sellers

CI Investments Inc.	0.89	1.84	-275	31 Mar 2015
Invesco Canada Ltd.	0.03	0.96	-143	31 Jul 2015
TOBAM SAS	0.12	0.65	-86	31 Jul 2015
London Capital Management Ltd	0.22	0.55	-79	31 Aug 2015
BlackRock Asset Management Canada Ltd	1.32	0.98	-51	31 Jul 2015

### Management 03 Aug 2015

Overall, we think management has been fair stewards of shareholder capital. Fortis has earned at or near its allowed returns, and management has established good regulatory relationships, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy. We think Fortis' shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall had been president and CEO since 1995, leading a group of experienced utility executives. He was recently placed by Barry Perry, who we think is a suitable replacement, given his previous experience as Fortis' CFO and as CFO of Newfoundland Power.

Total direct compensation is in line with Fortis' industry group. Management's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as earnings per share can be manipulated and may not be an indication of shareholder value creation. Management has a significant ownership stake, which we believe aligns shareholder and management interests.



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Analyst Notes

### Divestures During Quarter Move Fortis Toward Fully Regulated Utility 31 Jul 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported second-quarter GAAP earnings of \$0.88 per share, compared with \$0.22 in the year-ago period. Earnings were boosted by significant one-time gains. Excluding nonoperating items, earnings per share were \$0.44 in the quarter compared with \$0.30 in the same year-ago period.

Management made significant progress in the quarter divesting no-moat units and focusing on delivering value from its recent acquisitions. We continue to applaud this strategic shift by management. During the quarter, Fortis agreed to the sale of its Fortis Properties commercial real estate portfolio for \$430 million and plans to close the transaction in fall 2015. The sale of nonregulated hydro assets in New York was completed for \$77 million. Management marked sale proceeds mainly to pay down credit facility borrowings used to fund the UNS Energy acquisition.

Organic growth opportunities also continue to progress well. One of the company's larger projects, the \$900 million 335 MW Wanetta expansion was completed in the quarter. The \$440 million FortisBC Tilbury expansion is on time and expected to be completed in late 2016. The company's \$9 billion, five-year capital plan should support 6.5% rate base growth. Additional capital opportunities could push rate base growth to 7.5%. Capital and earnings growth has also equated to robust dividend growth, with a recent 6.25% dividend increase.

During the quarter, the UNS Energy acquisition significantly added to earnings, given the differentiated earnings profile from its other operations. In the quarter, New York regulators approved Central Hudson's three-year rate request, allowing a 9% allowed return on equity, below the

U.S. average.

### Fortis Management Focusing on Regulated Utilities and Organic Growth Opportunities 05 May 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported first-quarter ongoing operating earnings of \$0.65 per share, compared with \$0.68 in the year-ago period.

Management is now focused on building organic growth opportunities, a stark change from the company's acquisitive path. We applaud this strategic shift as the company has an attractive lineup of growth opportunities supporting management's five-year, \$9 billion capital plan. In the quarter, the company's Waneta hydroelectric facility entered into service and will begin contributing to earnings in the second quarter. Additional opportunities at the Tilbury and Woodfibre LNG project should support 7.5% annual rate base growth. Management plans to wrap up its strategic review of the no-moat Fortis Properties unit in the second quarter.

During the first quarter, the company received some key regulatory decisions. In Fortis Alberta, the company received support for the majority of its capital programs through its capital tracker. Its allowed return on equity fell to 8.30% from 8.75% for 2013-15, but we continue to appreciate the constructive Alberta regulatory environment. Future decisions related to its cost of capital for trackers will be key to determining constructiveness. At Central Hudson, the company entered into a joint settlement agreement for proposed rates with a 9.0% allowed return on equity.

During the quarter, dilution from the UNS Energy acquisition depressed earnings. We expect a significant earnings benefit from the acquisition in the second and third quarters due to the seasonality of UNS' operations. Fortis recently

Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

announced a strong 6.25% dividend increase.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	13.0	-2.5	10.8	33.5	4.6	4.2	3.8
EBIT	10.1	3.7	7.3	20.1	24.0	10.8	10.9
EBITDA	12.9	6.2	10.2	22.8	16.4	8.3	8.4
Net Income	-0.1	-0.9	12.1	-10.2	56.4	16.0	19.0
Diluted EPS	-6.9	-5.1	0.9	-15.8	28.7	16.0	14.5
Earnings Before Interest, after Tax	11.7	13.6	7.1	14.5	40.2	9.3	13.5
Free Cash Flow	-511.0	401.6	-547.8	209.2	-108.6	38.0	—

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Profitability							
Operating Margin %	20.6	21.7	21.1	18.9	22.4	23.9	24.6
EBITDA Margin %	33.6	34.6	34.4	31.7	35.2	36.6	37.5
Net Margin %	7.7	8.6	8.7	5.9	8.8	9.8	10.3
Free Cash Flow Margin %	-22.4	5.4	-21.9	-50.7	4.2	5.5	7.5
ROIC %	4.7	5.2	4.6	4.2	5.2	5.4	5.6
Adjusted ROIC %	5.4	6.0	5.3	5.0	6.2	6.4	6.5
Return on Assets %	1.9	2.2	2.2	1.4	1.8	2.0	2.1
Return on Equity %	7.2	8.0	8.1	5.5	6.6	6.9	7.4

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Leverage							
Debt/Capital	0.56	0.54	0.56	0.57	0.53	0.53	0.54
Total Debt/EBITDA	5.70	4.78	5.59	6.74	5.63	5.41	5.39
EBITDA/Interest Expense	3.39	3.45	3.58	3.13	3.50	3.60	3.64

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.98	1.18	—	—
Price/Earnings	22.7	34.5	25.2	21.7
EV/EBITDA	10.3	12.3	8.8	8.2
EV/EBIT	16.8	20.6	13.9	12.5
Free Cash Flow Yield %	-3.6	-7.3	-6.4	-1.6
Dividend Yield %	3.0	2.1	4.7	4.9

### Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,892	7.8	6.92
Present Value Stage II	2,958	12.2	10.82
Present Value Stage III	19,436	80.0	71.11
<b>Total Firm Value</b>	<b>24,286</b>	<b>100.0</b>	<b>88.86</b>
Cash and Equivalents	230	—	0.84
Debt	-11,534	—	-42.20
Preferred Stock	-1,820	—	-6.66
Other Adjustments	1,250	—	4.57
<b>Equity Value</b>	<b>12,412</b>	<b>—</b>	<b>45.41</b>

Projected Diluted Shares 273

Fair Value per Share (CAD)

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
<b>Revenue</b>	<b>3,654</b>	<b>4,047</b>	<b>5,401</b>	<b>5,652</b>	<b>5,890</b>
Cost of Goods Sold	1,522	1,617	2,197	2,227	2,271
<b>Gross Profit</b>	<b>2,132</b>	<b>2,430</b>	<b>3,204</b>	<b>3,425</b>	<b>3,619</b>
Selling, General & Administrative Expenses	868	1,037	1,493	1,434	1,462
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	470	541	688	723	753
<b>Operating Income (ex charges)</b>	<b>794</b>	<b>852</b>	<b>1,023</b>	<b>1,268</b>	<b>1,404</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>794</b>	<b>852</b>	<b>1,023</b>	<b>1,268</b>	<b>1,404</b>
Interest Expense	366	389	547	570	599
Interest Income	4	-31	-25	5	—
<b>Pre-Tax Income</b>	<b>432</b>	<b>432</b>	<b>451</b>	<b>704</b>	<b>805</b>
Income Tax Expense	61	32	66	134	153
Other After-Tax Cash Gains (Losses)	—	20	5	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-9	-10	-11	-9	-9
(Preferred Dividends)	-47	-57	-62	-65	-68
<b>Net Income</b>	<b>315</b>	<b>353</b>	<b>317</b>	<b>496</b>	<b>575</b>
Weighted Average Diluted Shares Outstanding	190	211	225	273	273
<b>Diluted Earnings Per Share</b>	<b>1.66</b>	<b>1.67</b>	<b>1.41</b>	<b>1.81</b>	<b>2.10</b>
Adjusted Net Income	315	353	317	496	575
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>1.66</b>	<b>1.67</b>	<b>1.41</b>	<b>1.81</b>	<b>2.10</b>
Dividends Per Common Share	1.20	1.24	1.24	1.32	1.36
<b>EBITDA</b>	<b>1,264</b>	<b>1,393</b>	<b>1,711</b>	<b>1,991</b>	<b>2,157</b>
<b>Adjusted EBITDA</b>	<b>1,264</b>	<b>1,393</b>	<b>1,711</b>	<b>1,991</b>	<b>2,157</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	154	72	230	239	114
Investments	—	—	—	—	—
Accounts Receivable	587	732	900	982	1,023
Inventory	133	143	321	261	266
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	219	349	512	512	512
<b>Current Assets</b>	<b>1,093</b>	<b>1,296</b>	<b>1,963</b>	<b>1,994</b>	<b>1,916</b>
Net Property Plant, and Equipment	9,623	11,618	17,152	18,522	19,549
Goodwill	1,568	2,075	3,732	3,732	3,732
Other Intangibles	325	345	488	488	488
Deferred Tax Assets (Long-Term)	—	7	62	62	62
Other Long-Term Operating Assets	2,341	2,567	3,231	3,231	3,231
Long-Term Non-Operating Assets	—	—	—	—	—
<b>Total Assets</b>	<b>14,950</b>	<b>17,908</b>	<b>26,628</b>	<b>28,029</b>	<b>28,978</b>
Accounts Payable	966	957	1,440	1,389	1,416
Short-Term Debt	260	947	1,043	—	63
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	82	180	201	351	351
<b>Current Liabilities</b>	<b>1,308</b>	<b>2,084</b>	<b>2,684</b>	<b>1,740</b>	<b>1,830</b>
Long-Term Debt	5,783	6,841	10,491	11,211	11,608
Deferred Tax Liabilities (Long-Term)	718	1,078	1,837	2,074	2,316
Other Long-Term Operating Liabilities	1,731	1,529	2,504	2,779	2,779
Long-Term Non-Operating Liabilities	—	—	—	—	—
<b>Total Liabilities</b>	<b>9,540</b>	<b>11,532</b>	<b>17,516</b>	<b>17,803</b>	<b>18,533</b>
Preferred Stock	1,108	1,229	1,820	1,820	1,820
Common Stock	173	173	173	173	173
Additional Paid-in Capital	2,963	3,627	5,509	6,759	6,759
Retained Earnings (Deficit)	952	1,044	1,060	1,195	1,398
(Treasury Stock)	—	—	—	—	—
Other Equity	-96	-72	129	74	74
<b>Shareholder's Equity</b>	<b>5,100</b>	<b>6,001</b>	<b>8,691</b>	<b>10,021</b>	<b>10,224</b>
Minority Interest	310	375	421	205	220
<b>Total Equity</b>	<b>5,410</b>	<b>6,376</b>	<b>9,112</b>	<b>10,226</b>	<b>10,444</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	371	420	390	570	652
Depreciation	470	541	688	723	753
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	17	-6	23	237	242
Other Non-Cash Adjustments	40	-11	5	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-82	-41
(Increase) Decrease in Inventory	—	—	—	60	-5
Change in Other Short-Term Assets	78	-45	-124	—	—
Increase (Decrease) in Accounts Payable	—	—	—	-51	28
Change in Other Short-Term Liabilities	—	—	—	150	—
<b>Cash From Operations</b>	<b>976</b>	<b>899</b>	<b>982</b>	<b>1,606</b>	<b>1,629</b>
(Capital Expenditures)	-1,062	-1,121	-1,656	-2,093	-1,779
Net (Acquisitions), Asset Sales, and Disposals	-18	-1,035	-2,539	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	-8	-4	275	—
<b>Cash From Investing</b>	<b>-1,080</b>	<b>-2,164</b>	<b>-4,199</b>	<b>-1,818</b>	<b>-1,779</b>
Common Stock Issuance (or Repurchase)	24	596	51	1,250	—
Common Stock (Dividends)	-170	-181	-194	-361	-372
Short-Term Debt Issuance (or Retirement)	49	178	777	-1,043	63
Long-Term Debt Issuance (or Retirement)	36	480	2,175	720	397
Other Financing Cash Flows	245	238	552	-290	-62
<b>Cash From Financing</b>	<b>184</b>	<b>1,311</b>	<b>3,361</b>	<b>276</b>	<b>26</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	-55	—
<b>Net Change in Cash</b>	<b>80</b>	<b>46</b>	<b>144</b>	<b>9</b>	<b>-125</b>

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	1.04	19.0	17.1	16.2	10.4	10.2	9.8	23.6	NM	NM	2.4	2.1	1.9	2.8	2.5	2.4
TransAlta Corp TAC USA	0.61	36.2	30.7	18.4	6.6	6.9	6.7	9.3	14.4	7.1	0.9	0.5	0.5	1.1	0.7	0.7
Average		27.6	23.9	17.3	8.5	8.6	8.3	16.5	14.4	7.1	1.7	1.3	1.2	2.0	1.6	1.6
<b>Fortis Inc FTS CA</b>	<b>0.99</b>	<b>34.5</b>	<b>25.2</b>	<b>21.7</b>	<b>12.3</b>	<b>8.8</b>	<b>8.2</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>1.1</b>	<b>0.8</b>	<b>0.7</b>	<b>1.7</b>	<b>1.4</b>	<b>1.3</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	74,929 USD	5.2	4.5	4.6	5.2	4.5	4.6	13.0	12.1	12.0	3.4	3.2	3.3	2.7	3.1	3.5
TransAlta Corp TAC USA	9,833 CAD	6.1	4.1	5.0	6.5	4.3	5.3	6.3	1.8	3.1	1.4	0.4	0.7	4.9	9.4	6.6
Average		5.7	4.3	4.8	5.9	4.4	5.0	9.7	7.0	7.6	2.4	1.8	2.0	3.8	6.3	5.1
<b>Fortis Inc FTS CA</b>	<b>26,628 USD</b>	<b>4.2</b>	<b>5.2</b>	<b>5.4</b>	<b>5.0</b>	<b>6.2</b>	<b>6.4</b>	<b>5.5</b>	<b>6.6</b>	<b>6.9</b>	<b>1.4</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>4.7</b>	<b>4.9</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	17,021 USD	12.5	4.1	2.7	24.1	-0.3	4.0	25.4	1.7	5.1	-31.2	567.2	-108.2	—	16.7	13.6
TransAlta Corp TAC USA	2,623 CAD	14.4	-2.9	2.9	41.6	-8.2	8.8	-18.8	-40.8	70.1	63.0	4.2	-3.3	—	-37.9	-30.6
Average		13.5	0.6	2.8	32.9	-4.3	6.4	3.3	-19.6	37.6	15.9	285.7	-55.8	—	-10.6	-8.5
<b>Fortis Inc FTS CA</b>	<b>5,401 USD</b>	<b>33.5</b>	<b>4.6</b>	<b>4.2</b>	<b>20.1</b>	<b>24.0</b>	<b>10.8</b>	<b>-15.8</b>	<b>28.7</b>	<b>16.0</b>	<b>209.2</b>	<b>-108.6</b>	<b>38.0</b>	<b>—</b>	<b>6.5</b>	<b>3.0</b>



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	2,472 USD	67.1	65.9	66.7	42.8	40.3	41.1	25.8	24.7	25.0	14.5	14.1	14.5	11.7	-14.9	-1.0
TransAlta Corp TAC USA	68 CAD	58.4	60.5	60.8	44.9	37.9	38.0	16.1	15.2	16.1	2.6	1.6	2.7	11.8	4.6	9.2
Average		62.8	63.2	63.8	43.9	39.1	39.6	21.0	20.0	20.6	8.6	7.9	8.6	11.8	-5.2	4.1
<b>Fortis Inc FTS CA</b>	<b>317 USD</b>	<b>59.3</b>	<b>60.6</b>	<b>61.4</b>	<b>31.7</b>	<b>35.2</b>	<b>36.6</b>	<b>18.9</b>	<b>22.4</b>	<b>23.9</b>	<b>5.9</b>	<b>8.8</b>	<b>9.8</b>	<b>-12.5</b>	<b>-8.6</b>	<b>-2.6</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	29,024 USD	145.7	154.3	151.3	59.3	60.7	60.2	5.8	5.5	5.5	4.0	4.6	4.6	3.8	3.7	3.7
TransAlta Corp TAC USA	4,056 CAD	123.5	119.0	116.4	55.3	54.4	53.8	4.6	4.3	4.5	3.4	3.9	3.7	3.0	3.0	3.1
Average		134.6	136.7	133.9	57.3	57.6	57.0	5.2	4.9	5.0	3.7	4.3	4.2	3.4	3.4	3.4
<b>Fortis Inc FTS CA</b>	<b>11,534 USD</b>	<b>132.7</b>	<b>111.9</b>	<b>114.2</b>	<b>57.0</b>	<b>52.8</b>	<b>53.3</b>	<b>3.1</b>	<b>3.5</b>	<b>3.6</b>	<b>6.7</b>	<b>5.6</b>	<b>5.4</b>	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	43,877 USD	1.31	0.97	1.24	0.72	0.75	0.76	0.58	0.60	0.61	0.12	0.09	0.11	47.1	54.1	58.5
TransAlta Corp TAC USA	1,282 USD	0.16	0.09	0.27	0.59	0.76	0.80	0.54	0.68	0.73	0.06	0.05	0.15	139.4	488.2	199.3
Average		0.74	0.53	0.76	0.66	0.76	0.78	0.56	0.64	0.67	0.09	0.07	0.13	93.3	271.2	128.9
<b>Fortis Inc FTS CA</b>	<b>10,175 CAD</b>	<b>1.02</b>	<b>0.87</b>	<b>0.42</b>	<b>0.73</b>	<b>1.15</b>	<b>1.05</b>	<b>0.61</b>	<b>1.00</b>	<b>0.90</b>	<b>0.22</b>	<b>—</b>	<b>1.82</b>	<b>88.0</b>	<b>72.8</b>	<b>64.6</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of “economic outperformance” that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

## Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

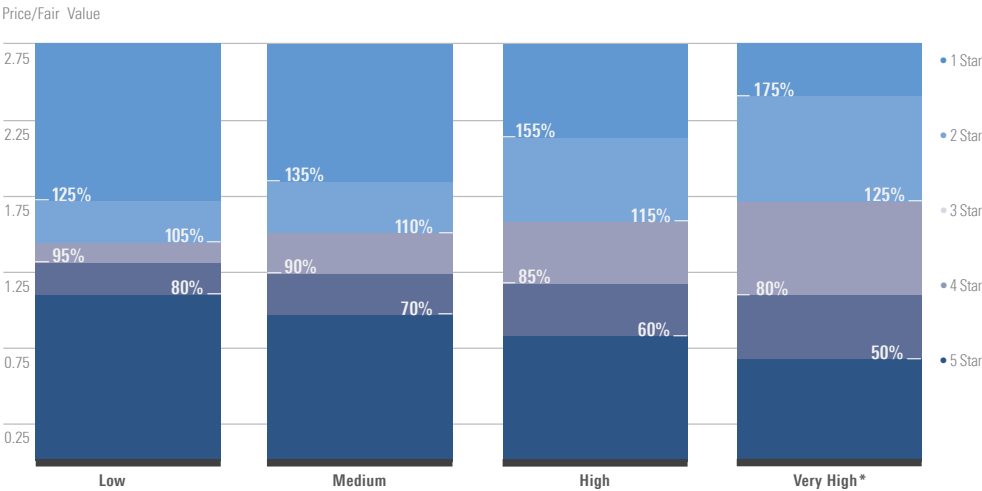
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■■

Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Sep 23, 2015



Unless stated otherwise, this Research Report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., or one of its affiliates. This Report has not been made available to the issuer of the relevant financial products prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate, and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Report is current as of the date on the Report until it is replaced, updated or withdrawn. This Report may be withdrawn or changed at any time as other information becomes available to us. This Report will be updated if events affecting the Report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the Reports.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this Report.

- Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous Reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this Report only in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of this document is Morningstar Inc. Redistribution, in any capacity, is prohibited without permission. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate, nor may they be construed as a representation regarding the legality of investing in the security/ies concerned, under the applicable investment or similar laws or regulations of any person or entity accessing this report. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar, its affiliates, and their officers, directors and employees shall not be responsible or liable for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. You should seek the advice of your financial, legal, tax, business and/or other consultant, and read all relevant issue documents pertaining to the security/ies concerned, including without limitation, the detailed risks involved in

the investment, before making an investment decision.

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. As the price / value / interest rate of a security fluctuates, the value of your investments in the said security, and in the income, if any, derived therefrom may go up or down.

For Recipients in Australia: This report has been authorized by the Head of Equity and Credit Research, Asia Pacific, Morningstar Australasia Pty Limited and is circulated pursuant to RG 79.26(f) as a full restatement of an original report (by the named Morningstar analyst) which has already been broadly distributed. To the extent the report contains general advice it has been prepared without reference to your objectives, financial situation or needs. You should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at [www.morningstar.com.au/fsg.pdf](http://www.morningstar.com.au/fsg.pdf).

For Recipients in Hong Kong: The research is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this research, please contact a Morningstar Investment Management Asia Limited Licensed Representative at <http://global.morningstar.com/equitydisclosures>.

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.52 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

For Recipients in India: This research on securities [as defined in clause (h) of Section 2 of the Securities Contracts (Regulation) Act, 1956], such research being referred to for the purpose of this document as “Investment Research”, is issued by Morningstar Investment Adviser India Private Limited.

Morningstar Investment Adviser India Private Limited is registered with the Securities and Exchange Board of India under the SEBI (Investment Advisers) Regulations, 2013, vide Registration number INA000001357, dated March 27, 2014, and in compliance of the aforesaid regulations and the SEBI (Research Analysts) Regulations, 2014, it carries on the business activities of investment advice and research. Morningstar Investment Adviser India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Adviser India Private Limited is a wholly owned subsidiary of Morningstar Associates LLC, which is a part of the Morningstar Investment Management group of Morningstar, Inc., and Morningstar, Inc. is a leading provider of independent investment research that offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. In India, Morningstar Investment Adviser India Private Limited has only one associate, viz., Morningstar India Private Limited, and this company predominantly carries on the business activities of providing data input, data transmission and other data related services, financial data analysis, software development etc.

The author/creator of this Investment Research (“Research Analyst”) or his/her associates or his/her relatives does/do not have (i) any financial interest in the subject company; (ii) any actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of this Investment Research; and (iii) any other material conflict of interest at the time of publication of this Investment

Research.

The Research Analyst or his/her associates or his/her relatives has/have not received any (i) compensation from the subject company in the past twelve months; (ii) compensation for products or services from the subject company in the past twelve months; and (iii) compensation or other material benefits from the subject company or third party in connection with this Investment Research. Also, the Research Analyst has not served as an officer, director or employee of the subject company.

The terms and conditions on which Morningstar Investment Adviser India Private Limited offers Investment Research to clients, varies from client to client, and are spelt out in detail in the respective client agreement.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Fortis is smartly divesting its no-moat real estate and merchant generation.

Andrew Bischof, CFA  
Equity Analyst  
andrew.bischof@morningstar.com  
+1 (312) 696-6433

The primary analyst covering this company does not own its stock.

Research as of 03 Aug 2015  
Estimates as of 31 Jul 2015  
Pricing data through 15 Sep 2015  
Rating updated as of 15 Sep 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

### Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	-
Valuation, Growth and Profitability	2
Scenario Analysis	2
Economic Moat	2
Moat Trend	2
Bulls Say/Bears Say	4
Financial Health	5
Enterprise Risk	5
Management & Ownership	6
Analyst Note Archive	7
Additional Information	-
Morningstar Analyst Forecasts	9
Comparable Company Analysis	13
Methodology for Valuing Companies	15

### Investment Thesis 03 Aug 2015

Fortis manages electric and gas regulated utilities in Canada, the United States, and the Caribbean, resulting in stable operating results. Regulated operations will make up nearly all of the company's asset base after management recently divested noncore New York hydro generation and is under contract to sell the company's real estate holdings. We like that management has divested these operations, allowing it to focus on electric and natural gas distribution in North America and acquisition integration.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth of the past four decades. Rate base additions should be significant through 2018, as the healthier Canadian economy drives usage and customer growth to support the firm's CAD 9.0 billion investment plans. This should allow the firm to increase its rate base a projected 7% annually during this expansion period.

On a weighted average basis, Fortis' allowed return on equity in its Canadian service territories is near 9.25%. While this return is lower than that typically granted to comparable U.S. utilities, it seems reasonable, given the low-risk nature of Fortis' transmission and delivery operations.

Management has long expressed interest in expanding its operations through U.S. acquisitions. In addition to its 2012 \$1.5 billion cash and debt bid for CH Energy, Fortis recently acquired Tucson, Arizona-based UNS Energy for \$4.3 billion in cash and debt. Now 40% of Fortis' operating assets are U.S. regulated utilities. Management has indicated that it will take a pause from acquisitions and focus on organic growth opportunities and earning allowed returns at its regulated utilities. Longer term, management views the U.S. attractively, and we believe it will look for additional regulated U.S. opportunities.

### Vital Statistics

Market Cap (CAD Mil)	10,092
52-Week High (CAD)	42.23
52-Week Low (CAD)	33.69
52-Week Total Return %	8.4
YTD Total Return %	-5.3
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	3.6
5-Yr Forward EPS CAGR %	6.3
Price/Fair Value	0.98

### Valuation Summary and Forecasts

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings		14.2	15.8	13.9	12.9
EV/EBITDA		7.5	10.3	8.1	7.5
EV/EBIT		12.1	16.8	12.8	11.9
Free Cash Flow Yield %		9.9	5.6	-6.1	1.7
Dividend Yield %		6.4	4.2	5.3	5.5

### Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue		5,838	6,053	6,310	6,562
Revenue YoY %		-14.5	3.7	4.3	4.0
EBIT		1,184	1,254	1,373	1,483
EBIT YoY %		-11.5	5.9	9.5	8.0
Net Income, Adjusted		518	593	638	706
Net Income YoY %		-4.8	14.5	7.7	10.6
Diluted EPS		2.14	2.46	2.61	2.81
Diluted EPS YoY %		-153.1	14.7	6.2	7.5
Free Cash Flow		713	772	32	375
Free Cash Flow YoY %		-14.5	8.3	-95.9	NM

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. Regulated operations constitute more than 95% of total assets. The company has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate.



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analysis

### Valuation, Growth and Profitability 03 Aug 2015

We are maintaining our CAD 37 fair value estimate after incorporating second-quarter results that were in line with our expectations. We forecast 6% annual earnings growth through 2018, accounting for normalized weather conditions and excluding unannounced acquisitions.

We assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. We forecast 1.0% annual energy growth at the U.S. utilities. Based on management's guidance, we forecast total investments of CAD 8.5 billion at the utilities through 2019, leading to 7% annualized rate base growth.

We use a 7.5% cost of equity to arrive at a 6.1% weighted average cost of capital in our discounted cash flow valuation.

### Scenario Analysis

Our uncertainty rating for Fortis is low. In our bull-case scenario, we assume rate case outcomes are 25% higher and operating expenses are 5% less than in our base-case scenario, increasing our fair value estimate by \$5 per share. In our bear-case scenario, a similar decline in rate case outcomes and increase in operating expense results in a \$5 per share decrease in our fair value estimate.

If we assume a 100-basis-point decrease in allowed returns on equity at the Canadian utilities in 2015 and beyond, our fair value estimate would drop CAD 2 per share. Better-than-expected allowed returns on equity drive similar upside results.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by CAD 3 per share.

### Economic Moat

Service territory monopolies and efficient scale advantages are the primary sources of an economic moat for regulated

utilities such as Fortis. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

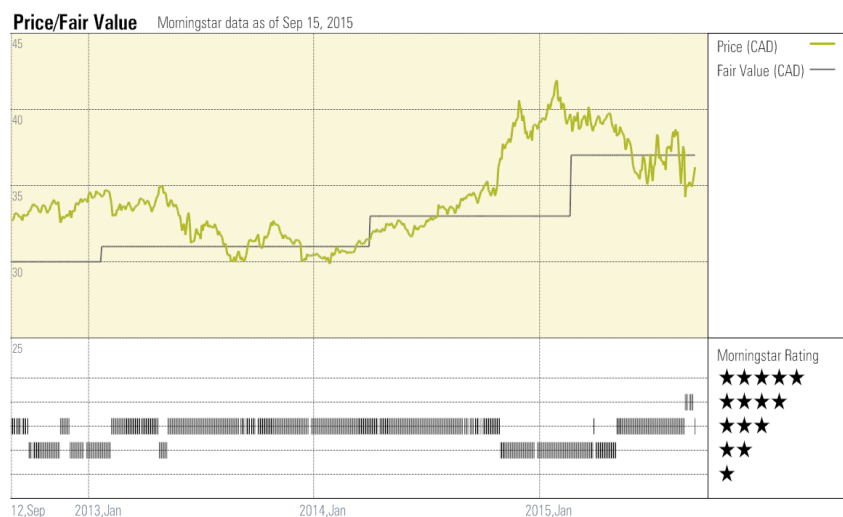
### Moat Trend

We assign Fortis a stable moat because of its monopoly position and stable regulatory environment, which should continue to allow the firm to earn its cost of capital. Fortis has a history of constructive relationships across its North American presence, and we do not expect the regulatory relationship to change. The bulk of its capital plan is toward the moaty regulated assets, which should strengthen Fortis' narrow moat. The regulatory framework that caps revenue and returns prevents the firm from attaining a wide moat, as with all regulated utilities we cover.

For regulated utilities like Fortis, our moat trends consider changes in the regulatory environment, near-term investment requirements and growth opportunities, energy

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated



demand trends, and management's strategic direction. In assessing the changing regulatory environment, we consider the level of automatic rate mechanisms, allowed returns on equity versus interest rates, fuel cost recovery mechanisms, and the history of regulatory relations. Using these factors, we assess whether fundamental changes will give a utility a better opportunity to earn or overearn its cost of capital in the near term, or whether fundamental changes will make it more difficult for a utility to earn its cost of capital.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Bulls Say/Bears Say

### Bulls Say

- ▶ Fortis operates a stable business profile of regulated utilities, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan in the coming years, we forecast Fortis' rate base to grow 7% annually.
- ▶ Fortis has paid consecutive quarterly dividends for four decades and raised the dividend faster than most of its peers in recent years.

### Bears Say

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions.

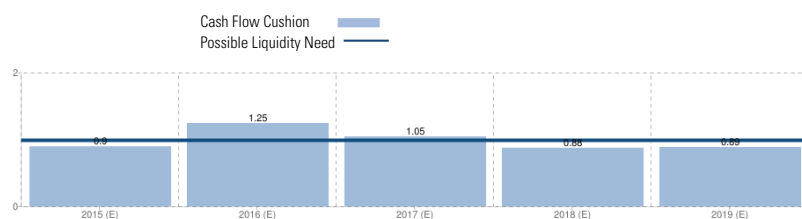
# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	5	155	197	234	210
Adjusted Available Cash Flow	961	1,577	1,390	1,255	1,146
Total Cash Available before Debt Service	966	1,733	1,587	1,489	1,357
Principal Payments	-120	-395	-681	-840	-681
Interest Payments	-369	-378	-357	-364	-378
Other Cash Obligations and Commitments	-588	-618	-480	-496	-470
Total Cash Obligations and Commitments	-1,077	-1,391	-1,518	-1,700	-1,529

## Cumulative Annual Cash Flow Cushion



## Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	5	0.1
Sum of 5-Year Adjusted Free Cash Flow	6,330	87.7
Sum of Cash and 5-Year Cash Generation	6,335	87.8
Revolver Availability	1,937	26.9
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	8,272	114.7
Sum of 5-Year Cash Commitments	-7,214	—

## Financial Health

Through 2019, Fortis has CAD 9.0 billion of planned capital expenditures, which will require it to access the debt and equity capital markets. It has manageable debt maturities through 2018. The company issued significant equity in 2013 and 2014 to help finance employee stock-purchase plans, support its capital expenditure plan, and pay for its U.S. acquisitions.

With a 57% debt/capital ratio and 3.5 times interest coverage, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. We expect the company to maintain a capital structure in line with regulatory targets throughout its current investment cycle.

## Enterprise Risk

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2019. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye toward acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
IG/GWL Dividend GIF 75/75	2.12	1.29	—	31 May 2015
MFC Global E&P Monthly High Income	1.93	2.08	—	31 Mar 2015
RBC Canadian Dividend GIF	1.22	0.73	—	30 Apr 2015
Scotia Canadian Dividend Fund	1.31	1.75	650	30 Jun 2015
Assumption/CI Harbour Growth & Inc	0.89	1.84	-275	31 Mar 2015

#### Concentrated Holders

iShares S&P/TSX Capped Utilities	0.28	25.87	0	31 Jul 2015
BMO Equal Weight Utilities ETF	0.16	9.22	-11	31 Jul 2015
Portland Canadian Focused Fund	0.01	6.84	—	31 Jul 2015
Utility Corp	0.03	6.65	—	31 Jul 2015
Newgrowth Corp A	0.10	6.41	-18	31 Jul 2015

### Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Scotia Asset Management	1.31	1.75	650	30 Jun 2015
RBC Global Asset Management Inc.	3.85	0.71	534	30 Jun 2015
Vanguard Group, Inc.	1.14	0.04	189	31 Jul 2015
CIBC Asset Management Inc.	0.24	0.87	167	31 Jul 2015
Bank of America Pension Plan For Legacy Fleet	0.01	0.01	159	31 Dec 2009

#### Top 5 Sellers

CI Investments Inc.	0.89	1.84	-275	31 Mar 2015
Canoe Financial LP	0.13	0.97	-170	31 May 2015
Invesco Canada Ltd.	0.03	0.96	-143	31 Jul 2015
Manulife Asset Management Accord (2015) Inc.	0.04	0.57	-122	31 Jul 2015
National Bank Trust Inc.	0.20	1.10	-58	31 Jul 2015

### Management 03 Aug 2015

Overall, we think management has been fair stewards of shareholder capital. Fortis has earned at or near its allowed returns, and management has established good regulatory relationships, particularly in Canada. What concerns us the most, and would cause us to revisit our view of the management team, is management's enthusiasm for U.S. acquisitions leading to further pricey acquisitions, much like the bid for UNS Energy. We think Fortis' shareholders would be better off if management reinvested its capital to fund growth investments or returned it to shareholders through share repurchases or a higher dividend payout ratio.

Stanley Marshall had been president and CEO since 1995, leading a group of experienced utility executives. He was recently placed by Barry Perry, who we think is a suitable replacement, given his previous experience as Fortis' CFO and as CFO of Newfoundland Power.

Total direct compensation is in line with Fortis' industry group. Management's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as earnings per share can be manipulated and may not be an indication of shareholder value creation. Management has a significant ownership stake, which we believe aligns shareholder and management interests.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Analyst Notes

### Divestitures During Quarter Move Fortis Toward Fully Regulated Utility 31 Jul 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported second-quarter GAAP earnings of \$0.88 per share, compared with \$0.22 in the year-ago period. Earnings were boosted by significant one-time gains. Excluding nonoperating items, earnings per share were \$0.44 in the quarter compared with \$0.30 in the same year-ago period.

Management made significant progress in the quarter divesting no-moat units and focusing on delivering value from its recent acquisitions. We continue to applaud this strategic shift by management. During the quarter, Fortis agreed to the sale of its Fortis Properties commercial real estate portfolio for \$430 million and plans to close the transaction in fall 2015. The sale of nonregulated hydro assets in New York was completed for \$77 million. Management marked sale proceeds mainly to pay down credit facility borrowings used to fund the UNS Energy acquisition.

Organic growth opportunities also continue to progress well. One of the company's larger projects, the \$900 million 335 MW Wanetta expansion was completed in the quarter. The \$440 million FortisBC Tilbury expansion is on time and expected to be completed in late 2016. The company's \$9 billion, five-year capital plan should support 6.5% rate base growth. Additional capital opportunities could push rate base growth to 7.5%. Capital and earnings growth has also equated to robust dividend growth, with a recent 6.25% dividend increase.

During the quarter, the UNS Energy acquisition significantly added to earnings, given the differentiated earnings profile from its other operations. In the quarter, New York regulators approved Central Hudson's three-year rate request, allowing a 9% allowed return on equity, below the

U.S. average.

### Fortis Management Focusing on Regulated Utilities and Organic Growth Opportunities 05 May 2015

We are reaffirming our CAD 37 fair value estimate and narrow economic moat and stable moat trend ratings after Fortis reported first-quarter ongoing operating earnings of \$0.65 per share, compared with \$0.68 in the year-ago period.

Management is now focused on building organic growth opportunities, a stark change from the company's acquisitive path. We applaud this strategic shift as the company has an attractive lineup of growth opportunities supporting management's five-year, \$9 billion capital plan. In the quarter, the company's Waneta hydroelectric facility entered into service and will begin contributing to earnings in the second quarter. Additional opportunities at the Tilbury and Woodfibre LNG project should support 7.5% annual rate base growth. Management plans to wrap up its strategic review of the no-moat Fortis Properties unit in the second quarter.

During the first quarter, the company received some key regulatory decisions. In Fortis Alberta, the company received support for the majority of its capital programs through its capital tracker. Its allowed return on equity fell to 8.30% from 8.75% for 2013-15, but we continue to appreciate the constructive Alberta regulatory environment. Future decisions related to its cost of capital for trackers will be key to determining constructiveness. At Central Hudson, the company entered into a joint settlement agreement for proposed rates with a 9.0% allowed return on equity.

During the quarter, dilution from the UNS Energy acquisition depressed earnings. We expect a significant earnings benefit from the acquisition in the second and third quarters due to the seasonality of UNS' operations. Fortis recently

Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

announced a strong 6.25% dividend increase.



# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

		Forecast					
	3-Year Hist. CAGR	2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	-7.0	-9.3	-14.5	3.7	4.3	4.0	3.6
EBIT	-2.8	-2.1	-11.5	5.9	9.5	8.0	6.4
EBITDA	-2.0	-0.8	-10.9	6.5	6.4	7.8	6.1
Net Income	-0.2	-8.9	-4.8	14.5	7.7	10.6	7.8
Diluted EPS	-0.6	-287.7	-153.1	14.7	6.2	7.5	6.6
Earnings Before Interest, after Tax	-6.6	-4.5	32.6	-35.6	6.4	7.9	2.4
Free Cash Flow	-10.6	-22.9	-14.5	8.3	-95.9	NM	-17.0

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Profitability							
Operating Margin %	20.2	19.6	20.3	20.7	21.8	22.6	22.9
EBITDA Margin %	32.8	31.6	32.9	33.8	34.5	35.7	36.5
Net Margin %	8.9	8.0	8.9	9.8	10.1	10.8	11.2
Free Cash Flow Margin %	12.4	12.2	12.2	12.8	0.5	5.7	4.0
ROIC %	4.8	0.6	6.7	7.0	5.4	5.5	5.4
Adjusted ROIC %	4.9	0.6	6.8	7.2	5.5	5.6	5.5
Return on Assets %	0.3	-4.3	2.4	2.8	2.7	2.9	3.0
Return on Equity %	1.2	-13.4	8.0	9.1	9.4	9.8	9.9

	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Leverage							
Debt/Capital	0.51	0.51	0.49	0.51	0.53	0.51	0.50
Total Debt/EBITDA	3.32	3.24	3.33	3.40	3.55	3.31	3.25
EBITDA/Interest Expense	5.21	4.81	4.83	6.00	5.90	6.20	6.72

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.98	1.18	—	—
Price/Earnings	14.2	15.8	13.9	12.9
EV/EBITDA	7.5	10.3	8.1	7.5
EV/EBIT	12.1	16.8	12.8	11.9
Free Cash Flow Yield %	9.9	5.6	-6.1	1.7
Dividend Yield %	6.4	4.2	5.3	5.5

### Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.7
Long-Run Tax Rate %	38.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	55.6
Perpetuity Year	10

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,127	6.6	4.61
Present Value Stage II	1,747	10.3	7.15
Present Value Stage III	14,172	83.1	57.99
<b>Total Firm Value</b>	<b>17,046</b>	<b>100.0</b>	<b>69.75</b>
Cash and Equivalents	5	—	0.02
Debt	-6,954	—	-28.45
Preferred Stock	—	—	—
Other Adjustments	17	—	0.07
<b>Equity Value</b>	<b>10,114</b>	<b>—</b>	<b>41.38</b>

Projected Diluted Shares

244

Fair Value per Share (CAD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

Fiscal Year Ends in December	Forecast				
	2012	2013	2014	2015	2016
<b>Revenue</b>	<b>6,828</b>	<b>5,838</b>	<b>6,053</b>	<b>6,310</b>	<b>6,562</b>
Cost of Goods Sold	2,495	1,873	1,895	1,941	1,980
<b>Gross Profit</b>	<b>4,333</b>	<b>3,965</b>	<b>4,158</b>	<b>4,369</b>	<b>4,582</b>
Selling, General & Administrative Expenses	1,752	1,617	1,691	1,716	1,751
Other Operating Expense (Income)	468	458	468	477	487
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	775	706	745	802	862
<b>Operating Income (ex charges)</b>	<b>1,338</b>	<b>1,184</b>	<b>1,254</b>	<b>1,373</b>	<b>1,483</b>
Restructuring & Other Cash Charges	2,578	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
<b>Operating Income (incl charges)</b>	<b>-1,240</b>	<b>1,184</b>	<b>1,254</b>	<b>1,373</b>	<b>1,483</b>
Interest Expense	448	398	341	369	378
Interest Income	34	43	57	25	34
<b>Pre-Tax Income</b>	<b>-1,654</b>	<b>829</b>	<b>970</b>	<b>1,030</b>	<b>1,138</b>
Income Tax Expense	-680	311	377	391	433
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	6	8	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
<b>Net Income</b>	<b>-974</b>	<b>524</b>	<b>601</b>	<b>638</b>	<b>706</b>
Weighted Average Diluted Shares Outstanding	242	245	244	244	251
<b>Diluted Earnings Per Share</b>	<b>-4.03</b>	<b>2.14</b>	<b>2.46</b>	<b>2.61</b>	<b>2.81</b>
Adjusted Net Income	544	518	593	638	706
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>2.25</b>	<b>2.12</b>	<b>2.43</b>	<b>2.61</b>	<b>2.81</b>
Dividends Per Common Share	1.60	1.60	1.60	1.64	1.67
<b>EBITDA</b>	<b>-422</b>	<b>1,921</b>	<b>2,045</b>	<b>2,175</b>	<b>2,344</b>
<b>Adjusted EBITDA</b>	<b>2,156</b>	<b>1,921</b>	<b>2,045</b>	<b>2,175</b>	<b>2,344</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	209	30	5	155	197
Investments	—	—	—	—	—
Accounts Receivable	818	904	769	889	719
Inventory	704	526	524	541	515
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	638	512	748	748	748
<b>Current Assets</b>	<b>2,369</b>	<b>1,972</b>	<b>2,046</b>	<b>2,334</b>	<b>2,179</b>
Net Property Plant, and Equipment	16,096	16,205	17,424	18,607	19,525
Goodwill	411	411	411	411	411
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,786	1,240	1,582	1,600	1,600
Long-Term Non-Operating Assets	1,173	1,214	1,213	1,213	1,213
<b>Total Assets</b>	<b>21,835</b>	<b>21,042</b>	<b>22,676</b>	<b>24,164</b>	<b>24,929</b>
Accounts Payable	625	806	711	782	797
Short-Term Debt	355	902	834	721	165
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	718	753	704	700	700
<b>Current Liabilities</b>	<b>1,698</b>	<b>2,461</b>	<b>2,249</b>	<b>2,202</b>	<b>1,662</b>
Long-Term Debt	6,626	5,504	6,120	7,000	7,605
Deferred Tax Liabilities (Long-Term)	2,792	3,166	3,923	4,075	4,237
Other Long-Term Operating Liabilities	1,589	1,705	1,850	2,150	2,150
Long-Term Non-Operating Liabilities	2,363	1,520	1,679	1,679	1,679
<b>Total Liabilities</b>	<b>15,068</b>	<b>14,356</b>	<b>15,821</b>	<b>17,106</b>	<b>17,334</b>
Preferred Stock	—	—	—	—	—
Common Stock	2	2	2	2	2
Additional Paid-in Capital	5,616	5,632	5,617	5,617	5,867
Retained Earnings (Deficit)	1,006	907	1,103	1,341	1,627
(Treasury Stock)	—	—	—	—	—
Other Equity	-8	3	-9	-50	-50
<b>Shareholder's Equity</b>	<b>6,616</b>	<b>6,544</b>	<b>6,713</b>	<b>6,910</b>	<b>7,446</b>
Minority Interest	151	142	142	149	149
<b>Total Equity</b>	<b>6,767</b>	<b>6,686</b>	<b>6,855</b>	<b>7,059</b>	<b>7,595</b>

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	-974	295	592	638	706
Depreciation	818	737	791	802	862
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-714	410	451	152	163
Other Non-Cash Adjustments	2,548	308	-283	—	—
(Increase) Decrease in Accounts Receivable	33	-60	31	-120	170
(Increase) Decrease in Inventory	5	60	3	-17	26
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	-29	81	10	71	16
Change in Other Short-Term Liabilities	3	-195	-44	-4	—
<b>Cash From Operations</b>	<b>1,690</b>	<b>1,636</b>	<b>1,551</b>	<b>1,522</b>	<b>1,942</b>
(Capital Expenditures)	-1,030	-1,030	-1,030	-1,985	-1,780
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-70	-344	68	282	—
<b>Cash From Investing</b>	<b>-1,100</b>	<b>-1,374</b>	<b>-962</b>	<b>-1,703</b>	<b>-1,780</b>
Common Stock Issuance (or Repurchase)	—	—	—	—	250
Common Stock (Dividends)	-382	-388	-390	-401	-420
Short-Term Debt Issuance (or Retirement)	-148	368	346	-113	-556
Long-Term Debt Issuance (or Retirement)	122	-121	202	880	605
Other Financing Cash Flows	-18	-8	-17	7	—
<b>Cash From Financing</b>	<b>-426</b>	<b>-149</b>	<b>141</b>	<b>373</b>	<b>-120</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	-41	—
<b>Net Change in Cash</b>	<b>164</b>	<b>113</b>	<b>730</b>	<b>150</b>	<b>42</b>

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	1.03	19.0	16.9	16.1	10.4	10.2	9.7	23.6	NM	NM	2.4	2.0	1.9	2.8	2.5	2.4
TransAlta Corp TAC USA	0.58	36.2	28.2	16.9	6.6	6.7	6.5	9.3	13.3	6.5	0.9	0.5	0.5	1.1	0.6	0.6
Average		27.6	22.6	16.5	8.5	8.5	8.1	16.5	13.3	6.5	1.7	1.3	1.2	2.0	1.6	1.5
<b>Fortis Inc FTS CA</b>	<b>0.98</b>	<b>15.8</b>	<b>13.9</b>	<b>12.9</b>	<b>10.3</b>	<b>8.1</b>	<b>7.5</b>	<b>17.8</b>	<b>NM</b>	<b>47.0</b>	<b>1.4</b>	<b>1.1</b>	<b>1.0</b>	<b>1.5</b>	<b>1.2</b>	<b>1.2</b>

### Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	74,929 USD	5.2	4.5	4.6	5.2	4.5	4.6	13.0	12.1	12.0	3.4	3.2	3.3	2.7	3.1	3.6
TransAlta Corp TAC USA	9,833 CAD	6.1	4.1	5.0	6.5	4.3	5.3	6.3	1.8	3.1	1.4	0.4	0.7	4.9	10.2	7.1
Average		5.7	4.3	4.8	5.9	4.4	5.0	9.7	7.0	7.6	2.4	1.8	2.0	3.8	6.7	5.4
<b>Fortis Inc FTS CA</b>	<b>22,676 USD</b>	<b>7.0</b>	<b>5.4</b>	<b>5.5</b>	<b>7.2</b>	<b>5.5</b>	<b>5.6</b>	<b>9.1</b>	<b>9.4</b>	<b>9.8</b>	<b>2.8</b>	<b>2.7</b>	<b>2.9</b>	<b>4.2</b>	<b>5.3</b>	<b>5.5</b>

### Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	17,021 USD	12.5	4.1	2.7	24.1	-0.3	4.0	25.4	1.7	5.1	-31.2	567.2	-108.2	—	16.7	13.6
TransAlta Corp TAC USA	2,623 CAD	14.4	-2.9	2.9	41.6	-8.2	8.8	-18.8	-40.8	70.1	63.0	4.2	-3.3	—	-37.9	-30.6
Average		13.5	0.6	2.8	32.9	-4.3	6.4	3.3	-19.6	37.6	15.9	285.7	-55.8	—	-10.6	-8.5
<b>Fortis Inc FTS CA</b>	<b>6,053 USD</b>	<b>3.7</b>	<b>4.3</b>	<b>4.0</b>	<b>5.9</b>	<b>9.5</b>	<b>8.0</b>	<b>14.7</b>	<b>6.2</b>	<b>7.5</b>	<b>8.3</b>	<b>-95.9</b>	<b>NM</b>	<b>—</b>	<b>2.5</b>	<b>1.8</b>

# Fortis Inc FTS (TSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	2,472 USD	67.1	65.9	66.7	42.8	40.3	41.1	25.8	24.7	25.0	14.5	14.1	14.5	11.7	-14.9	-1.0
TransAlta Corp TAC USA	68 CAD	58.4	60.5	60.8	44.9	37.9	38.0	16.1	15.2	16.1	2.6	1.6	2.7	11.8	4.6	9.2
Average		62.8	63.2	63.8	43.9	39.1	39.6	21.0	20.0	20.6	8.6	7.9	8.6	11.8	-5.2	4.1
<b>Fortis Inc FTS CA</b>	<b>593 USD</b>	<b>68.7</b>	<b>69.2</b>	<b>69.8</b>	<b>33.8</b>	<b>34.5</b>	<b>35.7</b>	<b>20.7</b>	<b>21.8</b>	<b>22.6</b>	<b>9.8</b>	<b>10.1</b>	<b>10.8</b>	<b>8.6</b>	<b>-7.3</b>	<b>2.5</b>

### Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	29,024 USD	145.7	154.3	151.3	59.3	60.7	60.2	5.8	5.5	5.5	4.0	4.6	4.6	3.8	3.7	3.7
TransAlta Corp TAC USA	4,056 CAD	123.5	119.0	116.4	55.3	54.4	53.8	4.6	4.3	4.5	3.4	3.9	3.7	3.0	3.0	3.1
Average		134.6	136.7	133.9	57.3	57.6	57.0	5.2	4.9	5.0	3.7	4.3	4.2	3.4	3.4	3.4
<b>Fortis Inc FTS CA</b>	<b>6,954 USD</b>	<b>103.6</b>	<b>111.7</b>	<b>104.4</b>	<b>50.9</b>	<b>52.8</b>	<b>51.1</b>	<b>6.0</b>	<b>5.9</b>	<b>6.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>

### Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
NextEra Energy Inc NEE USA	43,461 USD	1.31	0.97	1.24	0.72	0.75	0.76	0.58	0.60	0.61	0.12	0.09	0.11	47.1	54.1	58.5
TransAlta Corp TAC USA	1,207 USD	0.16	0.09	0.27	0.59	0.76	0.80	0.54	0.68	0.73	0.06	0.05	0.15	139.4	488.2	199.3
Average		0.74	0.53	0.76	0.66	0.76	0.78	0.56	0.64	0.67	0.09	0.07	0.13	93.3	271.2	128.9
<b>Fortis Inc FTS CA</b>	<b>10,092 CAD</b>	<b>0.02</b>	<b>0.64</b>	<b>0.78</b>	<b>0.91</b>	<b>1.06</b>	<b>1.31</b>	<b>0.68</b>	<b>0.81</b>	<b>1.00</b>	<b>0.01</b>	<b>0.22</b>	<b>1.19</b>	<b>65.1</b>	<b>62.8</b>	<b>59.5</b>

# Research Methodology for Valuing Companies

## Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of “economic outperformance” that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

## Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.



Detailed Methodology Documents and Materials\*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

\*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

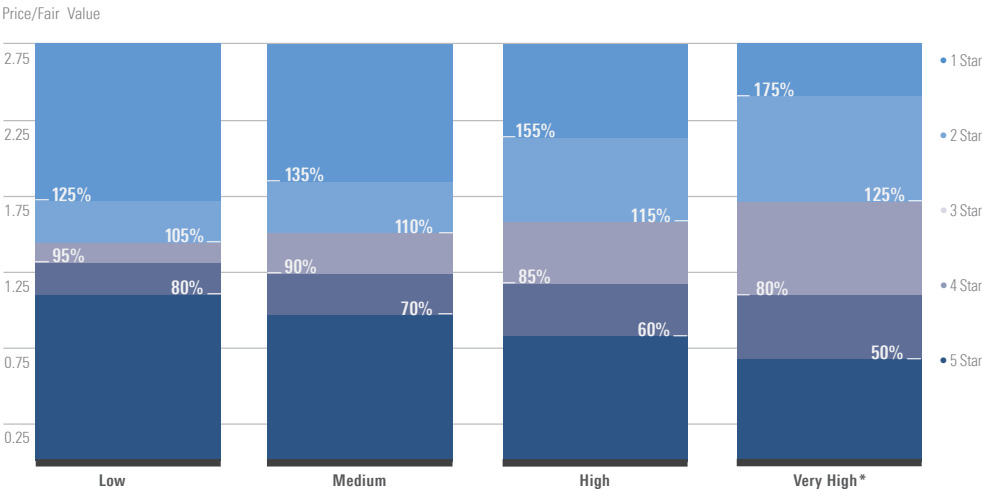
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■■

Morningstar Margin of Safety and Star Rating Bands



\* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

**Price/Fair Value** Morningstar data as of Sep 15, 2015



Unless stated otherwise, this Research Report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., or one of its affiliates. This Report has not been made available to the issuer of the relevant financial products prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate, and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Report is current as of the date on the Report until it is replaced, updated or withdrawn. This Report may be withdrawn or changed at any time as other information becomes available to us. This Report will be updated if events affecting the Report materially change.

## Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the Reports.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this Report.

- Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous Reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this Report only in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of this document is Morningstar Inc. Redistribution, in any capacity, is prohibited without permission. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate, nor may they be construed as a representation regarding the legality of investing in the security/ies concerned, under the applicable investment or similar laws or regulations of any person or entity accessing this report. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar, its affiliates, and their officers, directors and employees shall not be responsible or liable for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. You should seek the advice of your financial, legal, tax, business and/or other consultant, and read all relevant issue documents pertaining to the security/ies concerned, including without limitation, the detailed risks involved in

the investment, before making an investment decision.

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. As the price / value / interest rate of a security fluctuates, the value of your investments in the said security, and in the income, if any, derived therefrom may go up or down.

For Recipients in Australia: This report has been authorized by the Head of Equity and Credit Research, Asia Pacific, Morningstar Australasia Pty Limited and is circulated pursuant to RG 79.26(f) as a full restatement of an original report (by the named Morningstar analyst) which has already been broadly distributed. To the extent the report contains general advice it has been prepared without reference to your objectives, financial situation or needs. You should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at [www.morningstar.com.au/fsg.pdf](http://www.morningstar.com.au/fsg.pdf).

For Recipients in Hong Kong: The research is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this research, please contact a Morningstar Investment Management Asia Limited Licensed Representative at <http://global.morningstar.com/equitydisclosures>.

# Fortis Inc FTS (TSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
36.22 CAD	37.00 CAD	29.60 CAD	46.25 CAD	Low	Narrow	Stable	Standard	Utilities - Regulated

For Recipients in India: This research on securities [as defined in clause (h) of Section 2 of the Securities Contracts (Regulation) Act, 1956], such research being referred to for the purpose of this document as “Investment Research”, is issued by Morningstar Investment Adviser India Private Limited.

Morningstar Investment Adviser India Private Limited is registered with the Securities and Exchange Board of India under the SEBI (Investment Advisers) Regulations, 2013, vide Registration number INA000001357, dated March 27, 2014, and in compliance of the aforesaid regulations and the SEBI (Research Analysts) Regulations, 2014, it carries on the business activities of investment advice and research. Morningstar Investment Adviser India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Adviser India Private Limited is a wholly owned subsidiary of Morningstar Associates LLC, which is a part of the Morningstar Investment Management group of Morningstar, Inc., and Morningstar, Inc. is a leading provider of independent investment research that offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. In India, Morningstar Investment Adviser India Private Limited has only one associate, viz., Morningstar India Private Limited, and this company predominantly carries on the business activities of providing data input, data transmission and other data related services, financial data analysis, software development etc.

The author/creator of this Investment Research (“Research Analyst”) or his/her associates or his/her relatives does/do not have (i) any financial interest in the subject company; (ii) any actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of this Investment Research; and (iii) any other material conflict of interest at the time of publication of this Investment

Research.

The Research Analyst or his/her associates or his/her relatives has/have not received any (i) compensation from the subject company in the past twelve months; (ii) compensation for products or services from the subject company in the past twelve months; and (iii) compensation or other material benefits from the subject company or third party in connection with this Investment Research. Also, the Research Analyst has not served as an officer, director or employee of the subject company.

The terms and conditions on which Morningstar Investment Adviser India Private Limited offers Investment Research to clients, varies from client to client, and are spelt out in detail in the respective client agreement.



## PRICE TARGET REVISION | COMMENT

FEBRUARY 11, 2011

## Fortis Inc. (TSX: FTS)

## Q4/10 Results in Line with Expectations

Sector Perform  
Average Risk

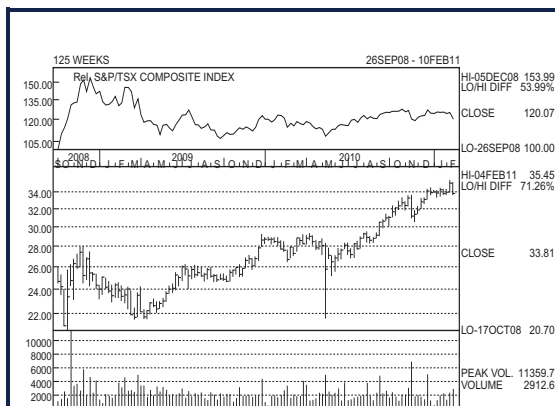
Price:	33.81	Price Target:	34.00 ↑ 33.00
Shares O/S (MM):	174.4	Implied All-In Return:	4%
Dividend:	1.16	Market Cap (MM):	5,896
Float (MM):	174.4	Yield:	3.4%
Debt to Cap:	58%		

## Event

Fortis reported Q4/10 results.

## Investment Opinion

- **Q4/10 Results in Line with Expectations.** Normalized Q4/10 EPS was \$0.49, matching our estimate of \$0.49 and slightly up from \$0.48 in Q4/09. During the quarter, the performance of the Canadian regulated utilities was in line with our expectations. Weaker-than-forecast results from the Caribbean regulated utilities were broadly offset by good performance from the Properties division.
- **Growth Expected to Continue in the Core Canadian Utility Franchise.** Fortis expects to spend \$1.2 billion on capex in 2011 with \$919 million of that amount forecast for the Canadian regulated utilities. The estimated capital for 2011 is a modest increase from the \$1.1 billion spent in 2010.
- **Headwinds in the Caribbean.** 2010 was a disappointing year for the segment, primarily driven by the ongoing situation in Belize although issues have popped up in Turks & Caicos along with Grand Cayman. Fortis hopes that it will be able to settle the rate issues in both Belize and Turks & Caicos in 2011, along with improving operational results in Grand Cayman.
- **Still Upbeat on the Potential for a U.S. Acquisition.** Fortis remains upbeat about the potential for a U.S. utility acquisition. We continue to believe that management will take a disciplined approach (Fortis has been looking to acquire a U.S. utility for years), although we continue to be cautious due to the potential size of the transaction (up to \$5 billion enterprise value) in addition to investor familiarity with the asset and regulatory regime that will be lower than previous acquisitions (e.g., Terasen, Aquila Canada).
- **Valuation: Nudging Up Price Target to \$34.00 (from \$33.00).** Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Although we remain cautious on the prospects for a large U.S. acquisition, we are incrementally more comfortable with the financing strategy based on our recent discussions with the company. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.89
Div. Yield	3.1	3.3	3.4	3.7
P/E	22.0x	20.7x	19.0x	17.9x
EPS (Op) - FD	1.48	1.60	1.75	1.87
P/E	22.8x	21.1x	19.3x	18.1x
Annual Div.	1.04	1.12	1.16	1.24
Payout Ratio- Basic	68%	69%	65%	66%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.63E	0.36E	0.25E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 7.

## Q4/10 Results in Line with Expectations

Fortis' normalized Q4/10 EPS was \$0.49, matching our estimate of \$0.49 and slightly up from \$0.48 in Q4/09. During the quarter, the performance of the Canadian regulated utilities was in line with our expectations. Weaker-than-forecast results from the Caribbean regulated utilities were mostly offset by good performance from the Properties division. The Q4/10 and full-year results are set out in Exhibit 1.

### Exhibit 1: Normalized Earnings (In \$MM except per share figures)

	RBC CM					Comments for Q4 Results
	Q4/10	Q4/10E	Q4/09	2010	2009	
Newfoundland Power	\$9.0	\$8.2	\$8.0	\$35.0	\$32.0	
FortisOntario & Maritime Electric	5.0	5.2	3.0	19.0	17.0	
Terasen	45.0	44.4	55.5	126.0	126.0	
FortisAlberta	17.0	15.4	12.0	67.0	57.0	
FortisBC	10.0	11.3	8.0	43.0	37.0	
Regulated Utilities - Canadian	86.0	84.5	86.5	290.0	269.0	
Regulated Utilities - Caribbean	5.0	10.8	7.0	24.0	25.0	Higher costs in Belize (i.e., legal fees); weaker demand
Non-regulated - Fortis Generation	5.0	4.6	3.0	19.0	16.0	
Non-regulated - Fortis Properties	7.0	4.2	5.0	26.0	24.5	Lower corporate taxes; higher results from hotels and rental properties
Corporate	(18.0)	(17.6)	(19.0)	(78.0)	(72.0)	
Normalized Earnings	<u>\$85.0</u>	<u>\$86.3</u>	<u>\$82.5</u>	<u>\$281.0</u>	<u>\$262.5</u>	
<b>Normalized EPS</b>	<b>\$0.49</b>	<b>\$0.49</b>	<b>\$0.48</b>	<b>\$1.63</b>	<b>\$1.54</b>	
Average shares outstanding (MM)	173.9	174.5	170.9	172.9	170.9	
<b>Normalization adjustments:</b>						
Reversal (after tax) related to project cost overrun			(4.0)	4.0	(4.0)	
Caribbean: Favourable Appeal Judgement					1.0	
Caribbean: One-Time Energy Supply Cost Adj.					1.0	
Properties: One-Time Transition Costs					(0.5)	
AESO tax deferral benefit					3.0	
Corporate tax adjustment			3.0		4.0	
Provision for costs related to propane to gas conversions			(5.0)		(5.0)	
BCUC ROE decision booked in Q4/09 related to Q3/09			1.5			
AUC ROE decision booked in Q4/09 related to prior periods			3.0			
	0.0		(1.5)	4.0	(0.5)	
Reported Earnings	<u>\$85.0</u>		<u>\$81.0</u>	<u>\$285.0</u>	<u>\$262.0</u>	

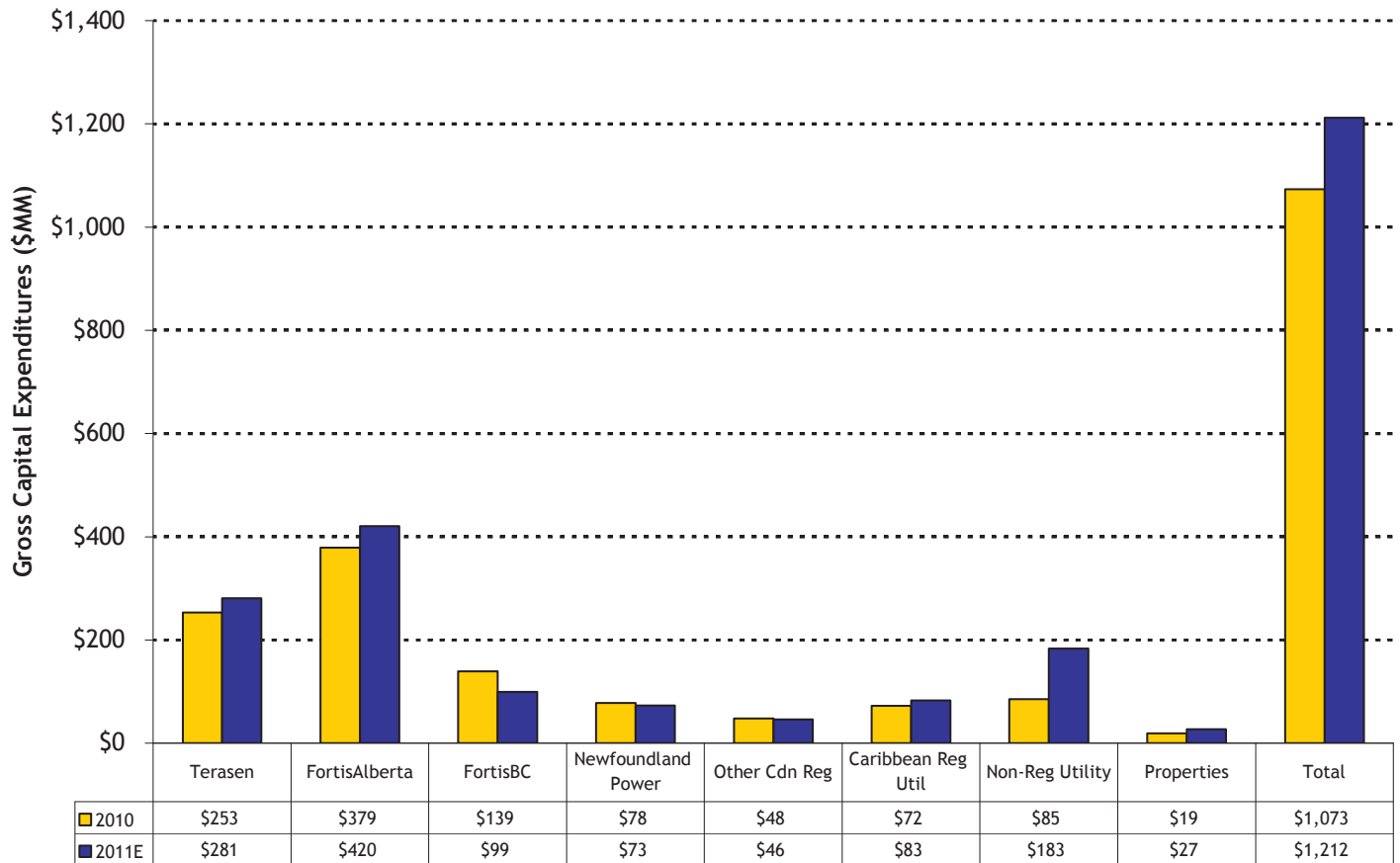
Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter

- **Caribbean Regulated Utilities Impacted by Higher Expenses.** Lower-than-expected earnings from Caribbean Regulated Utilities in Q4/10 were partly attributable to higher operating expenses at Belize Electricity due to legal fees associated with continued regulatory challenges, and weaker customer demand. Management noted that while Belize Electricity contributed only about \$1.5 million of earnings in 2010, it expects the utility to earn roughly \$10 million annually under normal operations.
- **Non-Regulated Fortis Properties Positively Impacted by Lower Taxes.** Higher-than-expected earnings from non-regulated Fortis Properties were primarily attributable to lower corporate taxes and an improvement in results from hotel operations (i.e., Atlantic Canada and central Canada) and rental properties.
- **US\$200 Million Private Placement Completed.** On December 22, 2010, Fortis closed a private placement of US\$200 million in senior unsecured notes, which were issued to institutional investors in the U.S. in two tranches (US\$125 million of 10-year at a coupon rate of 3.53% and US\$75 million of 30-year notes at a coupon rate of 5.26%).
- **Long-Term Utility Growth Plan Remains Intact.** With roughly \$1.1 billion of gross capex in 2010 and \$1.2 billion expected in 2011 (please refer to Exhibit 2), planned capex over the next five years is expected to approach \$5.5 billion. As the majority of Fortis' planned capital investment is in regulated electric utilities (about 63%), rate base is expected to grow at a roughly 6% compound annual growth rate, which should translate into similar earnings growth. Approximately 20% and 17% of the five-year capex program will be incurred at Terasen and at non-regulated operations, respectively.
- **Construction Under Way for Waneta Expansion.** In October 2010, construction began on the \$900 million Waneta Expansion, a 335 MW hydro project in B.C that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility which will sell energy and capacity to BC Hydro and FortisBC (Fortis' regulated electric utility), under 40-year power sales contracts.



Exhibit 2: Capital Expenditures (2010 vs. 2011E)



Source: Company reports; RBC Capital Markets

### Minor Changes within the Segments but Overall Estimates Remain Unchanged

We have made minor changes within some of our segment forecasts, but have left our overall EPS estimates unchanged through 2012. We have lowered our forecast for Terasen (about \$3 million and \$6 million lower in 2011 and 2012, respectively) which is offset by a higher forecast for Properties (about \$3 million in both 2011 and 2012) and other minor changes for other segments. Our revised estimates are set out in Exhibit 3.



## Exhibit 3: Revised Financial Forecast (In \$MM except per share figures)

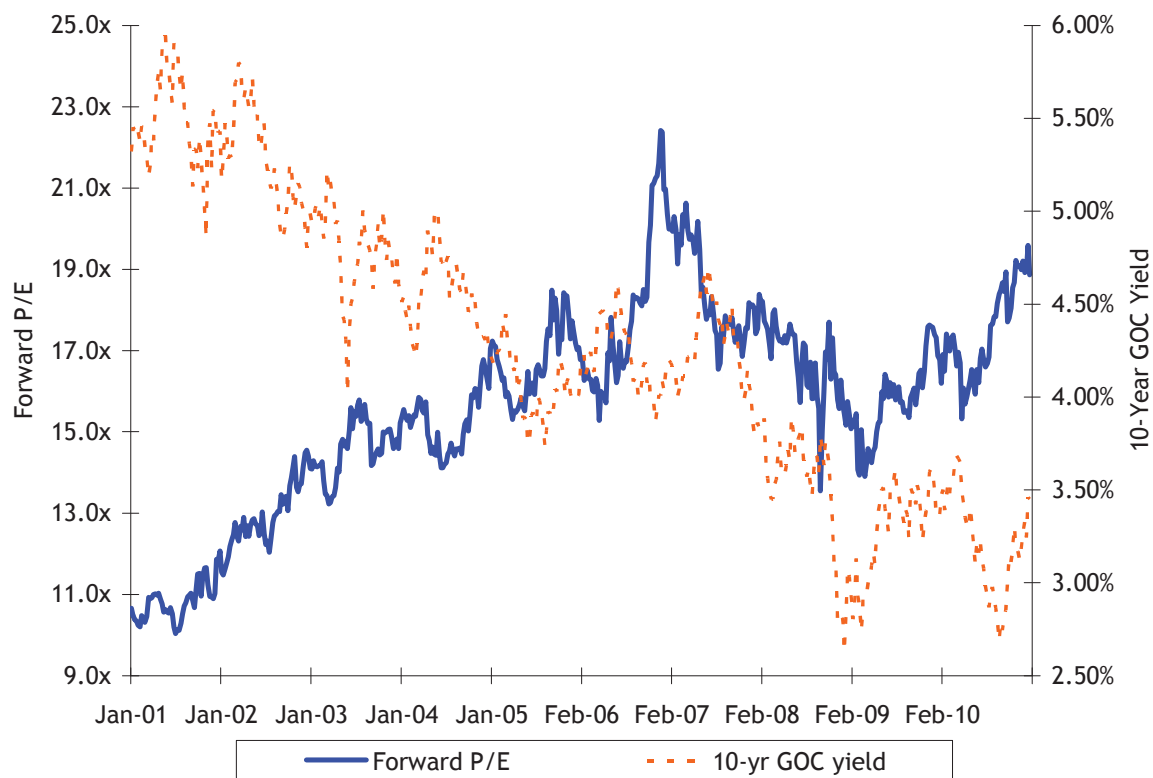
									<i>Old</i>	
	2009	2010	Q1/11E	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	2011E	2012E
Newfoundland Power	\$32	\$35	\$7	\$11	\$8	\$9	\$35	\$36	\$35	\$37
Other Cdn (ME + FTS Ont)	17	19	5	4	5	5	20	21	20	20
Terasen	126	126	74	17	(5)	48	134	140	138	146
FortisAlberta	57	67	16	19	21	19	74	83	73	81
FortisBC	37	43	15	9	12	11	47	51	49	53
Regulated Utilities - Caribbean	25	24	5	8	9	9	31	33	31	33
Fortis Generation	16	19	5	6	4	5	20	20	20	20
Fortis Properties	25	26	2	8	9	7	27	28	24	25
Corporate and other	(72)	(78)	(19)	(18)	(20)	(19)	(76)	(73)	(77)	(75)
<b>Normalized earnings</b>	<b>\$263</b>	<b>\$281</b>	<b>\$111</b>	<b>\$64</b>	<b>\$44</b>	<b>\$95</b>	<b>\$312</b>	<b>\$338</b>	<b>\$313</b>	<b>\$340</b>
Shares O/S (MM)	171	173	174	175	176	177	176	179	176	179
<b>Normalized EPS (Basic)</b>	<b>\$1.54</b>	<b>\$1.63</b>	<b>\$0.63</b>	<b>\$0.36</b>	<b>\$0.25</b>	<b>\$0.53</b>	<b>\$1.78</b>	<b>\$1.89</b>	<b>\$1.78</b>	<b>\$1.89</b>
Dividends Paid	\$1.04	\$1.12					\$1.16	\$1.24	\$1.16	\$1.24
Payout Ratio	68%	69%					65%	66%	65%	66%

Source: Company reports; RBC Capital Markets estimates

**Increasing Price Target to \$34.00 (from \$33.00)**

We have increased our price target to \$34.00 (from \$33.00) to reflect a forward P/E of 18.0x 2012E EPS (previously 17.5x). Although we remain cautious on the prospects for a large U.S. acquisition, we are incrementally more comfortable with the financing strategy based on our recent discussions with management. As shown in Exhibit 4, Fortis' forward P/E over the past five years mostly ranged from about 14x to 19x (excluding the peak in 2007 due to EPS dilution from the Terasen transaction as the deal closed in May, which is after Terasen's seasonally strong months). Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment and good growth from the core Canadian regulated utilities.

Exhibit 4: Forward P/E



Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

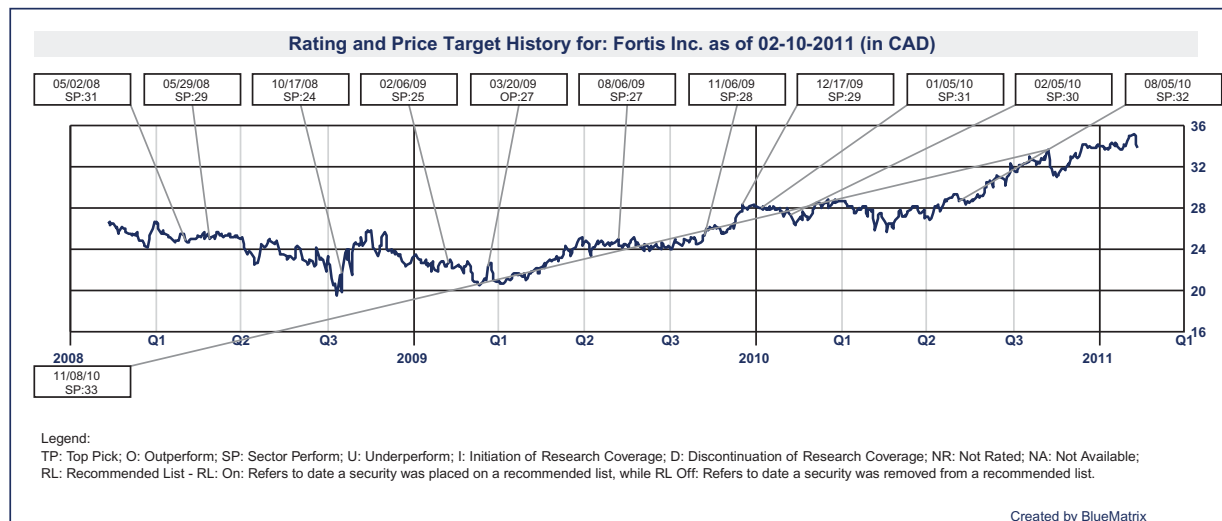
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	694	50.70	189	27.23
HOLD[SP]	613	44.70	136	22.19
SELL[U]	64	4.70	9	14.06



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an



'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
 Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
 Copyright © Royal Bank of Canada Europe Limited 2011  
 Copyright © Royal Bank of Canada 2011  
 All rights reserved







## COMPANY UPDATE | COMMENT

MARCH 16, 2011

## Fortis Inc. (TSX: FTS)

## Supreme Court of Belize Dismisses Belize Electricity's Appeal

Sector Perform  
Average Risk

Price:	32.13	Price Target:	34.00
Shares O/S (MM):	174.4	Implied All-In Return:	9%
Dividend:	1.16	Market Cap (MM):	5,603
Float (MM):	174.4	Yield:	3.6%
Debt to Cap:	58%		

## Event

The Supreme Court of Belize released its decision on the 2008 Annual Tariff Review Proceeding.

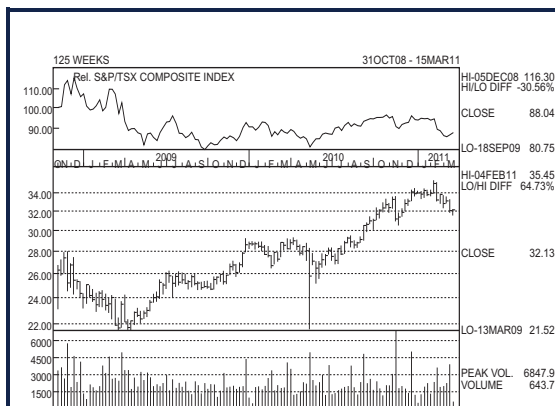
## Investment Opinion

- Belize Electricity's Appeal Dismissed.** The Supreme Court of Belize dismissed Belize Electricity Limited's appeal (BEL is 70% owned by Fortis) of the Public Utilities Commission's Final Decision, following the 2008 Annual Tariff Review Proceeding. The Supreme Court judge found that among other things, "Good Utility Practice as defined by [the Independent Expert appointed by the Court] in his Report is not applicable to Belize."
- What Comes Next?** Fortis and Belize Electricity will continue to further assess their options and legal remedies, including appeal. It is our understanding that the next highest court is a pan-Caribbean court and although the politics of the dispute may be one step removed, it is possible that BEL will need to appeal to the highest court, which is the Privy Council that sits in the United Kingdom where we believe the appeal has the best chance of succeeding.
- BEL is Not a Material Contributor to Earnings.** Despite the headlines regarding Fortis' troubles in Belize, BEL contributed only \$2 million to earnings in 2010 (less than 1% of total earnings). As such, we do not view the ongoing dispute as material to Fortis' earnings or our outlook.
- Background on Fight with Belize Regulator.** In its June 2008 Final Decision on Belize Electricity's 2008/2009 rate application, the PUC allowed a greater fuel cost/purchased power "recovery", which was offset by a lower return on assets (10% vs. the previous 12%) combined with BZ\$36 million (C\$18 million) of retroactive disallowances for Belize Electricity. For further details, please refer to our *Research Comment* on June 30, 2008.
- Valuation.** Our price target of \$34.00 (unchanged) is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3.

adoyle@fortisinc.com angela doyle 05/16/12 01:53:29 PM Fortis Inc {Inv. Relations}



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.89
P/E	20.9x	19.7x	18.1x	17.0x
EPS (Op) - FD	1.48	1.60	1.75	1.87
P/E	21.7x	20.1x	18.4x	17.2x
Annual Div.	1.04	1.12	1.16	1.24
Div. Yield	3.2	3.5	3.6	3.9
Payout Ratio- Basic	68%	69%	65%	66%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.63E	0.36E	0.25E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.



## Valuation

Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

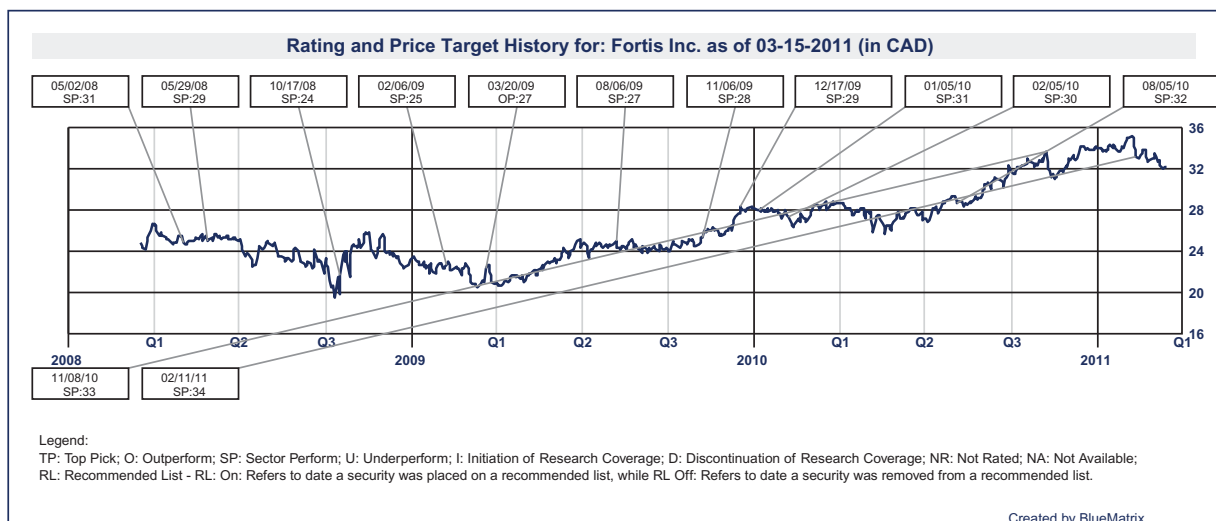
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	693	51.30	200	28.86
HOLD[SP]	596	44.10	134	22.48
SELL[U]	61	4.50	11	18.03



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an



'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
 Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
 Copyright © Royal Bank of Canada Europe Limited 2011  
 Copyright © Royal Bank of Canada 2011  
 All rights reserved





## COMPANY UPDATE | COMMENT

MAY 5, 2011

## Fortis Inc. (TSX: FTS)

### 2011 Off to a Good Start

### Sector Perform

### Average Risk

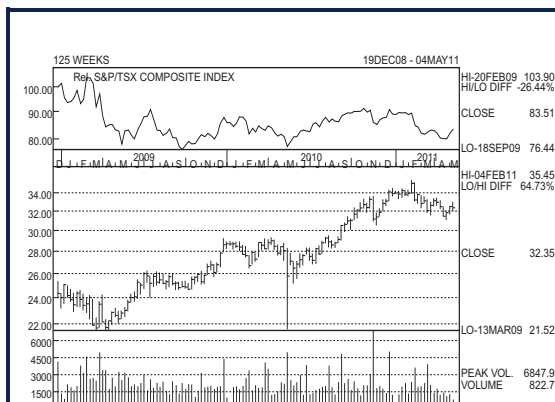
Price:	32.35	Price Target:	34.00
Shares O/S (MM):	175.5	Implied All-In Return:	9%
Dividend:	1.16	Market Cap (MM):	5,677
Float (MM):	175.5	Yield:	3.6%
Debt to Cap:	58%		

### Event

Fortis reported Q1/11 results.

### Investment Opinion

- **Good Q1/11 Results.** EPS for the quarter was \$0.67 compared to our estimate of \$0.63 and \$0.58 in Q1/10. The Canadian Regulated Utilities turned in solid results, which were due to a combination of good underlying fundamentals in the businesses, quarterly timing differences related to costs and the timing of rate increases, and a small gain on sale in FortisAlberta (less than \$0.01/share).
- **Modestly Bumping Up 2011 EPS Estimate.** We have increased our 2011 EPS estimate to \$1.80 (from \$1.78) to reflect better results from the Canadian Regulated Utilities (in particular FortisBC Electric), partially offset by weaker estimated earnings from the utilities in the Caribbean (Belize and also a stronger C\$).
- **U.S. Utility Acquisition: Still Working Away, but We Expect Management to Continue to Show Lots of Discipline.** Fortis continues to evaluate U.S. utility acquisition opportunities and the parameters remain the same (i.e., up to \$5 billion EV and single state preferred). One trend that could provide acquisition opportunities is the possible sale of U.S. utilities owned by foreign companies.
- **Funding Plan is Solid.** Despite a heavy capex plan (about \$1.2 billion for 2011), the balance sheet is in good shape, which affords the company flexibility. Equity needs are expected to be modest with the potential for a relatively small issuance late in 2011 or in 2012. Optimally, any equity issuance would coincide with acquisition financing.
- **Overall Views Unchanged.** We view the shares as fairly valued despite trading at a premium to other large cap regulated utility stocks in our coverage. We see a premium P/E valuation as warranted due to the attractive group of Canadian regulated utility assets (particularly the western Canadian utilities) and a disciplined management team.
- **Valuation.** Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.



### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.80	1.89
Prev.			1.78	
P/E	21.0x	19.8x	18.0x	17.1x
EPS (Op) - FD	1.48	1.60	1.77	1.87
Prev.			1.75	
P/E	21.9x	20.2x	18.3x	17.3x
Annual Div.	1.04	1.12	1.16	1.24
Div. Yield	3%	3%	4%	4%
Payout Ratio- Basic	68%	69%	64%	66%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.37E	0.25E	0.51E
Prev.	0.63E	0.36E		0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.



## Q1/11 Results Higher Than Expectations

Fortis' normalized Q1/11 EPS was \$0.67, compared to our estimate of \$0.63 and \$0.58 in Q1/10. The higher-than-expected earnings were mainly due to results from FortisAlberta and FortisBC Electric, which benefited from a combination of low purchased power costs (strong hydrology driving down prices in BC/PacNW) for FortisBC Electric, and quarterly timing differences (costs and rate implementation) along with a gain on sale for FortisAlberta. The quarterly results compared to our estimate are set out in Exhibit 1.

### Exhibit 1: Normalized Earnings (In \$MM except per share figures)

	RBC CM			
	Q1/11	Q1/11E	Q1/10	Comments
Newfoundland Power	\$7	\$7	\$7	
FortisOntario & Maritime Electric	6	5	5	
FortisBC Energy	76	74	73	
FortisAlberta	21	16	14	Quarterly timing difference (incl. rate implementation); \$1mm gain on sale
FortisBC Electric	19	15	14	Low purchased power costs (low BC/PacNW hydro prices)
Regulated Utilities - Canadian	129	117	113	
Regulated Utilities - Caribbean	4	5	4	
Non-regulated - Fortis Generation	3	5	2	
Non-regulated - Fortis Properties	1	2	2	
Corporate	(20)	(19)	(21)	
<b>Normalized Earnings</b>	<b>\$117</b>	<b>\$111</b>	<b>\$100</b>	
<b>Normalized EPS</b>	<b>\$0.67</b>	<b>\$0.63</b>	<b>\$0.58</b>	
Average shares outstanding (MM)	175	174	172	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- **Strong Q1/11 Mainly Due to Canadian Regulated Utilities.** Higher-than-forecast earnings were mainly attributable to strong results from FortisAlberta and FortisBC Electric, and to a lesser extent, FortisBC Energy (formerly Terasen) due to a combination of strong underlying business fundamentals and quarterly timing differences. FortisAlberta also benefited from a roughly \$1 million gain (after-tax) on the sale of land in Q1/11.
- **Belize Update: Appeal of Trial Judgment to be Filed.** In March 2011, the Supreme Court of Belize dismissed Belize Electricity Limited's appeal (BEL is 70% owned by Fortis) of the Public Utilities Commission's Final Decision, following the 2008 Annual Tariff Reviewing Proceeding. Fortis is in the process of filing an appeal of the trial judgment, which is required prior to filing an appeal to the Caribbean Court of Justice. As BEL is not a material contributor to Fortis' earnings (it contributed \$2 million of earnings in 2010), we do not view the ongoing dispute as material to the share price.
- **Long-Term Utility Growth Plan Remains Intact.** With roughly \$1.2 billion of capex expected in 2011 and over the \$5.5 billion over the five-year period 2011 through 2015, the majority of Fortis' planned capital investment remains in regulated electric utilities (about 63%) driven by FortisAlberta and FortisBC Electric. Approximately 20% and 17% of the five-year capex program will be incurred at FortisBC Energy and at non-regulated operations, respectively.
- **Construction Work Continues on Waneta Expansion.** Construction work continued on the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.
- **Potential U.S. Utility Acquisition: Still Active, But Not Much New to Report.** Fortis remains interested in acquiring a U.S. utility. We believe that the company will remain disciplined with respect to acquisition parameters, evidenced by the fact that management has been talking about a U.S. utility acquisition for many years, but has yet to pull the trigger. The following is a recap of the parameters that management has discussed with respect to a U.S. utility acquisition.
  - **Potential for a Scale Changing Acquisition.** The company continues to seek out regulated electric and/or gas utilities with a preference for businesses in a single state (i.e. one regulator). Fortis is comfortable with an integrated

electric utility as long as the generation assets are in regulated rate base. The target size is US\$1 billion to US\$5 billion of enterprise value with a utility in the US\$3 billion enterprise value range as being optimal.

- **Going Solo is Preferred.** Similar to comments made throughout the years, management continues to prefer to acquire 100% of assets without any partners. The company feels this reduces the complexity of a transaction and allows the company to proceed with an acquisition more expeditiously.
- **Will Partner if Necessary, but Not a Consortium.** To the extent an acquisition target is too large for Fortis to complete on its own, the company would consider taking on one partner (e.g. a Canadian pension fund) where the company would have at least a 50% interest.

## 2011 EPS Estimate Modestly Increased

We have increased our 2011 EPS estimate to \$1.80 (from \$1.78) to reflect better results from the Canadian Regulated Utilities (in particular FortisBC Electric), partially offset by weaker estimated earnings from the utilities in the Caribbean (Belize in particular, but also a stronger C\$). Our revised estimates are set out in Exhibit 2.

**Exhibit 2: Revised Financial Forecast (In \$MM except per share figures)**

									OLD	
	2009	2010	Q1/11	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	2011E	2012E
Newfoundland Power	\$32	\$35	\$7	\$11	\$8	\$9	\$35	\$36	\$35	\$36
Other Cdn (ME + FTS Ont)	17	19	6	4	5	4	20	21	20	21
FortisBC Energy	126	126	76	18	(6)	50	138	143	134	140
FortisAlberta	57	67	21	21	17	18	77	85	74	83
FortisBC Electric	37	43	19	10	13	10	51	53	47	51
Regulated Utilities - Caribbean	25	24	4	8	9	5	26	27	31	33
Fortis Generation	16	19	3	4	7	4	19	19	20	20
Fortis Properties	25	26	1	8	9	8	27	28	27	28
Corporate and other	(72)	(78)	(20)	(19)	(19)	(19)	(77)	(74)	(76)	(73)
<b>Normalized earnings</b>	<b>\$263</b>	<b>\$281</b>	<b>\$117</b>	<b>\$64</b>	<b>\$45</b>	<b>\$90</b>	<b>\$316</b>	<b>\$338</b>	<b>\$312</b>	<b>\$338</b>
Shares O/S (MM)	171	173	175	176	176	177	176	179	176	179
<b>Normalized EPS (Basic)</b>	<b>\$1.54</b>	<b>\$1.63</b>	<b>\$0.67</b>	<b>\$0.37</b>	<b>\$0.25</b>	<b>\$0.51</b>	<b>\$1.80</b>	<b>\$1.89</b>	<b>\$1.78</b>	<b>\$1.89</b>
Dividends Paid	\$1.04	\$1.12					\$1.16	\$1.24	\$1.16	\$1.24
Payout Ratio	68%	69%					65%	65%	65%	66%

Source: Company reports; RBC Capital Markets estimates



## Valuation

Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

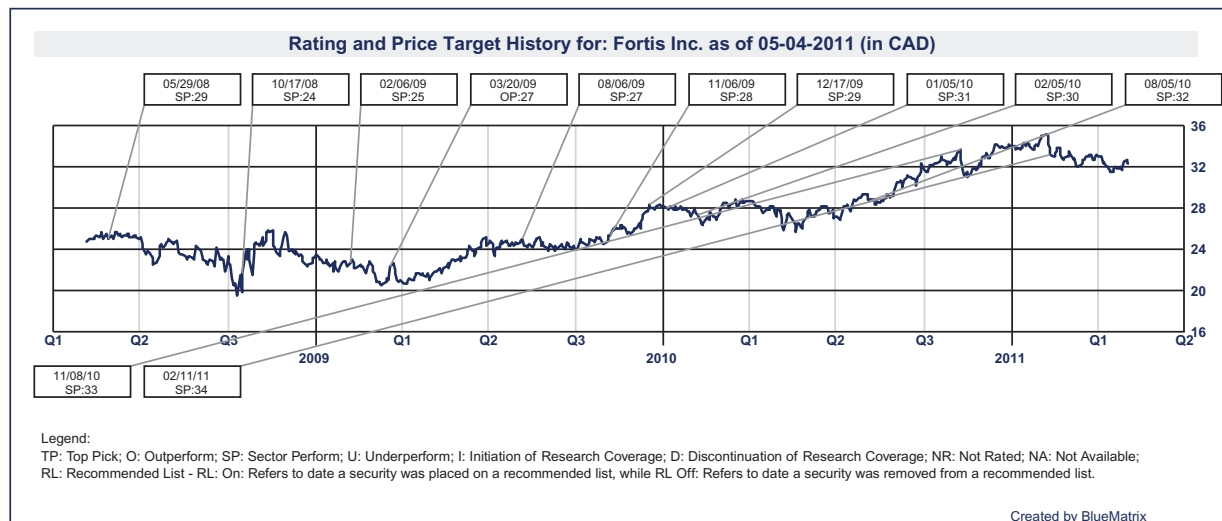
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	706	52.30	211	29.89
HOLD[SP]	587	43.40	129	21.98
SELL[U]	58	4.30	12	20.69



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an



'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
 Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
 Copyright © Royal Bank of Canada Europe Limited 2011  
 Copyright © Royal Bank of Canada 2011  
 All rights reserved





## COMPANY UPDATE | COMMENT

JUNE 15, 2011

Fortis Inc. (TSX: FTS)  
Cross-Border ShoppingSector Perform  
Average Risk

Price:	31.77	Price Target:	34.00
Shares O/S (MM):	184.6	Implied All-In Return:	11%
Dividend:	1.16	Market Cap (MM):	5,865
Float (MM):	184.6	Yield:	3.7%
Debt to Cap:	58%		

## Event

Fortis closed its \$300 million equity offering; publishing our views on the Central Vermont Public Service (CVPS) acquisition.

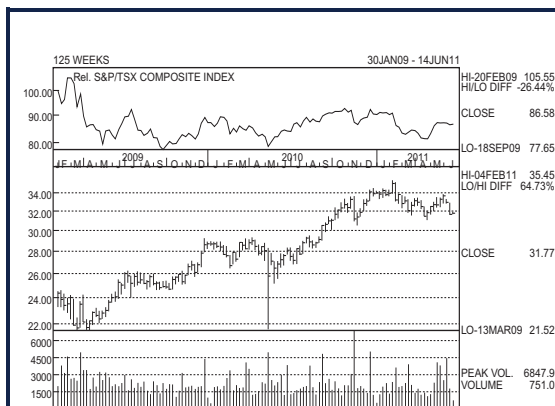
## Investment Opinion

- **CVPS Acquisition is Incrementally Positive.** We view the pending CVPS acquisition as modestly positive as it: (1) is a smaller transaction at US\$700 million enterprise value compared to the previously-stated US\$3 billion to US\$5 billion target-size (enterprise value) that can help prove-up the U.S. expansion strategy; (2) the utility is fairly close geographically to Fortis' utilities in eastern Canada; (3) CVPS is geographically close to other potential utility targets, particularly those owned by European companies that might eventually be sold; and (4) the transaction is expected to deliver modest EPS accretion in its first full year, which should increase over time as CVPS' annual rate base growth is forecast to be 9% (faster than the roughly 6% average growth for Fortis' other utilities).
- **Fortis Paid a Full Price for CVPS.** The purchase price P/E valuation is 21x the mid-point of CVPS' 2011 EPS guidance. As a multiple to rate base (adjusted for debt at Vermont Transco), Fortis paid approximately 1.4x 2011E mid-year rate base.
- **Modest Expected Accretion Should Increase Over Time.** Based on CVPS' 2011 EPS guidance range, we estimate that the transaction could add between \$0.01/share and \$0.03/share to EPS in the first full-year. We expect EPS accretion to increase over time as rate base growth at CVPS is forecast to exceed that of Fortis' other utilities.
- **Colour Coding the Dollars: The Recent Equity Issue is Not Earmarked for the CVPS Transaction.** Fortis needed roughly \$300 million of common equity in late 2011 or early 2012 to fund the existing capital plan. While it is hard to resist tying the equity deal to the CVPS announcement, the equity deal is an acceleration of the existing need that also reduces financing risk when the CVPS deal closes (Fortis is likely to issue preferred shares at that time).
- **Valuation.** Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

adoyle@fortisinc.com angela doyle 05/16/12 01:53:33 PM Fortis Inc {Inv. Relations}



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.91
Prev.			1.80	1.89
P/E	20.6x	19.5x	17.8x	16.6x
EPS (Op) - FD	1.48	1.60	1.76	1.89
Prev.			1.77	1.87
P/E	21.5x	19.9x	18.1x	16.8x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.3%	3.5%	3.7%	3.9%
Payout Ratio- Basic	68%	69%	65%	65%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.36E	0.25E	0.50E
Prev.		0.37E		0.51E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.



## CVPS Transaction: Incrementally Positive

We view the Central Vermont Public Service (CVPS) acquisition as a modest positive for the stock for the following reasons:

- (1) **Relatively Small Size Allows Fortis to “Prove” the U.S. Acquisition Strategy to the Market.** Fortis has long discussed a desire to acquire a US\$3 billion to US\$5 billion enterprise value utility. However, we believe that the market was cautious on a transaction of that size and the CVPS deal at roughly US\$700 million enterprise value is a more manageable size that will allow the company to prove to the market that it can navigate U.S. state regulation. Further, it demonstrates that management is taking a methodical approach to U.S. expansion and will not “force” a larger deal if the fit (strategic and financial) is not right.
- (2) **Geographically Attractive Footprint to Further Grow the U.S. Business.** The U.S. northeast is a region that is fairly close to Fortis’ central and eastern Canadian operations, but is also well situated for potential future acquisitions, which may include utilities that are currently owned by larger European-based companies.
- (3) **Modest Expected EPS Accretion That Will Grow Over Time.** As shown in Exhibit 1, we expect the transaction to contribute between \$0.01/share and \$0.03/share to annual EPS. Despite a significant premium paid for CVPS’ shares, we expect accretion to initially be driven by double-leverage (CVPS equity thickness of 57% compared to Fortis’ overall structure at 40%) and a “double-dip” cross-border financing that will result in a lower effective tax rate. Over time, CVPS’ rate base is expected to grow at roughly 9% annually (please see Exhibit 2), which is faster than the 6% estimated annual growth in rate base for the rest of Fortis’ utilities.
- (4) **Other Than the Smaller Size, the Acquisition Fits Everything That Management Has Discussed.** In looking at U.S. acquisitions, management has expressed a preference for an electric utility with single state regulation, minimal unregulated assets and good prospects for rate base growth. CVPS meets each of these factors.
- (5) **A Larger Acquisition is Likely Not Imminent.** We believe that Fortis executing a US\$700 million deal, while preferring to target a utility in the US\$3 billion to US\$5 billion range, is a sign that there is nothing of that size on the front burner that is likely to be announced in the near future.

### Exhibit 1: Estimated EPS Accretion (In US\$MM except per share figures)

#### Assumptions

Total Deal	\$700
Equity Financed	280
Debt Financed	420
Debt Already at Co	(230)
Incremental Debt	190
Assumed Int Rate	5%
New Tax Rate	25%
Equity Deal Price	\$33.00

	2012E		Comments
CVPS EPS Guidance	\$1.60	\$1.75	From Q1/11 investor presentation
Shares O/S	13	13	
Net Income	21	23	
Tax	12	14	36.77% effective rate per CVPS guidance
EBT	34	37	
Additional Interest Expense	(10)	(10)	Based on double-leverage in "Assumptions"
Adjusted EBT	24	28	
Income Tax	(6)	(7)	Assumes 25% effective rate; "Double dip" cross-border structure
Adjusted Net Inc	18	21	
Fortis Earnings	338	338	Assumes C\$ parity
Pro Forma Earnings	\$356	\$358	Assumes C\$ parity
Shares O/S	179	179	
New Shares	8	8	Assumed equity financing for EPS accretion calculation (differs from actual financing)
Pro Forma Shares	187	187	
Pre-Acq EPS	\$1.89	\$1.89	Assumes C\$ parity
Pro Forma EPS	\$1.90	\$1.92	Assumes C\$ parity

Source: Company reports; RBC Capital Markets estimates



## Our Thoughts on Other Recent Events

### Equity Financing: An Acceleration of Future Needs and De-Risking the Pending CVPS Requirement

Previous to the CVPS announcement, we estimated that Fortis had a need for roughly \$300 million in equity in late 2011 or early 2012 to finance the growth in its existing utilities (in particular western Canada) and the Waneta hydro expansion. Although it is convenient to link the \$300 million equity financing that just closed with the CVPS transaction, the acquisition is expected to close in six to 12 months and will be fully financed closer to that date. As such, we view the recently-closed equity financing as an acceleration of the forecast equity requirement to take advantage of supportive equity markets in addition to reducing the future equity needs (i.e. internal growth plus the CVPS acquisition).

Management expects to finance the equity for the CVPS acquisition with preferred shares although this will be dependent on the state of the preferred share market at the time. As such, it remains a possibility that common shares could be issued in six to 12 months time.

### Belize: Government Interested in Acquiring Fortis' 70% Stake in Belize Electricity Limited (BEL)

As a result of the ongoing issues at Belize Electricity Limited (BEL), the electric distribution utility in the country that is 70%-owned by Fortis, the government has expressed an interest in acquiring Fortis' stake. Overall, we believe that the ongoing dispute will continue to create negative headlines, although we believe that the financial impact is not particularly material.

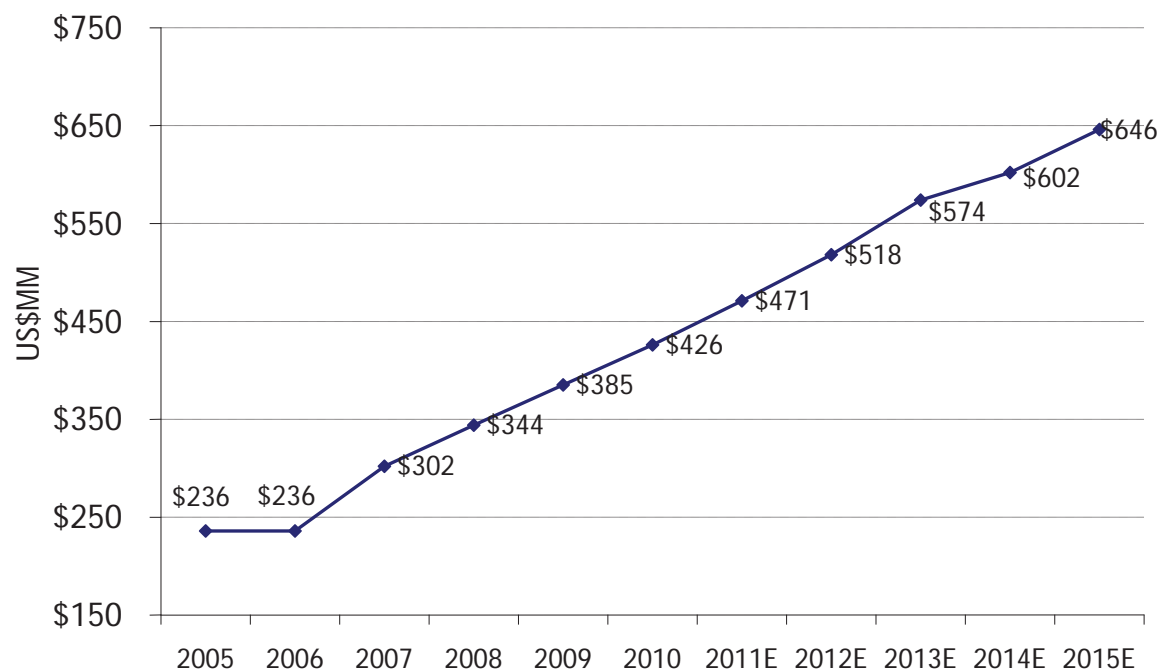
- **BEL Does Not Materially Contribute to Earnings.** BEL generated \$2 million (\$0.01/share) of net income in 2010 and \$4 million in 2009 (\$0.02/share). From an asset perspective, BEL makes up 2% of Fortis' assets.
- **Appears to be Confined to BEL, but an Expansion to the Unregulated Power Business Could Increase the Exposure.** Fortis owns three unregulated hydro facilities in the country, which are not part of BEL. However, there is the potential that these assets could become swept up as part of the ongoing dispute. We estimate that the assets contribute roughly \$12 million to \$14 million of annual earnings (about \$0.06/share to \$0.07/share).
- **Mitigating Factor #1: It Appears that the Government is Willing to Pay (Some Concept of) Fair Value.** As far as we can tell, the government of Belize is not contemplating trying to seize the asset. There are various statements regarding the acquisition based on "fair value". If this were the case, Fortis would receive proceeds that it could either use to repay debt, or redeploy, thereby offsetting any negative impact from lost earnings.
- **Mitigating Factor #2: The Ultimate Court of Appeal is Not in Belize.** BEL lost its case in front of the Belize Supreme Court with respect to its rate dispute with the Belize Public Utilities Commission. The case is being heard by the court of appeal in Belize, which is unlikely to yield results. However, the ultimate court of appeal is a pan-Caribbean court, which should be more independent from Belize with a greater likelihood that BEL's arguments will resonate with respect to "good utility practices".

## Overview of Central Vermont Public Service (CVPS)

- **Service Territory and Customers.** CVPS is an electric utility with almost 160,000 customers in a service territory that covers about two-thirds of Vermont. In addition, CVPS owns a 41% interest in Vermont Transco, which owns and operates a high-voltage electric transmission system in the state.
- **Rate Base Expected to Grow at a 9% CAGR.** The historical rate base in addition to CVPS management's forecast is shown in Exhibit 2.
- **Capital Structure and ROE.** CVPS' allowed ROE for 2011 is 9.45%, which is broadly comparable to many of Fortis' existing utilities. However, the 57% equity thickness is quite a bit higher than Fortis' other utilities, although we see that as a compensating factor for a higher level of risk at CVPS compared to Fortis' Canadian regulated businesses (e.g., lower protection against customer usage).
- **Power Supply Expected to Shift.** Currently, about 50% of energy supply is sourced from nuclear (Vermont Yankee; owned by a third-party), about 40% from hydroelectric production (mostly Hydro-Quebec) and 10% from other sources. Going forward, CVPS has locked up additional supply from Hydro-Quebec and other sources to proactively replace the potential for lost power from the Vermont Yankee nuclear facility in 2012.



## Exhibit 2: Forecast Rate Base Growth (CVPS Management)



Source: Company reports; RBC Capital Markets

## Estimates Revised

We have revised our 2011 and 2012 EPS estimates to reflect the recent equity issuance in addition to the pending CVPS transaction. In 2011, our EPS estimate modestly declines to \$1.78 (down from \$1.80) to reflect dilution from the equity issued, partially offset by lower interest expense (at the Corporate level) on the repayment of debt. For 2012, our EPS estimate increases to \$1.91 (up from \$1.89) to reflect earnings from CVPS, partially offset by higher interest expense on debt used to partially finance the CVPS transaction (recorded at the CVPS level) and dilution from the recent equity issuance. Our revised estimates are set out in Exhibit 3.

## Exhibit 3: Revised Financial Forecast (In \$MM except per share figures)

	2009	2010	Q1/11	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	OLD	
									2011E	2012E
Newfoundland Power	\$32	\$35	\$7	\$11	\$8	\$9	\$35	\$36	\$35	\$36
Other Cdn (ME + FTS Ont)	17	19	6	4	5	4	20	21	20	21
FortisBC Energy	126	126	76	18	(6)	50	138	143	138	143
FortisAlberta	57	67	21	21	17	18	77	85	77	85
FortisBC Electric	37	43	19	10	13	10	51	53	51	53
CVPS								21		
Regulated Utilities - Caribbean	25	24	4	8	9	5	26	27	26	27
Fortis Generation	16	19	3	4	7	4	19	19	19	19
Fortis Properties	25	26	1	8	9	8	27	28	27	28
Corporate and other	(72)	(78)	(20)	(19)	(17)	(16)	(72)	(74)	(77)	(74)
<b>Normalized earnings</b>	<b>\$263</b>	<b>\$281</b>	<b>\$117</b>	<b>\$65</b>	<b>\$47</b>	<b>\$93</b>	<b>\$321</b>	<b>\$359</b>	<b>\$316</b>	<b>\$338</b>
Shares O/S (MM)	171	173	175	177	185	186	180	188	176	179
<b>Normalized EPS (Basic)</b>	<b>\$1.54</b>	<b>\$1.63</b>	<b>\$0.67</b>	<b>\$0.36</b>	<b>\$0.25</b>	<b>\$0.50</b>	<b>\$1.78</b>	<b>\$1.91</b>	<b>\$1.80</b>	<b>\$1.89</b>
Dividends Paid	\$1.04	\$1.12					\$1.16	\$1.24	\$1.16	\$1.24
Payout Ratio	68%	69%					65%	65%	65%	65%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

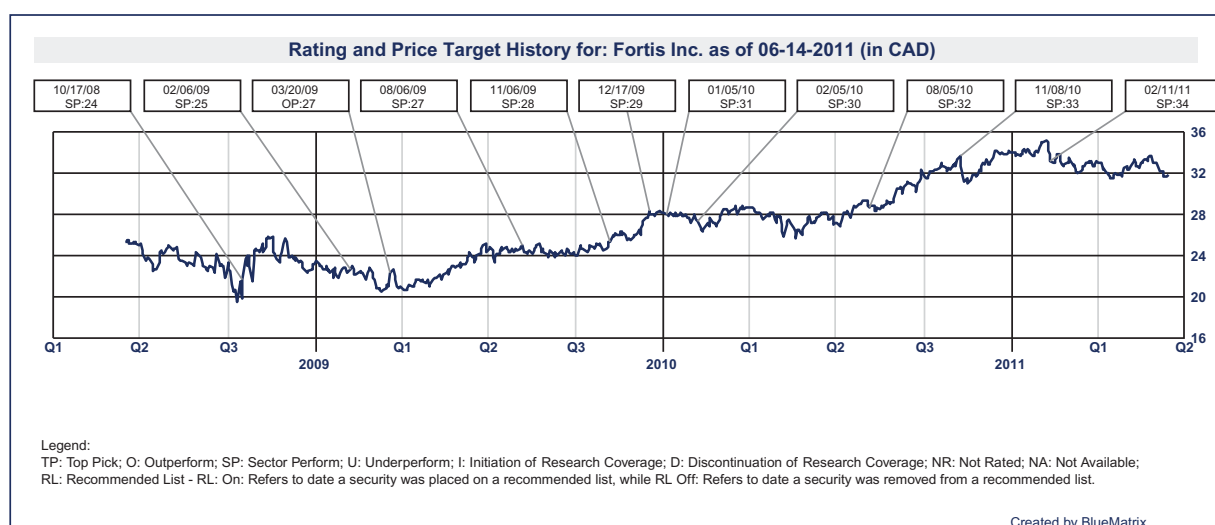
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

### Distribution of Ratings



For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	738	52.90	217	29.40
HOLD[SP]	595	42.70	135	22.69
SELL[U]	61	4.40	11	18.03



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject



companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should



consider whether the product is suitable for you. Past performance is not indicative of future performance.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF

Copyright © Royal Bank of Canada Europe Limited 2011

Copyright © Royal Bank of Canada 2011

All rights reserved





## CANADIAN RESEARCH AT A GLANCE

June 15, 2011

*RBC Insight* is RBC's global research destination on the web.  
To find out more, please contact your RBC Capital Markets' sales representative.

### Price Target Revisions

<u>The North West Company Inc.</u>	<u>Summary</u>	Q1 Results Slightly Softer Than Expected; Tweaking Target To \$22
------------------------------------	----------------	---

### First Glance Notes

<u>Fortress Paper Ltd.</u>	<u>Summary</u>	Q111 Results Lower than Expected
----------------------------	----------------	----------------------------------

### Company Comments

<u>Fortis Inc.</u>	<u>Summary</u>	Cross-Border Shopping
--------------------	----------------	-----------------------

<u>Glacier Media Inc.</u>	<u>Summary</u>	Value Still To Be Realized This Cycle
---------------------------	----------------	---------------------------------------

### In-Depth Reports

<u>Global Mining Trends &amp; Values</u>	<u>Summary</u>	June 15, 2011
--	----------------	---------------

### Upcoming Events

Marketing schedule and upcoming events

### Find our Research at:

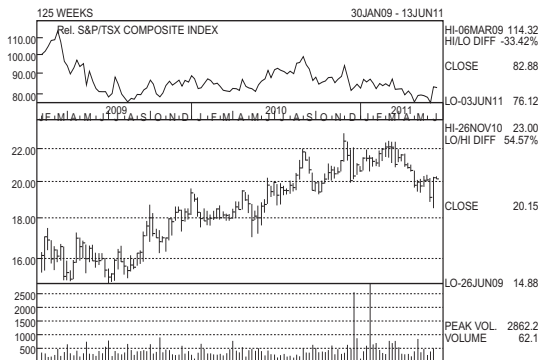
RBC CM: [www.rbcinsight.com](http://www.rbcinsight.com)  
Thomson: [www.thomsononeanalytics.com](http://www.thomsononeanalytics.com)  
Reuters: [www.knowledge.reuters.com](http://www.knowledge.reuters.com)  
Bloomberg: RBER GO

Priced as of prior day's market close, EST (unless otherwise noted).  
For Required Non-U.S. Analyst and Conflicts Disclosures, see Page 7.



## Price Target Revisions

Tal Woolley, CFA (Analyst)  
(416) 842 7857; tal.woolley@rbccm.com  
Valerie Blume, CFA (Analyst)  
(416) 842-7880; valerie.blume@rbccm.com



	EPS (Op)
2010A	1.69
2011A	1.58
2012E	1.25
2013E	1.35

All values in CAD unless otherwise noted.

## The North West Company Inc. (TSX: NWC; 19.97)

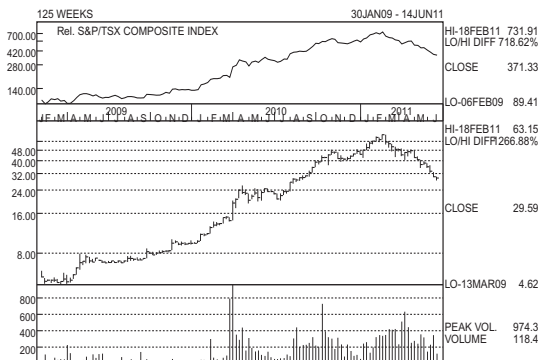
Rating: Sector Perform  
Risk Qualifier: Average Risk  
Price Target: 22.00 ▼ 23.00

### Q1 Results Slightly Softer Than Expected; Tweaking Target To \$22

- Consolidated Q1 results were below our forecast on lower sales and slightly lower margins.** NWC delivered total Q1 revenue of \$346.3 million, up +1.8%, below our \$355.1 million estimate. Arctic and Alaska results continued to show top-line growth, but this was muted by declines at the discount banners. Consolidated EBITDA of \$28.4 million was slightly below our \$29.7 million forecast. Slightly lower taxes offset the lower EBITDA, driving EPS of \$0.26, versus our and consensus forecast of \$0.27.
- Northern markets are expected to show continued momentum, while southern markets should gradually pick up steam.** Retail activity in the northern markets remains quite healthy and is expected to deliver continued gains. Giant Tiger sales and margins will remain pressured: competition, while moderating, remains intense in food and execution in general merchandise categories, particularly apparel, needs to improve to drive margins.
- Tweaking target to \$22 from \$23, maintaining Sector Perform.**

## First Glance Notes

Paul C. Quinn, B.Sc.F. (Analyst)  
(604) 257-7048; paul.c.quinn@rbccm.com  
Hamir Patel (Associate)  
(604) 257-7145; hamir.patel@rbccm.com



All values in CAD unless otherwise noted.

## Fortress Paper Ltd. (TSX: FTP; 29.38)

Rating: Outperform  
Risk Qualifier: Above Average Risk

### Q111 Results Lower than Expected

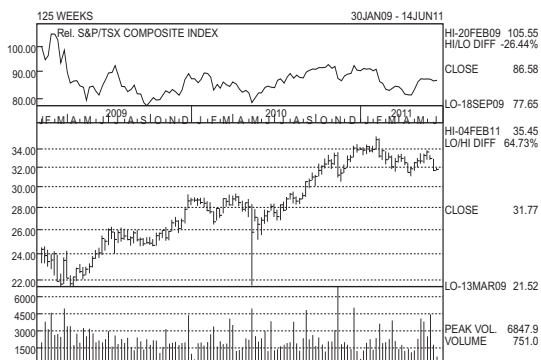
- Q111 results lower than expected – Fortress reported normalized EPS of (\$0.42) in Q111 compared to our estimate of \$0.08 and consensus of (\$0.05). Normalized EBITDA was \$1.0MM, compared to our \$6.1MM forecast and consensus of \$4.1MM. Strong performance in the wallpaper business was offset by a weak quarter for the bank note business and higher costs in specialty cellulose. Paper shipments of 15.5k mt were unchanged q/q but down 5.6% y/y.**
- The dissolving pulp conversion at Thurso will result in the mill shutting down in late Q3 to implement the modifications.**



RBC Capital Markets®

## Company Comments

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com  
Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com  
Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com



	EPS (Op)		P/E
2009A	1.54		20.6x
2010A	1.63		19.5x
2011E	1.78↓	1.80	17.8x
2012E	1.91↑	1.89	16.6x

All values in CAD unless otherwise noted.

Drew McReynolds, CA, CFA (Analyst)  
(416) 842-3805; drew.mcreynolds@rbccm.com  
Haran Posner (Associate)  
(416) 842 7832; haran.posner@rbccm.com



	Revenue (MM)	
2009A	229.1	
2010A	242.6	
2011E	257.1↑	252.4
2012E	268.7↑	258.7

All values in CAD unless otherwise noted.

### Fortis Inc. (TSX: FTS; 31.77)

Rating: Sector Perform  
Risk Qualifier: Average Risk  
Price Target: 34.00

#### Cross-Border Shopping

- **CVPS Acquisition is Incrementally Positive.** Our note highlights four key reasons why we view the pending CVPS acquisition as modestly positive.
- **Modest Expected Accretion Should Increase Over Time.** Based on CVPS' 2011 EPS guidance range, we estimate that the transaction could add between \$0.01/share and \$0.03/share to EPS in the first full-year. We expect EPS accretion to increase over time as rate base growth at CVPS is forecast to exceed that of Fortis' other utilities.
- **The Recent Equity Issue is Not Earmarked for the CVPS Transaction.** Fortis needed roughly \$300 million of common equity in late 2011 or early 2012 to fund the existing capital plan. While it is hard to resist tying the equity deal to the CVPS announcement, the equity deal is an acceleration of the existing need that also reduces financing risk when the CVPS deal close.

### Glacier Media Inc. (TSX: GVC; 2.30)

Rating: Outperform  
Risk Qualifier: Average Risk  
Price Target: 3.50

#### Value Still To Be Realized This Cycle

- **No change to \$3.50 target price.** Following in-line Q1/11 results, we have made modest changes to our forecast to reflect: (i) Q2/11 acquisitions including the trade publications from Rogers Publishing (\$11MM total cost); (ii) lower revenue growth in Business and professional; and (iii) IFRS.
- **Valuation premium justified but not without re-rating risk.** The TSX Media Index has declined -11% since reaching a cycle-high on February 8th, which we attribute to both cyclical and secular factors. Glacier is one of five media stocks that have outperformed the broader market over this period. Glacier trades at 5.8x FTM EV/EBITDA versus averages of 4.5x and 4.7x for Canadian and U.S. publishers, respectively. While rising secular concerns for media companies among investors is a risk to valuation, we continue to believe this premium is justified given: (i) minimal cash taxes; (ii) exposure to higher-growth Western Canada; and (iii) accretive acquisition opportunities.



RBC Capital Markets®

## In-Depth Reports

H. Fraser Phillips (Analyst)  
(416) 842-7859; fraser.phillips@rbccm.com

Adam Schatzker (Analyst)  
(416) 842-7850; adam.schatzker@rbccm.com

Robin B. Kozar (Analyst)  
(416) 842-7861; robin.kozar@rbccm.com

Chad W. Potter, CFA (Analyst)  
(512) 708-6349; chad.potter@rbccm.com

Geoff Breen (Analyst)  
(+61) 2 9033-3022; geoff.breen@rbccm.com

Chris Drew, CFA (Analyst)  
+61 2 9033 3060; chris.drew@rbccm.com

Steuart McIntyre (Analyst)  
(+61) 2 9033-3066; steuart.mcintyre@rbccm.com

Leon Esterhuizen (Analyst)  
(+44) 207 653-4154; leon.esterhuizen@rbccm.com

Timothy Huff (Analyst)  
(+44) 207 653-4866; timothy.huff@rbccm.com

Des Kilalea (Analyst)  
(+44) 207 653-4538; des.kilalea@rbccm.com

Patrick Morton (Analyst)  
(+44) 207 002-2111; patrick.morton@rbccm.com

## Global Mining Trends & Values

June 15, 2011

### Commodity Price Performance:

- Metal prices were up on average 0.7% last week. Lead was the best performer up 6.2%, followed by nickel up 1.5%, zinc up 1.4%, and silver up 0.1%. Uranium was the worst performer down 2.6%, followed by gold down 0.6%, aluminium down 0.2%, and copper down 0.2%.

### Mining Share Price Performance:

- Mining shares were down on average 4.3% last week. The best performing group was mineral sands up 6.4%, followed by coal down 2.6%, aluminium down 4.0%, the diversified group down 4.3%, copper down 4.4%, molybdenum down 5.9%, iron ore down 5.9%, uranium down 6.1%, and nickel down 6.8%.

### Valuation:

- Mining shares are now trading at a 28.0% discount to NAV at forward curve prices, versus a 27.7% discount one week ago.

### Long/Short Metal Positions:

- RBC CM's proprietary data for the LME shows that the net short positions in copper, zinc, and nickel decreased last week, while net long positions in aluminium and lead increased last week.

### Exchange Inventories:

- Total exchange inventories of aluminium and nickel decreased last week, while total inventories of copper and zinc increased last week.



RBC Capital Markets®

**UPCOMING EVENTS****Jun 15-Jun 21, 2011****MARKETING / CONFERENCES / EVENTS**

	<b>Wednesday June 15</b>	<b>Thursday June 16</b>	<b>Friday June 17</b>	<b>Monday June 20</b>	<b>Tuesday June 21</b>
<b>Toronto</b>	<ul style="list-style-type: none"> <li>■ DiamondRock Hospitality Company</li> <li>■ New Gold Inc. Mid Year Review</li> <li>■ Ray Hanson</li> </ul>	<ul style="list-style-type: none"> <li>■ Extencicare Real Estate Investment Trust</li> <li>■ Maple Leaf Foods Inc</li> <li>■ New Gold Inc.</li> <li>■ Haytham Hodaly</li> </ul>	<ul style="list-style-type: none"> <li>■ Haytham Hodaly</li> </ul>	<ul style="list-style-type: none"> <li>■ Northland Power Inc</li> </ul>	
<b>Montreal</b>		<ul style="list-style-type: none"> <li>■ Mid Year Review</li> </ul>		<ul style="list-style-type: none"> <li>■ Jonathan Allen</li> </ul>	
<b>Western Canada</b>	<ul style="list-style-type: none"> <li>■ Northland Power Inc</li> </ul>			<ul style="list-style-type: none"> <li>■ Ray Hanson</li> </ul>	
<b>New York/Mid-Atlantic</b>	<ul style="list-style-type: none"> <li>■ Inmarsat Plc</li> <li>■ AltaGas Ltd.</li> <li>■ Jon Atkin &amp; Dave Coleman</li> <li>■ Chris Drew</li> <li>■ Gold Resource Corporation</li> <li>■ Resolution Limited (RSL)</li> <li>■ Eric Berg</li> <li>■ Haytham Hodaly</li> <li>■ Robert Stallard &amp; Rama Bondada</li> </ul>	<ul style="list-style-type: none"> <li>■ Jonathan Guy</li> <li>■ Glenn Novarro</li> <li>■ RBC Thought Leadership Series: A Conversation with Alan Greenspan</li> <li>■ Internet Q</li> <li>■ Gold Resource Corporation</li> <li>■ Pan American Silver Corporation</li> <li>■ David Coleman</li> </ul>	<ul style="list-style-type: none"> <li>■ Glenn Novarro</li> <li>■ Arcan Resources</li> <li>■ Internet Q</li> <li>■ Pan American Silver Corporation</li> <li>■ Cogent Communications Group, Inc. (CCOI)</li> <li>■ Investor Trip</li> </ul>	<ul style="list-style-type: none"> <li>■ Internet Q</li> <li>■ David Bank</li> </ul>	
<b>Boston</b>	<ul style="list-style-type: none"> <li>■ Jonathan Guy</li> </ul>	<ul style="list-style-type: none"> <li>■ Mike Yee</li> <li>■ Arcan Resources</li> <li>■ Gold Resources Corporation</li> </ul>	<ul style="list-style-type: none"> <li>■ Mike Yee</li> <li>■ Gold Resources Corporation</li> </ul>	<ul style="list-style-type: none"> <li>■ Jason Gere</li> <li>■ Kenmare Resources PLC</li> </ul>	
<b>U.S. Mid West/West Coast/South East/South West</b>	<ul style="list-style-type: none"> <li>■ Jacques Rousseau</li> <li>■ Neil Downey</li> <li>■ Jarden Corporation</li> <li>■ Pan American Silver Corporation</li> <li>■ Howard Tubin</li> <li>■ Mark Dwelle</li> <li>■ Church &amp; Dwight</li> </ul>	<ul style="list-style-type: none"> <li>■ Jacques Rousseau</li> <li>■ Howard Tubin</li> <li>■ Mark Dwelle</li> </ul>	<ul style="list-style-type: none"> <li>■ Howard Tubin</li> </ul>	<ul style="list-style-type: none"> <li>■ CONSOL Energy Inc (CNX)</li> <li>■ Equinix Datacenter Tour</li> </ul>	



RBC Capital Markets®

**Europe**

■ Ametek Inc	■ Ametek Inc	■ Ametek Inc	Paris Airshow	Paris Airshow
■ Geoff Breen	■ Geoff Breen	■ Geoff Breen	■	■
■ International Flavors & Fragrances (IFF)	■ International Flavors & Fragrances (IFF)	■ Walter Spracklin	■ Jon Arfstrom & Joseph Morford	■ Walter Spracklin
■ Jason Kantor	■ Jason Kantor	■ Spectrum Pharmaceuticals	■ Walter Spracklin	■ Spectrum Pharmaceuticals
■ Gordon Aitken	■ Spectrum Pharmaceuticals	■ Gordon Aitken	■ Sabina Gold & Silver	■ Al Stanton (Project Zanzibar)
■ Damian Brewer	■ Gordon Aitken	■ Damian Brewer	■ Groupe Aeroplan	■ Anke Reingen / Fiona Swaffield
■ Walter Spracklin	■ Damian Brewer	■ International Flavors & Fragrances (IFF)	■ Expedia Inc	■ Nevsun Resources
■ Peter Hutton	■ Walter Spracklin	■ Atkins	■ Gordon Aitken	
■ Wincanton	■ Peter Hutton	■ Al Stanton (Project Zanzibar)	■ Kimco Realty Corporation	
■ Al Stanton (Project Zanzibar)	■ Xstrata	■ Anke Reingen / Fiona Swaffield	■ Spectrum Pharmaceuticals	
■ Anke Reingen / Fiona Swaffield	■ Capita Group plc	■ Seth Weber	■ Al Stanton (Project Zanzibar)	
■ Seth Weber	■ Al Stanton (Project Zanzibar)	■ Ed Aaron	■ Anke Reingen / Fiona Swaffield	
■ Internet Q	■ Anke Reingen / Fiona Swaffield		■ Greg Pardy	
	■ Seth Weber		■ Nevsun Resources	

**Australia/Asia**

■ Des Kilalea      ■ Panoramic

Please contact your Sales Representative for additional information on the events listed above.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Adam Schatzker, Geoff Breen, Chris Drew, Steuart McIntyre, Leon Esterhuizen, Timothy Huff, Des Kilalea, Tal Woolley, Valerie Blume, Danny Hung, Nelson Ng, Haran Posner, Paul C. Quinn and Hamir Patel (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital Markets chooses to provide specific disclosures for the subject companies by reference. To access current disclosures for the subject companies, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	738	52.90	217	29.40
HOLD[SP]	595	42.70	135	22.69
SELL[U]	61	4.40	11	18.03

### Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

### Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbccm.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector



RBC Capital Markets®



perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

© Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © Royal Bank of Canada Europe Limited 2011



**RBC Capital Markets®**







## FIRST GLANCE | COMMENT

JUNE 21, 2011

**Fortis Inc. (TSX: FTS; 32.04)****News Reports That Belize Government Seizes BEL****Sector Perform  
Average Risk****Impact**

Negative (for investor sentiment)

**First Impression**

- **Belize Government Takes Over BEL.** Channel 7 News in Belize is reporting on its website that the government has signed a law that allows it to take over Belize Electricity Limited, which is 70%-owned by Fortis. A link to the story can be found by [clicking here](#).
- **The Next Steps are Unclear at this Point.** Fortis has not issued a press release as of yet and there is no official statement available on the Belize government's website.
- **Negative to Investor Sentiment, but Limited Financial Impact.** We believe that the negative headlines could put some pressure on Fortis' stock. However, we note that BEL is not material to earnings or assets, having contributed only \$2 million to earnings in 2010 (less than 1%) and making up about 2% of total assets. We see the potential for this dispute to end up including Fortis' unregulated hydro assets in Belize and the impact could become a bit more meaningful. We estimate that the unregulated hydro assets generated about \$12 million to \$14 million of earnings (just under 5% of earnings).
- **What Do You Do?** We believe that any material downward pressure on the share price in the 5% to 10% range would represent an attractive entry point.



Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

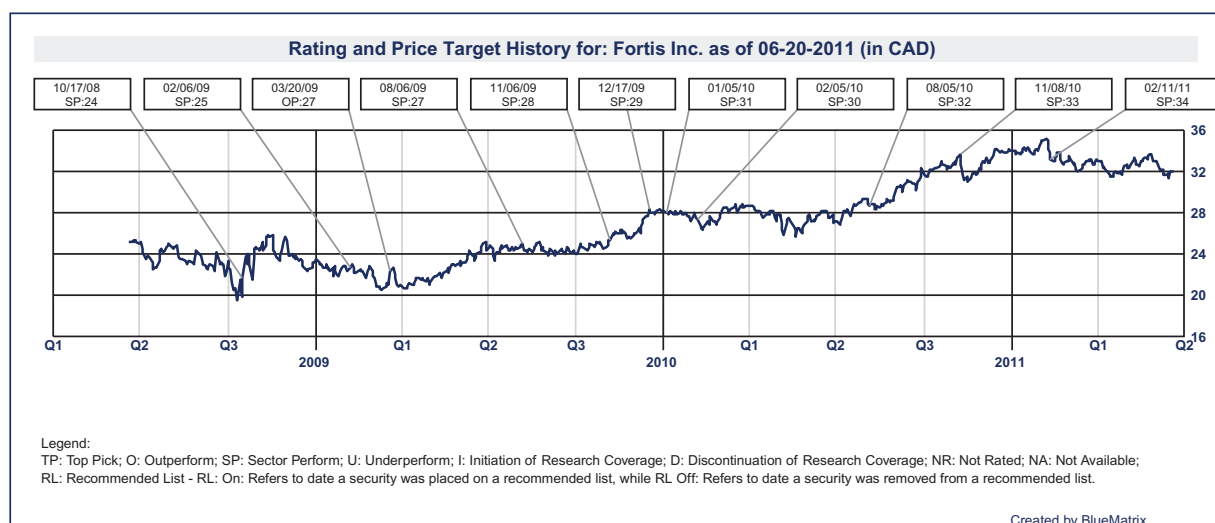
### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform,



Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	741	52.90	218	29.42
HOLD[SP]	599	42.80	137	22.87
SELL[U]	60	4.30	11	18.33



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject



company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

© Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.



**RBC Capital Markets®**

---

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © Royal Bank of Canada Europe Limited 2011  
Copyright © Royal Bank of Canada 2011  
All rights reserved







## COMPANY UPDATE | COMMENT

JUNE 23, 2011

## Fortis Inc. (TSX: FTS)

## Examining the Options in Light of a Competing Bid for CVPS

Sector Perform  
Average Risk

Price:	32.00	Price Target:	34.00
Shares O/S (MM):	184.6	Implied All-In Return:	10%
Dividend:	1.16	Market Cap (MM):	5,907
Float (MM):	184.6	Yield:	3.6%
Debt to Cap:	58%		

## Event

Following Fortis' outstanding US\$35.10/share bid for CVPS, Gaz Metro launched a US\$35.25/share unsolicited offer for CVPS.

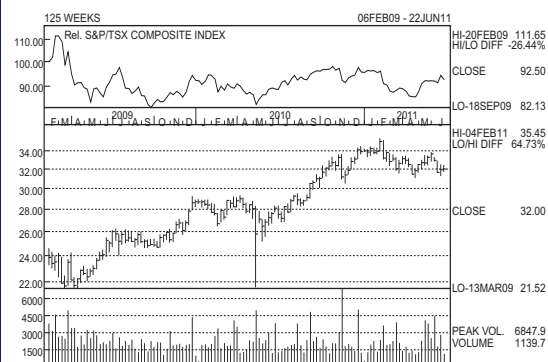
## Investment Opinion

- **Competing Bid for CVPS.** Gaz Metro made a US\$35.25/share bid for Central Vermont Public Service (CVPS), which is slightly higher than Fortis' existing US\$35.10/share offer that was supported by CVPS' board. Gaz Metro has agreed to allow the regular US\$0.23/share dividend to be paid through closing, while Fortis' offer is for the next two dividends at the current rate and then US\$0.01/share until closing.
- **Gaz Metro's Offer Focuses on Benefits to Vermont.** In our opinion, both offers for CVPS are fair from a financial point of view and Gaz Metro's offer seems to be focusing on gaining public and regulatory support for its transaction. Gaz Metro, which owns Green Mountain Power (the other major electric distribution company in Vermont), is offering a combination of cost synergies and rate payer inducements to win support.
- **What Will CVPS Do?** In light of the US\$17.5 million break fee and up to \$2 million expense reimbursement that could be payable to Fortis (about US\$1.50/share), we expect that CVPS' board will announce its continued support for Fortis' offer.
- **We Do Not Expect an Imminent Bidding War.** Regardless of CVPS' response, we do not expect either company to raise their bid in the near-term. It seems clear to us that this transaction has become more about gaining regulatory approval.
- **In Fact, We Think it is Possible That Any Extra Value Could Largely be Conferred to Rate Payers.** Our analysis indicates that both companies could afford to pay roughly US\$5/share more (about US\$70 million) and eke out EPS accretion (please see Exhibits 1 & 2). However, we believe that it is possible that the majority of any extra value could come in the form of benefits to rate payers (e.g. lower rates, additional VELCO contributions, etc.) with very little in the form of an increased offer for CVPS.
- **Valuation.** In our June 15, 2011 *Research Comment*, we did not increase our price target to reflect this transaction and therefore we remain comfortable with our existing \$34.00/share price target, which is based on a forward P/E of 18x 2012E EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

adoyle@fortisinc.com angela doyle 05/16/12 01:53:39 PM Fortis Inc {Inv. Relations}



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.91
P/E	20.8x	19.6x	18.0x	16.8x
EPS (Op) - FD	1.48	1.60	1.76	1.89
P/E	21.6x	20.0x	18.2x	16.9x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.3%	3.5%	3.6%	3.9%
Payout Ratio- Basic	68%	69%	65%	65%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.36E	0.25E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## Estimated EPS Accretion

In Exhibit 1, we set out the estimated EPS accretion based on the current US\$35.10/share offer. In Exhibit 2, we examine the economics if the offer were increased by \$5/share.

### Why is the Deal Accretive?

We have received a number of questions as to how a company can pay a roughly 40% premium to regulated rate base and still generate EPS accretion, particularly since premiums to rate base are almost never recoverable in customer rates and cost synergies are usually for the benefit of rate payers. Two factors that help drive the accretion include:

- **Double-Leverage.** CVPS' equity thickness is 57% for rate making purposes, which combined with a relatively low 9.45% allowed ROE results in an overall return framework that seems fair from a risk perspective. However, since CVPS is fairly small in the grand scope of Fortis, the company is able to finance the overall transaction with only 40% equity and the rest with debt.
- **Cross-Border Tax Benefits.** CVPS has guided to a 36.77% effective tax rate for 2011. A structure that we commonly see for Canadian companies with U.S. operations is a financing structure that results in a reduction in the effective tax rate (we have seen similar structures for U.S. companies with Canadian operations). Although the exact details of what will be put in place are not known, we have assumed a 25% effective rate, which is similar to what we have observed for many companies in our coverage universe.

### Exhibit 1: No Increase in the Offer (In US\$MM except per share figures)

Assumptions			Potential for Higher Bid	
Total Deal	\$700		Current CVPS Bid per Share	\$35.10
Equity Financed	280		Higher Bid	0.00
Debt Financed	420		Potential Revised Bid	\$35.10
Debt Already at Co	(230)			
Incremental Debt	190		Equity Financed	100%
Assumed Int Rate	5%		Equity Price	\$31.50
New Tax Rate	25%			
Equity Deal Price	\$33.00			

	2012E		Comments
CVPS EPS Guidance	\$1.60	\$1.75	2011E guidance from Q1/11 investor presentation
Shares O/S	13	13	
Net Income	21	23	
Tax	12	14	36.77% effective rate per CVPS guidance
EBT	34	37	
Additional Interest Expense	(10)	(10)	Based on double-leverage in "Assumptions"; financing of top-up if required
Adjusted EBT	24	28	
Income Tax	(6)	(6)	Assumes 25% effective rate; Cross-border tax structure
Adjusted Net Income	18	21	
Fortis Earnings	338	338	Assumes C\$ parity
Pro Forma Earnings	\$356	\$359	Assumes C\$ parity
Shares O/S	179	179	
New Shares	8	8	Assumed equity financing for EPS accretion calculation (differs from actual financing)
Pro Forma Shares	187	187	
Pre-Acq EPS	\$1.89	\$1.89	Assumes C\$ parity
Pro Forma EPS	\$1.90	\$1.92	Assumes C\$ parity

### Sensitivity for Non-Dilutive Purchase Price

	Increase in Current \$35.10/share Bid						
	\$0.00	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00	\$6.00
Low-End of Guidance	\$0.01	\$0.01	\$0.00	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.01)
High-End of Guidance	\$0.03	\$0.02	\$0.02	\$0.02	\$0.01	\$0.01	\$0.00

Source: Company reports; RBC Capital Markets estimates



**Exhibit 2: \$5/Share Increase in the Purchase Price (In US\$MM except per share figures)**

<b>Assumptions</b>			<b>Potential for Higher Bid</b>	
Total Deal	\$700		Current CVPS Bid per Share	\$35.10
Equity Financed	280		Higher Bid	5.00
Debt Financed	420		Potential Revised Bid	\$40.10
Debt Already at Co	(230)			
Incremental Debt	190		Equity Financed	100%
Assumed Int Rate	5%		Equity Price	\$31.50
New Tax Rate	25%			
Equity Deal Price	\$33.00			

	<b>2012E</b>		<b>Comments</b>
CVPS EPS Guidance	\$1.60	\$1.75	2011E guidance from Q1/11 investor presentation
Shares O/S	13	13	
Net Income	21	23	
Tax	12	14	36.77% effective rate per CVPS guidance
EBT	34	37	
Additional Interest Expense	(10)	(10)	Based on double-leverage in "Assumptions"; financing of top-up if required
Adjusted EBT	24	28	
Income Tax	(6)	(6)	Assumes 25% effective rate; Cross-border tax structure
Adjusted Net Income	18	21	
Fortis Earnings	338	338	Assumes C\$ parity
Pro Forma Earnings	\$356	\$359	Assumes C\$ parity
Shares O/S	179	179	
New Shares	11	11	Assumed equity financing for EPS accretion calculation (differs from actual financing)
Pro Forma Shares	189	189	
Pre-Acq EPS	\$1.89	\$1.89	Assumes C\$ parity
Pro Forma EPS	\$1.88	\$1.90	Assumes C\$ parity

**Sensitivity for Non-Dilutive Purchase Price**

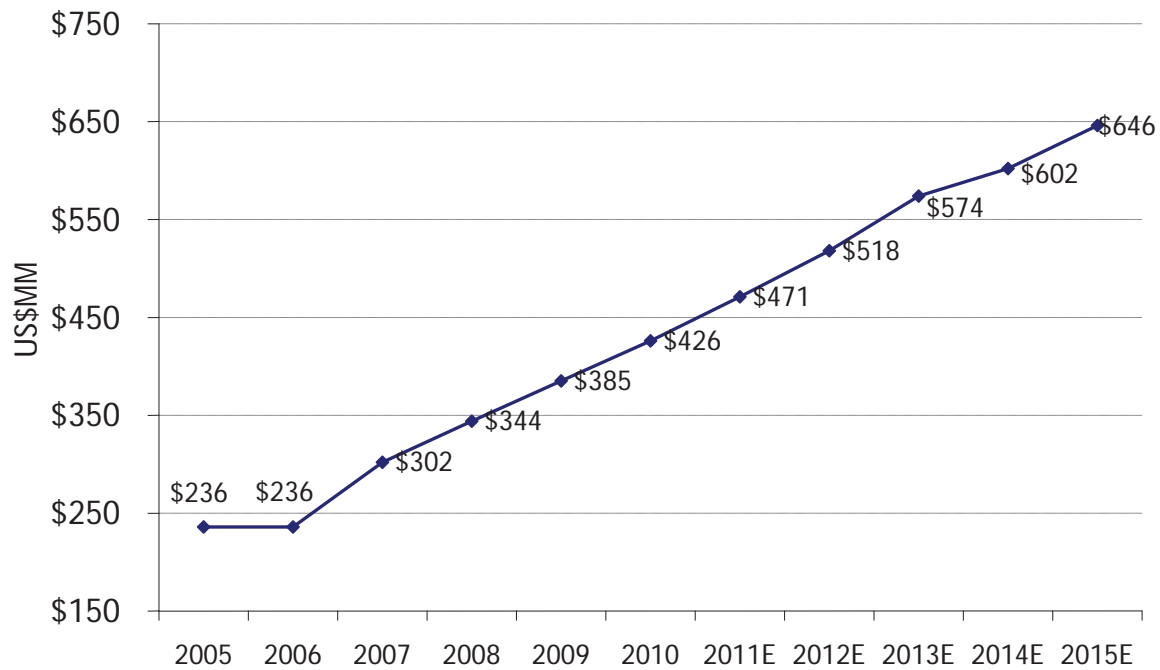
	<b>Increase in Current \$35.10/share Bid</b>						
	<b>\$0.00</b>	<b>\$1.00</b>	<b>\$2.00</b>	<b>\$3.00</b>	<b>\$4.00</b>	<b>\$5.00</b>	<b>\$6.00</b>
Low-End of Guidance	\$0.01	\$0.01	\$0.00	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.01)
High-End of Guidance	\$0.03	\$0.02	\$0.02	\$0.02	\$0.01	\$0.01	\$0.00

Source: Company reports; RBC Capital Markets estimates

**Overview of Central Vermont Public Service (CVPS)**

- **Service Territory and Customers.** CVPS is an electric utility with almost 160,000 customers in a service territory that covers about two-thirds of Vermont. In addition, CVPS owns a 41% interest in Vermont Transco, which owns and operates a high-voltage electric transmission system in the state.
- **Rate Base Expected to Grow at a 9% CAGR.** The historical rate base in addition to CVPS management's forecast is shown in Exhibit 2.
- **Capital Structure and ROE.** CVPS' allowed ROE for 2011 is 9.45%, which is broadly comparable to many of Fortis' existing utilities. However, the 57% equity thickness is quite a bit higher than Fortis' other utilities, which we see as a compensating factor for a higher level of risk at CVPS compared to Fortis' Canadian regulated businesses (e.g., lower protection against customer usage).
- **Power Supply Expected to Shift.** Currently, about 50% of energy supply is sourced from nuclear (Vermont Yankee; owned by a third-party), about 40% from hydroelectric production (mostly Hydro-Quebec) and 10% from other sources. Going forward, CVPS has locked up additional supply from Hydro-Quebec and other sources to proactively replace the potential for lost power from the Vermont Yankee nuclear facility in 2012.

Exhibit 3: Forecast Rate Base Growth (CVPS Management)



Source: Company reports; RBC Capital Markets

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

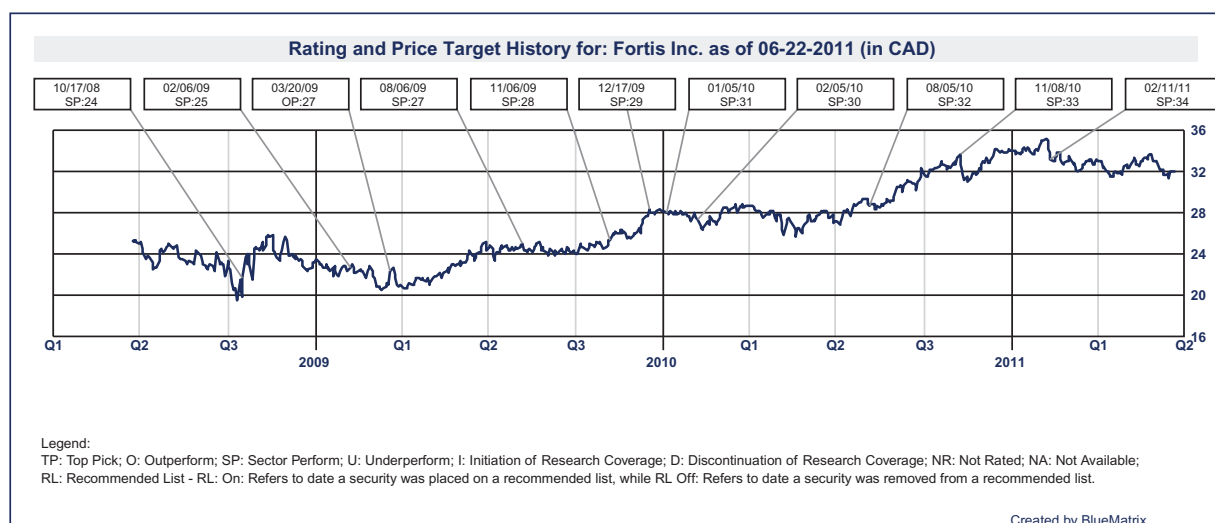
### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform,



Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	744	53.10	220	29.57
HOLD[SP]	598	42.70	135	22.58
SELL[U]	60	4.30	11	18.33



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject





company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

© Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.



---

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © Royal Bank of Canada Europe Limited 2011  
Copyright © Royal Bank of Canada 2011  
All rights reserved





## COMPANY UPDATE | COMMENT

JULY 13, 2011

## Fortis Inc. (TSX: FTS) CVPS Acquisition Terminated

### Sector Perform Average Risk

Price:	32.76	Price Target:	34.00
Shares O/S (MM):	184.6	Implied All-In Return:	7%
Dividend:	1.16	Market Cap (MM):	6,047
Float (MM):	184.6	Yield:	3.5%
Debt to Cap:	58%		

### Event

CVPS deemed Gaz Metro's offer a "superior proposal" and terminated the previous merger agreement with Fortis.

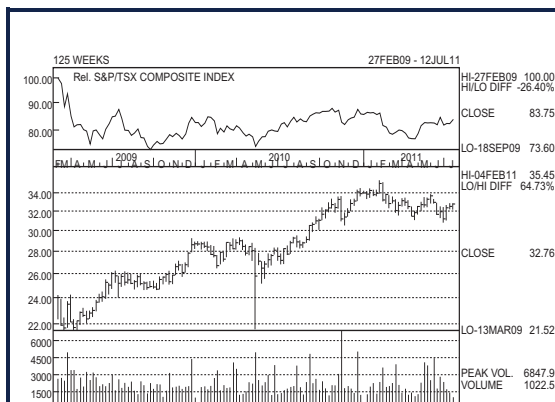
### Investment Opinion

- **CVPS Merger Agreement Terminated.** Central Vermont Public Service (CVPS) has deemed Gaz Metro's US\$35.25/share offer a "superior proposal" and therefore its previous merger agreement with Fortis has been terminated. On June 23, 2011, Gaz Metro made a competing bid for CVPS, following Fortis' US\$35.10/share offer that was announced on May 30, 2011.
- **Fortis Will Receive a Break Fee and Expenses.** Fortis will immediately receive a US\$17.5 million break fee plus US\$2.0 million in expense reimbursement, which is roughly \$0.10/share.
- **Acquisition Loss Disappointing but Shows Discipline.** While the CVPS acquisition loss is disappointing, we believe that walking away from CVPS rather than getting involved in a bidding war shows tremendous discipline, which should serve to demonstrate that Fortis will take a measured approach with its U.S. acquisition strategy.
- **What About the Equity Issue?** While there will be negative carry through 2011 from the recent equity issue (already in our numbers), the equity would have been needed, albeit in late 2011/early 2012 to finance the significant capex plan, mostly related to the Western Canadian assets.
- **Fortis' Stock Could Be a Place to "Hide Out".** While we have hesitated to recommend Fortis as a good name in which to "hide out" during these uncertain times due to the potential negative headlines related to CVPS, we believe that defensive investors should consider the stock as a good place to park money now that the CVPS saga is over.
- **Modest Revision to 2012 Estimate.** We have modestly revised our 2012 EPS estimate to \$1.88 (from \$1.91) to reflect the impact of the CVPS acquisition termination (i.e., removing the expected EPS accretion from the transaction).
- **Valuation.** Since we did not previously increase our price target to reflect the transaction, we remain comfortable with our existing \$34.00/share price target, which is based on a forward P/E of 18x 2012E EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

adoyle@fortisinc.com angela doyle 05/18/12 01:53:41 PM Fortis Inc {Inv. Relations}



#### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

Nelson Ng, CFA (Analyst)  
(604) 257-7617; nelson.ng@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.88
Prev.				1.91
P/E	21.3x	20.1x	18.4x	17.4x
EPS (Op) - FD	1.48	1.60	1.76	1.87
Prev.				1.89
P/E	22.1x	20.5x	18.6x	17.5x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.2%	3.4%	3.5%	3.8%
Payout Ratio- Basic	68%	69%	65%	66%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.36E	0.25E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## Exhibit 1: Revised Financial Forecast (In \$MM except per share figures)

									<i>Old</i>	
	2009	2010	Q1/11	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	2011E	2012E
Newfoundland Power	\$32	\$35	\$7	\$11	\$8	\$9	\$35	\$36	\$35	\$36
Other Cdn (ME + FTS Ont)	17	19	6	4	5	4	20	21	20	21
FortisBC Energy	126	126	76	18	(6)	50	138	143	138	143
FortisAlberta	57	67	21	21	17	18	77	85	77	85
FortisBC Electric	37	43	19	10	13	10	51	53	51	53
CVPS								0		21
Regulated Utilities - Caribbean	25	24	4	8	9	5	26	27	26	27
Fortis Generation	16	19	3	4	7	4	19	19	19	19
Fortis Properties	25	26	1	8	9	8	27	28	27	28
Corporate and other	(72)	(78)	(20)	(19)	(17)	(16)	(72)	(59)	(72)	(74)
<b>Normalized earnings</b>	<b>\$263</b>	<b>\$281</b>	<b>\$117</b>	<b>\$65</b>	<b>\$47</b>	<b>\$93</b>	<b>\$321</b>	<b>\$353</b>	<b>\$321</b>	<b>\$359</b>
Shares O/S (MM)	171	173	175	177	185	186	180	188	180	188
<b>Normalized EPS (Basic)</b>	<b>\$1.54</b>	<b>\$1.63</b>	<b>\$0.67</b>	<b>\$0.36</b>	<b>\$0.25</b>	<b>\$0.50</b>	<b>\$1.78</b>	<b>\$1.88</b>	<b>\$1.78</b>	<b>\$1.91</b>
Dividends Paid	\$1.04	\$1.12					\$1.16	\$1.24	\$1.16	\$1.24
Payout Ratio	68%	69%					65%	66%	65%	65%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

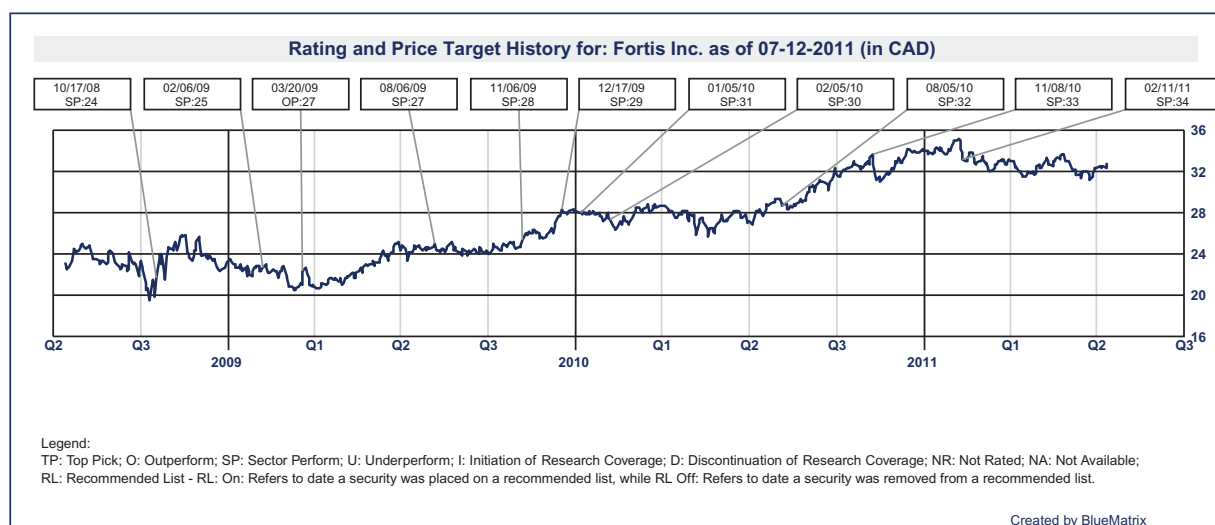
### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform,



Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	751	52.70	229	30.49
HOLD[SP]	612	43.00	136	22.22
SELL[U]	60	4.20	11	18.33



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject





company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

© Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.



---

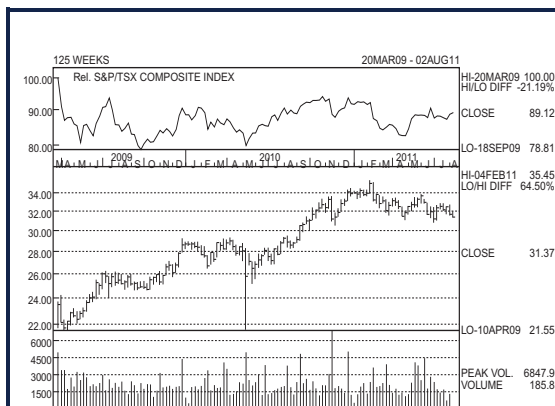
Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © Royal Bank of Canada Europe Limited 2011  
Copyright © Royal Bank of Canada 2011  
All rights reserved





## FIRST GLANCE | COMMENT

AUGUST 3, 2011

**RBC Dominion Securities Inc.**

**Robert Kwan, CFA (Analyst)**  
(604) 257-7611; robert.kwan@rbccm.com

**Danny Hung, CA (Associate)**  
(604) 257-7064; danny.hung@rbccm.com

**Nelson Ng, CFA (Analyst)**  
(604) 257-7617; nelson.ng@rbccm.com

All values in CAD unless otherwise noted.

**Fortis Inc. (TSX: FTS; 31.37)****First Glance: Q2/11 Results Modestly Below Expectations****Sector Perform  
Average Risk****Impact**

Neutral

**First Impression**

- **Q2/11 Results Slightly Below Expectations.** Q2/11 normalized EPS was \$0.33 compared to our estimate of \$0.36 and \$0.32 in Q2/10. Consensus was \$0.35 (four estimates, range of \$0.34 to \$0.36). There were small negative variances in most of the segments with nothing major causing the modestly lower-than-forecast earnings. With most utility businesses that are regulated on an annual basis, some of the variances within the quarter could be due to timing differences that will reverse themselves throughout the rest of the year. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.
- **Update on Belize Situation.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis has deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was \$112 million as at June 30, 2011. Fortis has initiated proceedings for compensation from the Government of Belize. With respect to BECOL, the company's unregulated power generation assets in Belize, the Government of Belize has publicly indicated that it does not intend to expropriate these assets.
- **\$1.2 Billion Capex Program On Track.** Gross capex for H1/11 was \$519 million and the \$1.2 billion capex program for 2011 remains on track.
- **No Conference Call.** Fortis does not hold a conference call to discuss the Q2/11 results. We will follow up with management later today to discuss the quarter and the outlook.
- **Neutral View on the Quarter.** Based on our initial review of the quarterly results and pending a discussion with management on the quarter and outlook, we view the Q2/11 results as neutral for the share price.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

## Exhibit 1: Normalized Results (In \$MM except per share figures)

	Q2/11	RBC CM Q2/11E	Q2/10	Comments
Newfoundland Power	\$11	\$11	\$11	
FortisOntario & Maritime Electric	6	4	4	Lower effective tax rate (higher Q2/11 deductions)
FortisBC Energy	15	18	17	Timing of approved cost recovery
FortisAlberta	19	21	17	Lower transmission revenue and customer growth
FortisBC Electric	9	10	8	
Regulated Utilities - Canadian	60	63	57	
Regulated Utilities - Caribbean	7	8	7	
Non-regulated - Fortis Generation	2	4	3	Lower hydrology in Belize
Non-regulated - Fortis Properties	7	8	8	
Corporate	(18)	(19)	(20)	
<b>Normalized Earnings</b>	<b>\$58</b>	<b>\$65</b>	<b>\$55</b>	
<b>Normalized EPS</b>	<b>\$0.33</b>	<b>\$0.36</b>	<b>\$0.32</b>	
Average shares outstanding (MM)	177	177	172	

Source: Company reports; RBC Capital Markets estimates

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung and Nelson Ng (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

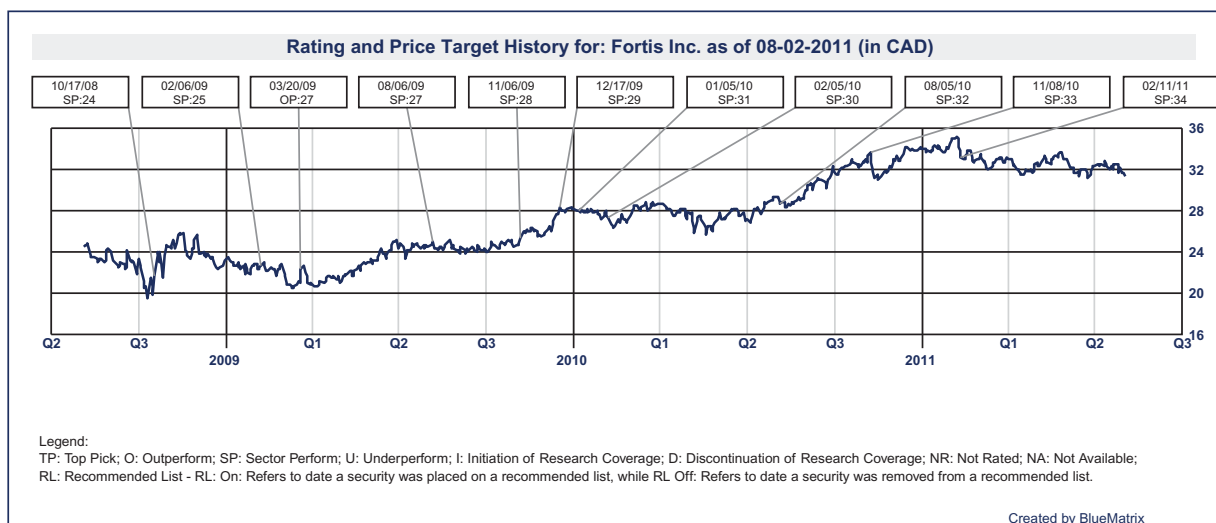
### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform,



Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	749	52.30	217	28.97
HOLD[SP]	623	43.50	134	21.51
SELL[U]	60	4.20	9	15.00



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject





company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

© Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.



---

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © Royal Bank of Canada Europe Limited 2011  
Copyright © Royal Bank of Canada 2011  
All rights reserved





## COMPANY UPDATE | COMMENT

AUGUST 4, 2011

## Fortis Inc. (TSX: FTS)

### Q2/11 Results Modestly Below Expectations

### Sector Perform Average Risk

Price:	30.87	Price Target:	34.00
Shares O/S (MM):	186.3	Implied All-In Return:	14%
Dividend:	1.16	Market Cap (MM):	5,751
Float (MM):	186.3	Yield:	3.8%
Debt to Cap:	55%		

### Event

Fortis reported Q2/11 results.

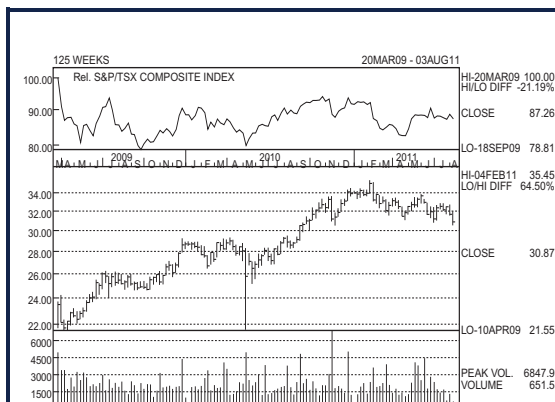
### Investment Opinion

- Q2/11 Results Modestly Below Expectations.** Fortis' Q2/11 normalized EPS was \$0.33 compared to our estimate of \$0.36 and \$0.32 in Q2/10. There were small negative variances in most of the segments with nothing major causing the modestly lower-than-forecast earnings.
- Still on the Hunt for a U.S. Utility Acquisition, but the CVPS Process Shows Fortis Will Be Disciplined.** Fortis remains interested in acquiring a U.S. utility, despite the recent Central Vermont Public Service (CVPS) agreement that was scuttled by a hostile bid by Gaz Metro. As evidenced by the company's walking away from CVPS rather than getting involved in a bidding war, we continue to believe that Fortis will remain very disciplined.
- Capex Plan Nudged Up.** With gross capital expenditures of \$519 million spent in H1/11, Fortis continues to expect \$1.2 billion of capex in 2011. The company also expects a five-year capex program of \$5.7 billion through to the end of 2015, which is up from the \$5.5 billion capex plan stated in previous guidance.
- Update on Belize.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis has deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was \$112 million as at June 30, 2011. Fortis has initiated proceedings for compensation from the Government of Belize, and from our discussion with management, the company plans to file a formal proposal in the next several months. With respect to Belize Electric Company Limited (BECOL), the company's unregulated power generation assets in Belize, the Government of Belize has publicly indicated that it does not intend to expropriate these assets.
- Reducing Estimates.** We have reduced our 2011 and 2012 EPS estimates to \$1.74 and \$1.82, respectively (from \$1.78 and \$1.88) to primarily reflect the Q2/11 results in addition to modest changes to a number of the segments.
- Valuation.** We have left our \$34.00/share price target unchanged with a modest increase in the forward P/E to 18.5x (from 18.0x) offsetting the lower 2012 EPS estimate. We believe that a higher P/E valuation is supported by declining long bond yields and an overall rise in infrastructure valuations.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

adoyle@fortisinc.com angela doyle 05/16/12 01:53:46 PM Fortis Inc {Inv. Relations}



### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.74	1.82
Prev.			1.78	1.88
P/E	20.0x	18.9x	17.7x	17.0x
EPS (Op) - FD	1.48	1.60	1.72	1.81
Prev.			1.76	1.87
P/E	20.9x	19.3x	17.9x	17.1x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.4%	3.6%	3.8%	4.0%
Payout Ratio- Basic	68%	69%	67%	68%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.24E	0.52E
Prev.		0.36E	0.25E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## Q2/11 Results Modestly Below Expectations

Fortis' Q2/11 normalized EPS was \$0.33 compared to our estimate of \$0.36 and \$0.32 in Q2/10. There were small negative variances in most of the segments with nothing major causing the modestly lower-than-forecast earnings. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

**Exhibit 1: Normalized Earnings (In \$MM except per share figures)**

		RBC CM		
	Q2/11	Q2/11E	Q2/10	Comments
Newfoundland Power	\$11	\$11	\$11	
FortisOntario & Maritime Electric	6	4	4	Lower effective tax rate (higher Q2/11 deductions)
FortisBC Energy	15	18	17	Timing of approved cost recovery
FortisAlberta	19	21	17	Lower transmission revenue and customer growth
FortisBC Electric	9	10	8	
Regulated Utilities - Canadian	60	63	57	
Regulated Utilities - Caribbean	7	8	7	
Non-regulated - Fortis Generation	2	4	3	Lower hydrology in Belize
Non-regulated - Fortis Properties	7	8	8	
Corporate	(18)	(19)	(20)	
<b>Normalized Earnings</b>	<b>\$58</b>	<b>\$65</b>	<b>\$55</b>	
<b>Normalized EPS</b>	<b>\$0.33</b>	<b>\$0.36</b>	<b>\$0.32</b>	

Average shares outstanding (MM)	177	177	172
---------------------------------	-----	-----	-----

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- **Slightly Lower Q1/11 Results Due to Small Segment Variances.** Lower-than-forecast earnings were mainly attributable to lower results from FortisBC Energy (timing of approved cost recovery), FortisAlberta (lower transmission revenue and customer growth), and Non-regulated Fortis Generation (lower hydrology in Belize), partially offset by higher earnings from FortisOntario & Maritime Electric (lower effective tax rate due to higher Q2/11 deductions at FortisOntario).
- **Update on Belize Situation.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis has deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was \$112 million as at June 30, 2011. Fortis has initiated proceedings for compensation from the Government of Belize, and our discussion with management indicates the company plans to file a formal proposal in the next several months. With respect to Belize Electric Company Limited (BECOL), the company's unregulated power generation assets in Belize, the Government of Belize has publicly indicated that it does not intend to expropriate these assets.
- **Search for U.S. Utility Goes On Despite CVPS Acquisition That Fell Through.** Fortis remains interested in acquiring a U.S. utility, despite the recent Central Vermont Public Service (CVPS) agreement that was scuttled by a hostile bid by Gaz Metro (for additional details, please refer to our *Research Comment* dated July 13, 2011). As evidenced by the company's walking away from CVPS rather than getting involved in a bidding war, we continue to believe that Fortis will remain very disciplined with respect to its previously stated acquisition parameters.
  - **Potential for a Scale-Changing Acquisition.** The company continues to seek out regulated electric and/or gas utilities with a preference for businesses in a single state (i.e., one regulator). Fortis is comfortable with an integrated electric utility as long as the generation assets are in regulated rate base. The target size is US\$1 billion to US\$5 billion of enterprise value with a utility in the US\$3 billion enterprise value range as being optimal.
  - **Going Solo is Preferred.** Similar to comments made throughout the years, management continues to prefer to acquire 100% of assets without any partners. The company feels this reduces the complexity of a transaction and allows it to proceed with an acquisition more expeditiously.
  - **Will Partner if Necessary, but Not a Consortium.** To the extent an acquisition target is too large for Fortis to complete on its own, the company would consider taking on one partner (e.g., a Canadian pension fund) where the company would have at least a 50% interest.

- **Long-Term Utility Growth Plan Remains on Track.** With gross capital expenditures of \$519 million spent in H1/11, Fortis continues to expect \$1.2 billion of capex in 2011. The company also expects a five-year capex program of \$5.7 billion through to the end of 2015, which is up from the \$5.5 billion capex plan stated in previous guidance.
- **Construction Work Continues on Waneta Expansion.** Construction work continued on the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.
- **\$341 Million Equity Issuance Completed.** Fortis recently completed its roughly \$341 million equity offering (including approximately \$41 million from the exercise of the over-allotment option). We had previously forecast Fortis' need for roughly \$300 million of common equity in late 2011 or early 2012 to finance the growth in its existing utilities (in particular western Canada) and the Waneta hydro expansion.

## Reducing 2011 and 2012 Estimates

We have reduced our 2011 and 2012 EPS estimates to \$1.74 and \$1.82, respectively (from \$1.78 and \$1.88) to primarily reflect the Q2/11 results in addition to modest changes to a number of the segments. Our revised estimates are set out in Exhibit 2.

**Exhibit 2: Revised Financial Forecast (In \$MM except per share figures)**

	2009	2010	Q1/11	Q2/11	Q3/11E	Q4/11E	2011E	2012E	Old	
									2011E	2012E
Newfoundland Power	\$32	\$35	\$7	\$11	\$8	\$9	\$35	\$36	\$35	\$36
Other Cdn (ME + FTS Ont)	17	19	6	6	5	5	22	24	20	21
Terasen	126	126	76	15	(5)	50	135	140	138	143
FortisAlberta	57	67	21	19	19	20	79	85	77	85
FortisBC	37	43	19	9	12	10	49	50	51	53
Regulated Utilities - Caribbean	25	24	4	7	7	5	23	25	26	27
Fortis Generation	16	19	3	2	7	4	17	19	19	19
Fortis Properties	25	26	1	7	9	9	26	28	27	28
Corporate and other	(72)	(78)	(20)	(18)	(17)	(16)	(72)	(62)	(72)	(59)
<b>Normalized earnings</b>	<b>\$263</b>	<b>\$281</b>	<b>\$117</b>	<b>\$58</b>	<b>\$44</b>	<b>\$96</b>	<b>\$315</b>	<b>\$345</b>	<b>\$321</b>	<b>\$353</b>
Shares O/S (MM)	171	173	175	177	185	186	181	189	180	188
<b>Normalized EPS (Basic)</b>	<b>\$1.54</b>	<b>\$1.63</b>	<b>\$0.67</b>	<b>\$0.33</b>	<b>\$0.24</b>	<b>\$0.52</b>	<b>\$1.74</b>	<b>\$1.82</b>	<b>\$1.78</b>	<b>\$1.88</b>
Dividends Paid	\$1.04	\$1.12					\$1.16	\$1.24	\$1.16	\$1.24
Payout Ratio	68%	69%					67%	68%	65%	66%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18.5x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.



## Required Disclosures

### Non-U.S. Analyst Disclosure

Danny Hung (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

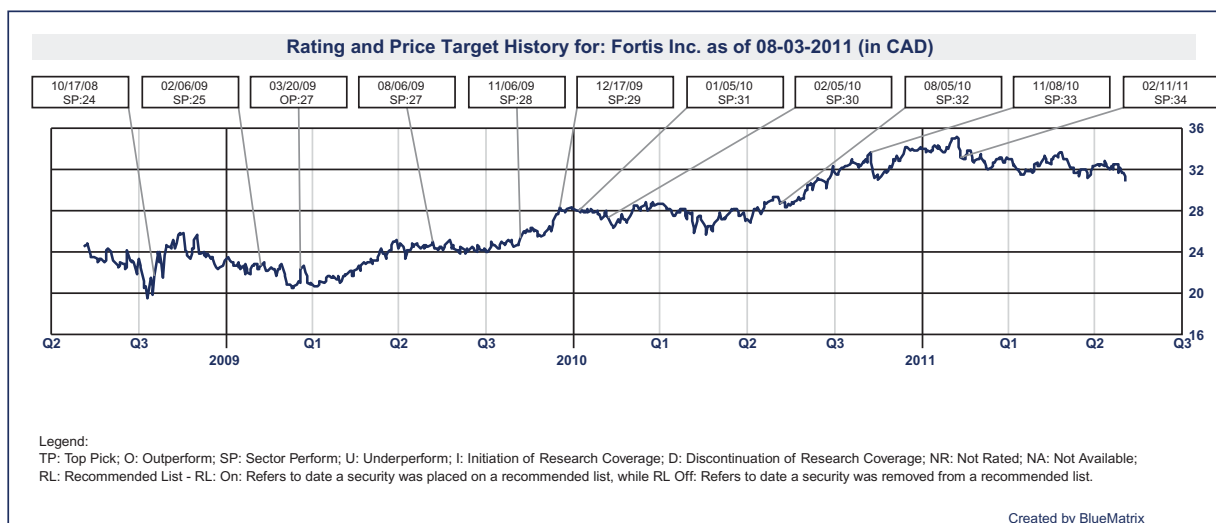
For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform,





Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	750	52.40	217	28.93
HOLD[SP]	622	43.40	134	21.54
SELL[U]	60	4.20	9	15.00



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject



company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

© Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.



**RBC Capital Markets®**

---

Copyright © RBC Capital Markets, LLC 2011 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © Royal Bank of Canada Europe Limited 2011  
Copyright © Royal Bank of Canada 2011  
All rights reserved





## COMPANY UPDATE | COMMENT

NOVEMBER 4, 2011

## Fortis Inc. (TSX: FTS)

## Regulated Utilities Drive a Solid Quarter

Sector Perform  
Average Risk

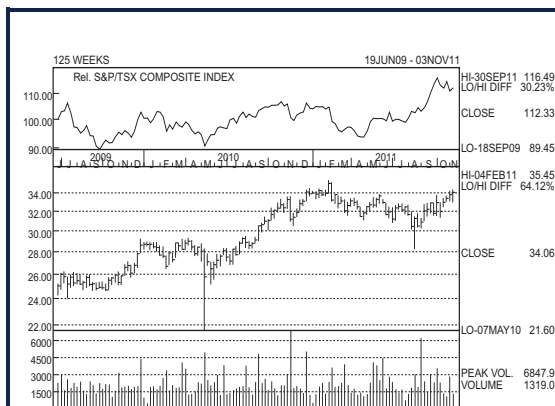
Price:	34.06	Price Target:	34.00
Shares O/S (MM):	186.9	Implied All-In Return:	3%
Dividend:	1.16	Market Cap (MM):	6,366
Float (MM):	186.9	Yield:	3.4%
Debt to Cap:	55%		

## Event

Fortis reported Q3/11 results.

## Investment Opinion

- **Normalized Results In-Line.** The Q3/11 normalized EPS was \$0.25 compared to our estimate of \$0.24 and \$0.24 in Q3/10. Consensus for the quarter was \$0.24 (four estimates with a range of \$0.22 to \$0.24). Reported EPS was \$0.31 and included a \$0.06/share gain from the termination fee from the CVPS transaction.
- **No Major Surprises.** Overall, Canadian regulated utilities posted a good quarter with \$40 million of earnings (our estimate was \$38 million). All of the other segments were within +/- \$1 million of our estimate.
- **Growth Plan Remains Unchanged.** With gross capital expenditures of \$806 million spent in the first nine months of the year, Fortis continues to expect \$1.2 billion of capex in 2011. The company also expects a five-year capex program of \$5.7 billion through to the end of 2015.
- **Update on Belize Situation.** Fortis has commissioned an independent valuation of its previous investment in BEL and expects to submit a claim for compensation to the Government of Belize during Q4/11.
- **Estimates Unchanged.** Based on an in-line quarter, we have left our 2011–2013 annual EPS estimates unchanged.
- **A Good Stock for Investors Looking to Play Defense.** With roughly 75% of earnings derived from Canadian cost-of-service regulated utilities, we believe that Fortis' stock is a good choice for investors looking for a defensive business to protect against both market and economic weakness.
- **Valuation.** Our price target of \$34.00 (unchanged) is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2010A	2011E	2012E	2013E
EPS (Op) - Basic	1.63	1.74	1.82	1.91
P/E	20.9x	19.6x	18.7x	17.8x
EPS (Op) - FD	1.60	1.71	1.79	1.89
P/E	21.3x	19.9x	19.0x	18.0x
DPS	1.12	1.16	1.24	1.32
Div. Yield	3.3%	3.4%	3.6%	3.9%
Payout Ratio- Basic	69%	67%	68%	69%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.25A	0.50E
Prev.			0.24E	0.52E
2012	0.67E	0.35E	0.26E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

## Q3/11 Results in Line with Expectations after One-Time Adjustment

Fortis' Q3/11 normalized EPS was \$0.25 compared to our estimate of \$0.24 and \$0.24 in Q3/10. Reported EPS was \$0.31 and included a \$0.06/share gain from the termination fee from the CVPS transaction. There were no major surprises in the segment results. Overall, Canadian regulated utilities posted a good quarter with \$40 million of earnings (our estimate was \$38 million). All of the other segments were within +/- \$1 million of our estimate. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

**Exhibit 1: Normalized Earnings (In \$MM except per share figures)**

	RBC CM			Comments
	Q3/11	Q3/11E	Q3/10	
Newfoundland Power	\$8	\$8	\$8	
FortisOntario & Maritime Electric	6	5	5	
FortisBC Energy	(3)	(5)	(9)	Higher regulator-approved operating expenses recoverable from customers
FortisAlberta	19	19	19	
FortisBC Electric	10	12	11	Higher-than-expected PBR incentive adjustments owing to customers
Regulated Utilities - Canadian	40	38	34	
Regulated Utilities - Caribbean	6	7	8	
Non-regulated - Fortis Generation	8	7	9	Strong hydrology in New York State; weak hydrology in Belize
Non-regulated - Fortis Properties	9	9	9	
Corporate	(16)	(17)	(19)	Included roughly \$2mm of FX gains
<b>Normalized Earnings</b>	<b>\$47</b>	<b>\$44</b>	<b>\$41</b>	
<b>Normalized EPS</b>	<b>\$0.25</b>	<b>\$0.24</b>	<b>\$0.24</b>	
Average shares outstanding (MM)	187	185	173	
<u>Normalization adjustments (after-tax):</u>				
Reversal related to project cost overrun			4	
Termination fee	11			Break fee from the CVPS merger termination
	11		4	
Reported Earnings	\$58		\$45	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- **Newfoundland Power Sells 40% of Joint-Use Poles to Bell Aliant.** In September, 2011, Newfoundland Power received regulatory approval for the sale of 40% of the utility's joint-use poles to Bell Aliant. The transaction closed on October 5, 2011 and the proceeds were approximately \$46 million.
- **\$25 Million Acquisition Made by Fortis Properties.** On October 19, 2011, Fortis Properties acquired the 160-room, full-service Hilton Suites Winnipeg Airport Hotel for approximately \$25 million.
- **Update on Belize Situation.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was \$112 million as at June 30, 2011. Fortis has commissioned an independent valuation of its previous investment in BEL and expects to submit a claim for compensation to the Government of Belize during Q4/11.
- **Long-Term Utility Growth Plan Remains Unchanged.** With gross capital expenditures of \$806 million spent in the first nine months of the year, Fortis continues to expect \$1.2 billion of capex in 2011. The company also expects a five-year capex program of \$5.7 billion through to the end of 2015.
- **Construction Work Continues on Waneta Expansion.** Construction work continued on the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.
- **Still Looking for U.S. Acquisitions, but Nothing Appears Imminent.** Fortis continues to look in the U.S. for utilities to acquire, although we do not get the impression that anything meaningful is in the works at this time. We continue to expect management to



remain patient (the acquisition hunt in the U.S. has been going on for years). The preference has been for a utility in the US\$3 billion to US\$5 billion range (enterprise value), operating in a single state with no material unregulated assets. Fortis would prefer to be the sole owner and operator but would consider a partnership with a Canadian pension fund if Fortis maintained control (i.e., not a minority position or part of a consortium).

- **Moose River Hydroelectric Facility Expected to Be Operational in February 2012.** In May 2011, the Moose River generator (part of Fortis Generation segment) in Upper New York State sustained electrical damage and is expected to be operational again in February 2012. In the meantime, equipment and business interruption insurance claims have been made.

## Overall Estimates Remain Unchanged

We have made minor changes to our Q4/11 estimate, but have left our overall EPS estimates unchanged through 2013. Our revised estimates are set out in Exhibit 2.

**Exhibit 2: Revised Financial Forecast (In \$MM except per share figures)**

	2010	Q1/11	Q2/11	Q3/11	Q4/11E	2011E	2012E	2013E	OLD		
									2011E	2012E	2013E
Newfoundland Power	\$35	\$7	\$11	\$8	\$9	\$35	\$36	\$37	\$35	\$36	\$37
Other Cdn (ME + FTS Ont)	19	6	6	6	4	22	24	26	22	24	26
FortisBC Energy	126	76	15	(3)	47	135	140	145	135	140	145
FortisAlberta	67	21	19	19	20	79	85	92	79	85	92
FortisBC Electric	43	19	9	10	11	49	50	53	49	50	53
Regulated Utilities - Caribbean	24	4	7	6	6	23	25	28	23	25	28
Fortis Generation	19	3	2	8	4	17	19	19	17	19	19
Fortis Properties	26	1	7	9	9	26	28	29	26	28	29
Corporate and other	(78)	(20)	(18)	(16)	(18)	(72)	(64)	(60)	(72)	(64)	(60)
<b>Normalized earnings</b>	<b>\$281</b>	<b>\$117</b>	<b>\$58</b>	<b>\$47</b>	<b>\$94</b>	<b>\$316</b>	<b>\$343</b>	<b>\$367</b>	<b>\$315</b>	<b>\$343</b>	<b>\$368</b>
Shares O/S (MM)	173	175	177	187	187	181	189	192	181	189	192
<b>Normalized EPS (Basic)</b>	<b>\$1.63</b>	<b>\$0.67</b>	<b>\$0.33</b>	<b>\$0.25</b>	<b>\$0.50</b>	<b>\$1.74</b>	<b>\$1.82</b>	<b>\$1.91</b>	<b>\$1.74</b>	<b>\$1.82</b>	<b>\$1.91</b>
Dividends Paid	\$1.12					\$1.16	\$1.24	\$1.32	\$1.16	\$1.24	\$1.32
Payout Ratio	69%					67%	68%	69%	67%	68%	69%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.



## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

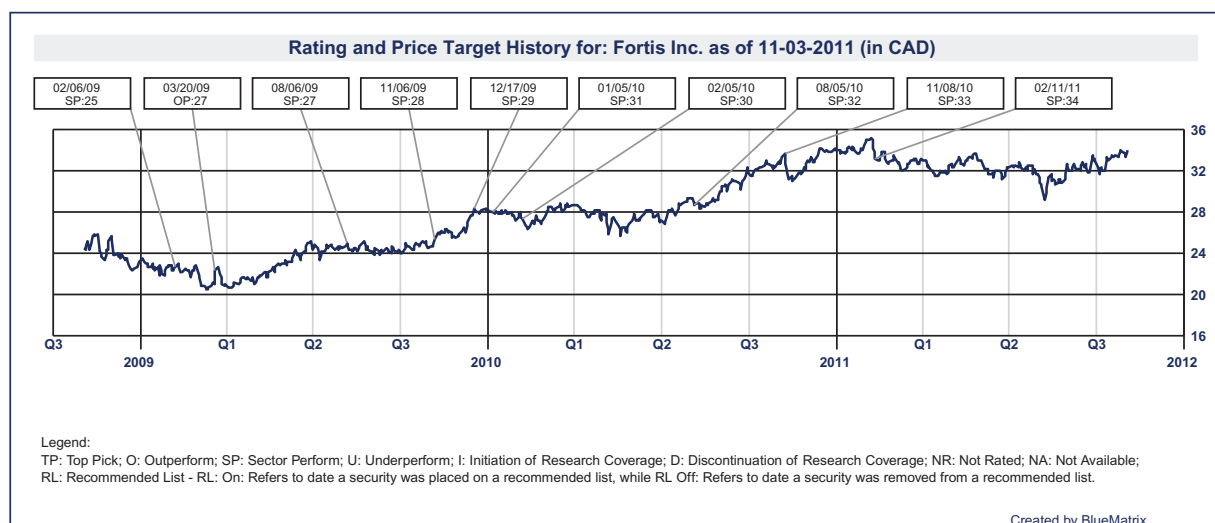
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	775	52.80	230	29.68
HOLD[SP]	628	42.80	137	21.82
SELL[U]	64	4.40	6	9.38



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary



selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBC EL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBC EL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

### To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.  
Copyright © RBC Capital Markets, LLC 2011 - Member SIPC



**RBC Capital Markets®**

---

Copyright © RBC Dominion Securities Inc. 2011 - Member CIPF  
Copyright © RBC Europe Limited 2011  
Copyright © Royal Bank of Canada 2011  
All rights reserved





## COMPANY UPDATE | COMMENT

FEBRUARY 10, 2012

## Fortis Inc. (TSX: FTS)

### Q4/11 Earnings Slightly Short of Expectations

### Sector Perform Average Risk

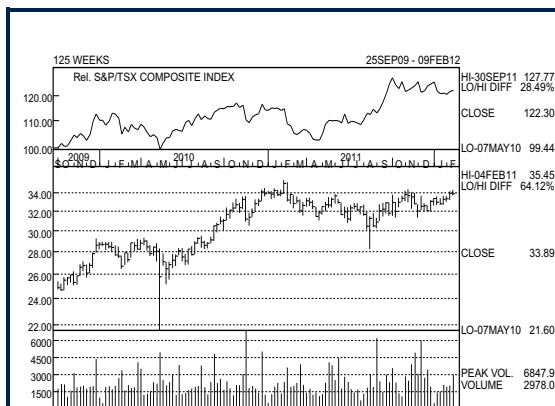
Price:	33.89	Price Target:	34.00
Shares O/S (MM):	189.0	Implied All-In Return:	4%
Dividend:	1.20	Market Cap (MM):	6,405
Float (MM):	189.0	Yield:	3.5%
Debt to Cap:	55%		

### Event

Fortis reported Q4/11 results.

### Investment Opinion

- Q4/11 Results Slightly Short of Expectations.** Normalized Q4/11 EPS was \$0.46, compared to our estimate of \$0.49 and \$0.49 in Q4/10. The core Canadian Regulated Utilities segment was in line with expectations with the shortfall coming from the utilities in the Caribbean and the Properties division.
- Utility Spending Continues to Drive the Organic Growth Story.** After spending \$900 million to grow rate base in its Canadian regulated utilities in 2011, Fortis expects to spend a similar amount in 2012 as part of the 5-year \$5.5 billion capex plan with almost 90% directed to the utilities in Canada.
- Nothing New on Potential U.S. Acquisitions.** The directional strategy of trying to grow in the U.S. has not changed, but there is nothing to update on strategy or likelihood of an acquisition coming to fruition. We continue to expect management to exercise patience and discipline given this strategy has existed for several years with Fortis walking away from various targets, some which have been high profile, given high valuations.
- Modestly Reducing Estimates to Primarily Reflect Headwinds in the Caribbean and Properties.** Our new 2012 and 2013 EPS estimates are \$1.76 and \$1.87, respectively (down from \$1.81 and \$1.91, respectively). The estimates for the core Canadian Regulated Utilities remain largely unchanged. We would note that our forecast does not include any impact from a possible reduction in ROE for the B.C.-based utilities given the pending review by the BCUC. We estimate that a 50 basis point change in allowed ROE would impact EPS by roughly \$0.05/share.
- Valuation.** Our price target of \$34.00 (unchanged) is based on forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.



### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.69	1.76	1.87
Prev.		1.73	1.81	1.91
P/E	20.8x	20.1x	19.3x	18.1x
EPS (Op) - FD	1.60	1.67	1.74	1.85
Prev.		1.70	1.78	1.89
P/E	21.2x	20.3x	19.5x	18.3x
DPS	1.12	1.16	1.20	1.26
Prev.			1.24	1.32
Div. Yield	3.3%	3.4%	3.5%	3.7%
Payout Ratio- Basic	69%	69%	68%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.25A	0.46A
Prev.				0.49E
2012	0.65E	0.34E	0.26E	0.50E
Prev.	0.66E	0.35E		0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

## Q4/11 Results Slightly Lower-Than-Expected

Fortis' Q4/11 normalized EPS was \$0.46 compared to our estimate of \$0.49 and \$0.49 in Q4/10. The lower-than-expected results were primarily driven by Caribbean Regulated Utilities (\$0.02/share) and Fortis Properties (\$0.02/share). All of the other segments were within +/- \$1 million of our estimate. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

### Exhibit 1: Normalized Earnings (In \$MM except per share figures)

	Q4/11	RBC CM Q4/11E	Q4/10	2011	2010	Comments
Newfoundland Power	\$8	\$9	\$9	\$34	\$35	
FortisOntario & Maritime Electric	4	4	5	22	19	
FortisBC Energy	51	47	45	139	126	
FortisAlberta	17	18	17	75	67	
FortisBC Electric	11	11	10	49	43	
Regulated Utilities - Canadian	91	90	86	319	290	
Regulated Utilities - Caribbean	3	6	5	20	24	Weaker-than-expected results primarily at Turks & Caicos
Non-regulated - Fortis Generation	5	4	5	18	19	
Non-regulated - Fortis Properties	5	9	7	22	26	Lower-than-expected occupancy rates and margins
Corporate	(18)	(18)	(18)	(72)	(78)	
<b>Normalized Earnings</b>	<b>\$86</b>	<b>\$92</b>	<b>\$85</b>	<b>\$307</b>	<b>\$281</b>	

<b>Normalized EPS</b>	<b>\$0.46</b>	<b>\$0.49</b>	<b>\$0.49</b>	<b>\$1.69</b>	<b>\$1.63</b>
-----------------------	---------------	---------------	---------------	---------------	---------------

Average shares outstanding (MM)	188	187	174	182	173
---------------------------------	-----	-----	-----	-----	-----

#### Normalization adjustments:

Reversal (after-tax) related to project cost overrun				11	4
Early Termination Fee				11	4
	0	0	0	11	4
Reported Earnings	\$86	\$85	\$318	\$285	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- Regulatory Reviews on ROE: One Down, Two to Go.** With the Alberta Utilities Commission (AUC) modestly reducing the allowed ROE to 8.75% (from 9.00%), the focus shifts to the British Columbia Utilities Commission (BCUC), which will review allowed ROEs and capital structures this year. Further, the Newfoundland and Labrador Board of Commissioners of Public Utilities provided relief on the 2012 ROE by suspending the formula and maintaining the 8.38% ROE (it would have dropped to 7.85%) with a full cost of capital review also likely to occur this year. We estimate that a 50 basis point change in allowed ROE in B.C. would impact EPS by roughly \$0.05/share. A similar change in Newfoundland and Labrador would impact EPS by about \$0.01/share.
- Government's Belize Valuation Significantly Lower-Than-Expected.** During Q4/11, Fortis commissioned an independent valuation of its investment in Belize Electricity Limited (BEL) and submitted a claim for compensation to the Government of Belize (GOB). In response to Fortis' claim, the GOB also commissioned an independent valuation of BEL, resulting in a significantly lower fair value than was estimated by the Fortis valuation. The company is pursuing alternative options for obtaining fair compensation from the GOB.
- 5-year Capex Plan Continues To Remain Strong.** The company's updated 5-year capex plan through 2016 has not significantly changed from the 2011 plan. In summary, over the next five years (2012 to 2016), Fortis' planned capex is expected to approximate \$5.5 billion. The majority of Fortis' planned capital investment is in Canadian regulated electric utilities (approximately 64%) and Canadian regulated gas utilities (approximately 23%), subject to regulatory approval.
- \$244 Million Invested To Date In The Waneta Dam Expansion.** Construction work continues on the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. The project is on schedule and budget, with approximately \$244 million invested since construction started in late 2010. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.





- **Mount Hayes Storage Facility Brought On-Line In Late 2011.** The 1.5 billion-cubic foot LNG storage facility, located on Vancouver Island, was completed during Q2/11 and brought on-line in late 2011. The project costs were approximately \$212 million and are included in FortisBC Energy's rate base (Vancouver Island).
- **Customer Care Enhancement Project in Service in January 2012.** The \$110 million project at FortisBC Energy was put into service in January 2012. The company estimates that approximately \$30 million of the project costs will be incurred in H1/12, as they relate to final contractor payments. Total costs for the project are expected to come in under budget.

### Modestly Reducing Estimates to Reflect Headwinds in Caribbean and Properties

We have slightly reduced our 2012 and 2013 EPS estimates \$1.76 and \$1.87, respectively (from \$1.81 and \$1.91, respectively). The estimates for the core Canadian Regulated Utilities remain largely unchanged. We would note that our forecast does not include any impact from a reduction in ROE for the B.C.-based utilities. We estimate that a 50 basis point change in allowed ROE would impact EPS by roughly \$0.05/share. Due to our lower EPS forecast, we have also modified our dividend estimate for 2013 to an annual increase of \$0.06/share (down from \$0.08/share). Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In \$MM except per share figures)

	2010	2011	Q1/12E	Q2/12E	Q3/12E	Q4/12E	2012E	2013E	OLD	
									2012E	2013E
Newfoundland Power	\$35	\$34	\$7	\$11	\$8	\$8	\$34	\$35	\$36	\$37
Other Cdn (ME + FTS Ont)	19	22	7	7	7	4	24	26	24	26
FortisBC Energy	126	139	79	16	(3)	53	144	148	140	145
FortisAlberta	67	75	23	21	20	20	83	93	83	92
FortisBC Electric	43	49	18	9	10	13	50	53	50	53
Regulated Utilities - Caribbean	24	20	4	8	7	3	22	25	25	28
Fortis Generation	19	18	3	4	7	4	19	19	19	19
Fortis Properties	26	22	1	8	10	6	25	27	28	29
Corporate and other	(78)	(72)	(18)	(17)	(16)	(16)	(67)	(65)	(64)	(61)
<b>Normalized earnings</b>	<b>\$281</b>	<b>\$307</b>	<b>\$124</b>	<b>\$65</b>	<b>\$50</b>	<b>\$95</b>	<b>\$335</b>	<b>\$362</b>	<b>\$342</b>	<b>\$367</b>
Shares O/S (MM)	173	182	189	190	191	192	190	193	189	192
<b>Normalized EPS (Basic)</b>	<b>\$1.63</b>	<b>\$1.69</b>	<b>\$0.65</b>	<b>\$0.34</b>	<b>\$0.26</b>	<b>\$0.50</b>	<b>\$1.76</b>	<b>\$1.87</b>	<b>\$1.81</b>	<b>\$1.91</b>
Dividends Paid	\$1.12	\$1.16					\$1.20	\$1.26	\$1.24	\$1.32
Payout Ratio	69%	69%					68%	67%	69%	69%

Source: Company reports; RBC Capital Markets estimates



## Valuation

Our price target of \$34.00 is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

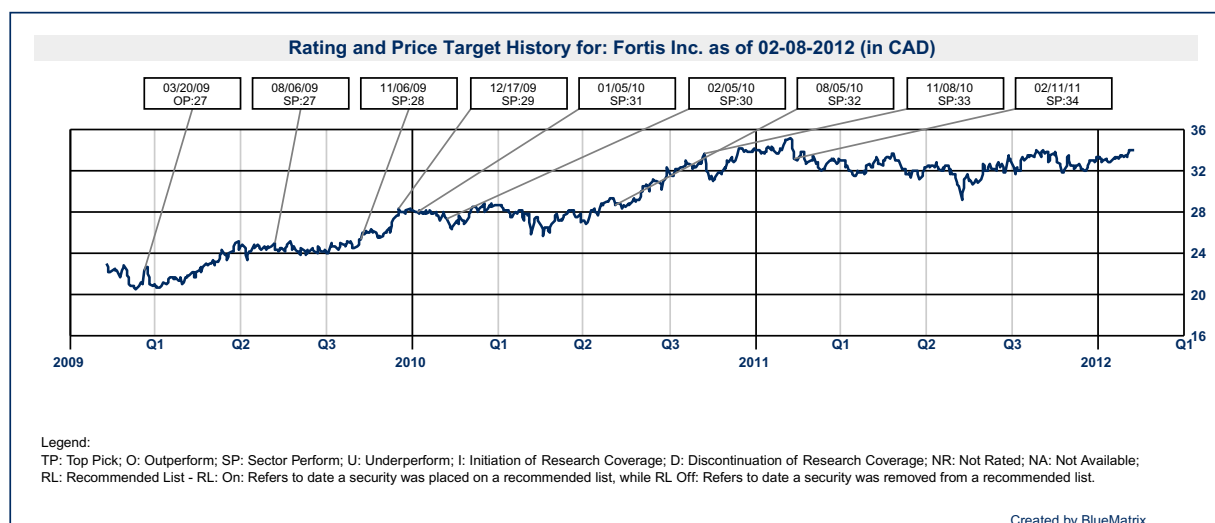
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	774	51.90	224	28.94
HOLD[SP]	648	43.40	146	22.53
SELL[U]	71	4.80	5	7.04



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbcm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary



selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

### To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.  
Copyright © RBC Capital Markets, LLC 2012 - Member SIPC



RBC Capital Markets®

---

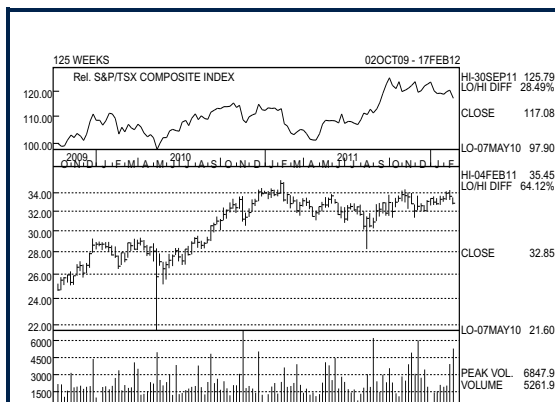
Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF  
Copyright © RBC Europe Limited 2012  
Copyright © Royal Bank of Canada 2012  
All rights reserved





## FIRST GLANCE | COMMENT

FEBRUARY 21, 2012



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

All values in CAD unless otherwise noted.

## Fortis Inc. (TSX: FTS; 32.85)

## Agrees to Acquire U.S. Regulated Utility

Sector Perform  
Average Risk

## Impact

Modestly Positive

## First Impression

- **Acquires CH Energy Group for US\$1.5 Billion.** Fortis has entered into an agreement to acquire CH Energy Group (NYSE: CHG, US\$58.77; not rated) for an aggregate purchase price of approximately US\$1.5 billion (including US\$500 million of debt). CH Energy's main business segment is a regulated transmission and distribution utility in New York State (97% of net income). CH Energy also owns and operates a non-regulated fuel delivery business.
- **Purchase Price Represents 10.5% Premium.** The US\$65/share purchase price represents a 10.5% premium above CHG's most recent closing price. We note that the acquisition is subject to shareholder and other regulatory approvals including, the New York Public Service Commission and the Federal Energy Regulatory Commission.
- **Transaction Expected to Be Immediately Accretive to EPS.** Fortis stated that it expects the acquisition to be immediately accretive to EPS excluding one-time transaction costs. The total assets of Fortis are expected to increase by approximately 16% to \$17 billion following the completion of the transaction.
- **Initial Financing Will Be the Credit Facility.** Fortis will use its multi-year committed credit facility to finance the acquisition in the short term. However, we note that any need for common equity would be reduced by the \$341 million equity issuance in mid-2011 with proceeds that were partly intended to finance the CVPS acquisition that did not proceed.
- **Fast Growing Utility.** Fortis expects annual capital expenditures at Central Hudson to exceed US\$100 million on average through 2016. The increase in rate base should drive above-average EPS growth.
- **Low Risk Utility.** Central Hudson operates under cost-of-service regulation with a framework that provides full recovery and deferral provisions for pension and fuel costs. Furthermore, rates are de-coupled, which provides increased protection against changes in customer usage.
- **Attractive ROE for Now.** Central Hudson's current rates having been established using a 10% return on equity and a 48% equity thickness for three years beginning on July 1, 2010. We note that ROEs in New York have recently been pegged below 9.5%.
- **Overall, We View the Transaction as a Modest Positive.** Similar to our thoughts on the CVPS approach, we view the CH Energy transaction as a modest positive as: (1) it is a smaller transaction that can help prove-up the U.S. expansion strategy; (2) the utility is fairly close geographically to Fortis' utilities in Eastern Canada; (3) Central Hudson is geographically close to other potential utility targets, particularly those owned by European companies; and (4) the transaction is expected to be immediately accretive to EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

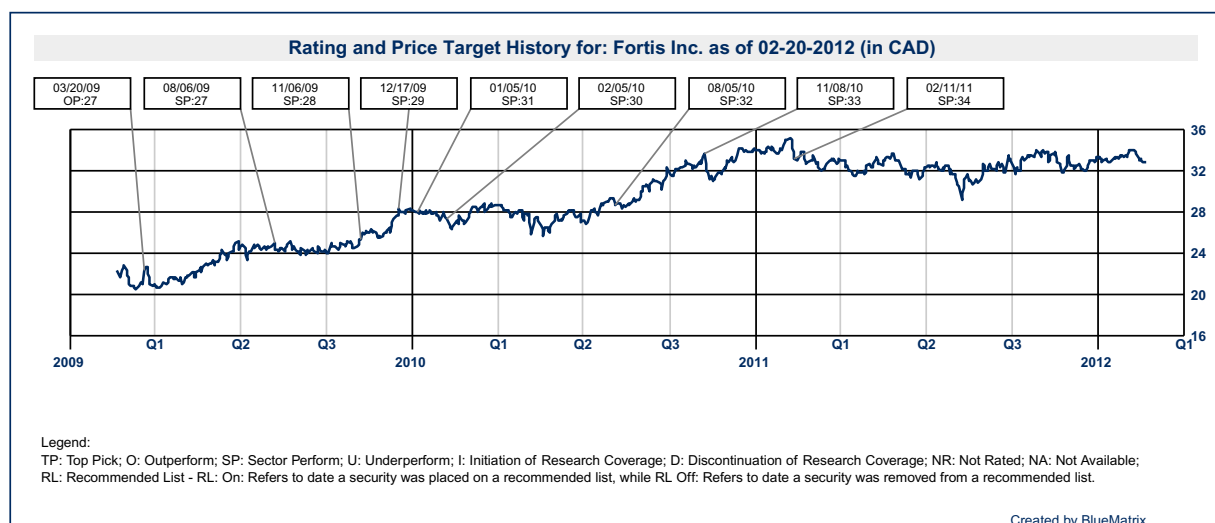
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	779	52.00	226	29.01
HOLD[SP]	649	43.30	147	22.65
SELL[U]	71	4.70	5	7.04



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbcm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary



selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBC EL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBC EL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

### To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.  
Copyright © RBC Capital Markets, LLC 2012 - Member SIPC



RBC Capital Markets®

---

Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF  
Copyright © RBC Europe Limited 2012  
Copyright © Royal Bank of Canada 2012  
All rights reserved





## COMPANY UPDATE | COMMENT

FEBRUARY 22, 2012

## Fortis Inc. (TSX: FTS) Fortis Loves New York

### Sector Perform Average Risk

Price:	32.38	Price Target:	34.00
Shares O/S (MM):	189.0	Implied All-In Return:	9%
Dividend:	1.20	Market Cap (MM):	6,120
Float (MM):	189.0	Yield:	3.7%
Debt to Cap:	55%		

### Event

Fortis agreed to acquire CH Energy, which owns a New York utility, for US\$1.5 billion (includes US\$500 million of debt).

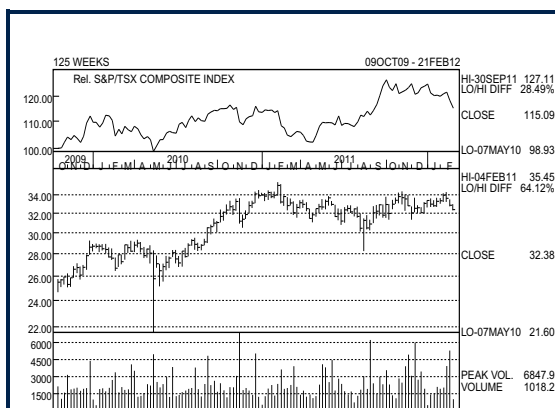
### Investment Opinion

- **Strategic and Accretive.** Similar to the CVPS approach, we view the CH Energy transaction as a modest positive as: (1) it is a smaller transaction that can help prove-up the U.S. expansion strategy; (2) Central Hudson is in New York State, which is where other potential utility targets are (particularly those held by European companies); and (3) the transaction is expected to be immediately accretive to EPS, which should increase over time due to expected 6% to 7% annual rate base growth through 2016.
- **Should Be EPS Accretive Regardless of ROE Outcome.** Our analysis in Exhibit 1 (on page 2) indicates that the acquisition should be mildly accretive to EPS even if the allowed ROE declines toward 9% (from 10%) as part of the upcoming rate case. Central Hudson's rate decision in mid-2010 runs through mid-2013 and includes an ROE of 10%. However, a rate decision for Orange & Rockland in mid-2011 pegged the ROE at 9.2%.
- **Equity Could Be Issued in Mid/Late 2012.** Fortis has the ability to fund the transaction using its credit facilities. At a minimum, the company will probably wait until the outcome of the CH Energy shareholder vote (likely summer 2012) before moving forward on financing. We have assumed that \$500 million of common shares are issued in our analysis.
- **Feels Like Home: New York State Regulation a Lot Like Canada.** New York State regulation has many similarities to the low-risk, cost-of-service framework prevalent in Canada, including those for Fortis' existing utility assets. Specifically, fuel pass-through mechanisms, rate de-coupling (to protect against declines in customer usage), and the use of deferral accounts are part of Central Hudson's regulated framework.
- **Increasing 2013 Estimate.** Assuming the transaction closes in Q1/13, we have increased our 2013 EPS estimate to \$1.89 (from \$1.87). Our revised estimate assumes that the ROE in mid-2013 declines to 9.25% (from 10%), which is more in line with a recent ROE decision.
- **Valuation: No Change in Price Target.** Reflecting the modest expected accretion, we have left our \$34.00/share price target unchanged. If the ultimate ROE decision for Central Hudson is closer to 10%, we see roughly \$1/share of upside.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

adoyle@fortisinc.com angela.doyle 07/28/15 06:28:29 PM Fortis, Inc.



#### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.69	1.76	1.89
Prev.				1.87
P/E	19.9x	19.2x	18.4x	17.1x
EPS (Op) - FD	1.60	1.67	1.74	1.87
Prev.				1.85
P/E	20.2x	19.4x	18.6x	17.3x
DPS	1.12	1.16	1.20	1.26
Div. Yield	3.5%	3.6%	3.7%	3.9%
Payout Ratio- Basic	69%	69%	68%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.25A	0.46A
2012	0.65E	0.34E	0.26E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## CH Energy Acquisition Slightly Accretive

Similar to the CVPS transaction, we view the CH Energy acquisition as a modest positive for the stock for the following reasons:

- (1) Relatively Small Size Allows Fortis to Test U.S. Waters.** Although the acquisition is larger than the CVPS proposed transaction, we believe that the CH Energy acquisition at roughly US\$1.5 billion enterprise value is a more manageable size than the US\$3 billion to US\$5 billion transaction range that Fortis has previously discussed. Since we believe that the market is cautious on the U.S. acquisition strategy, the CH Energy acquisition should allow the company to prove to the market that it can navigate U.S. state regulation.
- (2) Good Fit Geographically.** Central Hudson is in New York State, a state where there is the potential for future utility acquisitions (particularly from European owners). Furthermore, New York is relatively close geographically to Fortis' eastern Canadian utility assets.
- (3) Expected to Be Accretive to EPS Regardless of the ROE Scenario.** As shown in Exhibit 1, we expect the transaction to contribute \$0.02/share to \$0.04/share to annual EPS, depending on whether in the upcoming rate case the allowed ROE declines toward 9% (from 10%). We have set out a sensitivity analysis in Exhibit 2, which shows that under a range of ROEs and equity pricing, the transaction is expected to be accretive to EPS regardless of the assumption.

### Exhibit 1: Estimated EPS Accretion - Base Analysis (In \$MM except per share figures; assumes US\$ at par)

#### Assumptions

Total Purchase Price	\$1,500
Assumed Debt	500
Equity Purchase Price	\$1,000

#### Financing of Equity Portion

Equity Financed	50%	\$500	\$31.50 per share
Debt Financed	40%	400	5.0% rate
Preferred Shares	10%	100	4.0% rate

#### Cost of Financing

#### Regulated Structure

Equity Thickness	48%
ROE	9.25%

	Full Year	Comments
Estimated Regulated Rate Base	\$1,022	Assumes roughly 6% rate base growth into 2013
Equity Thickness	48%	
ROE	9%	
Regulated Net Income	45	
Unregulated Net Income	1	Based on disclosure that 3% of net income is unregulated
Total Net Income	\$46	
Incremental Debt Financing	(15)	After-tax
Incremental Pfd Share Dividends	(4)	
Cross-Border Tax Structuring	7	Assumes reduction in holding company effective tax rate to 25% (from 35%)
Incremental Net Income	35	
2013E Stand Alone Net Income	362	Previous RBC estimate as a proxy for the first full-year
Pro Forma Net Income	\$396	
Existing Shares Outstanding (MM)	193	2013E RBC estimate
Shares Issued (MM)	16	
Pro Forma Shares (MM)	209	
Stand Alone EPS	\$1.87	
Pro Forma EPS	\$1.89	
Accretion/(Dilution)	\$0.02	

Source: Company reports; RBC Capital Markets estimates



## Exhibit 2: Estimated EPS Accretion - Sensitivity Analysis

		Equity Issue Price (net of discount)						
		\$30.50	\$31.00	\$31.50	\$32.00	\$32.50		
Allowed ROE	9.00%	\$0.01	\$0.01	\$0.02	\$0.02	\$0.02	← Forecast ROE	
	9.25%	\$0.02	\$0.02	\$0.02	\$0.03	\$0.03		
	9.50%	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03		
	9.75%	\$0.03	\$0.03	\$0.04	\$0.04	\$0.04		
	10.00%	\$0.04	\$0.04	\$0.04	\$0.05	\$0.05		
							← Current Allowed ROE	

Source: Company reports; RBC Capital Markets estimates

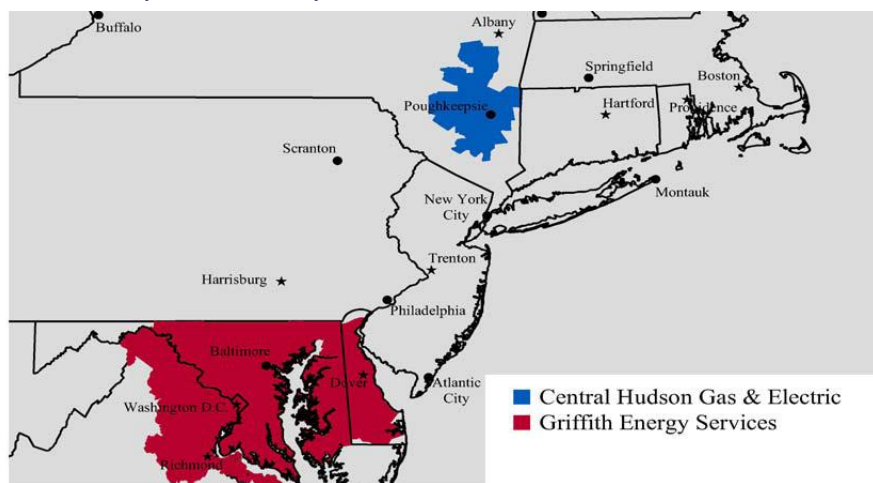
## Transaction Mechanics

- **Purchase Price.** Fortis entered into an agreement to acquire CH Energy Group (NYSE: CHG; US\$66.22; not rated) for US\$65.00 in cash. The total purchase price is an approximately 10.5% premium to the previous close.
- **Transaction Approvals and Timing.** The transaction requires shareholder approval (meeting in summer of 2012) and regulatory approvals including the New York Public Service Commission (NYPSC), the Federal Regulatory Energy Commission (FERC), and the expiration of the waiting period under the Hart-Scott-Rodino (HSR) Act. We do not expect FERC or HSR approval to be an issue. However, for the NYPSC, Fortis must demonstrate a net tangible benefit to rate payers, and although no specifics were given, it appears that Fortis may have some tools at its discretion to help deliver value to rate payers without a material change in earnings. Fortis expects to close the acquisition within 12 months.
- **Financing.** The company expects to use its credit facilities in the short term, although we believe permanent financing will come in the form of common equity, additional debt, and potentially preferred shares. In terms of the timing of common equity, it appears that Fortis will wait at least until shareholder approval before reviewing the timing of its equity requirements.

## Overview of CH Energy

- **Primarily Acquiring a Single-State, Regulated Electric and Gas Transmission & Distribution Business.** CH Energy's main business segment is Central Hudson Gas & Electric Corporation (Central Hudson), a regulated transmission and distribution utility in New York State (97% of net income) serving 300,000 electric and 75,000 natural gas customers. CH Energy also owns and operates a non-regulated fuel delivery business (Griffith Energy Services) with this business contributing only about 3% to annual earnings.
- **Fast-Growing Utility.** Fortis expects annual capital expenditures at Central Hudson to exceed US\$100 million on average through 2016. The increase in rate base should be about 6% to 7% per year, which will help drive attractive EPS growth.
- **Capital Structure and ROE.** Central Hudson's current rates were established using a 10% return on equity and a 48% equity thickness for three years beginning on July 1, 2010. We note that ROEs in New York have recently been pegged below 9.5%.

## Exhibit 3: Map of Business Operations



Source: Company reports; RBC Capital Markets



## 2013 EPS Estimate Increased

Assuming the transaction closes in Q1/13, we have increased our 2013 EPS estimate to \$1.89 (from \$1.87). Our revised estimate assumes that the ROE in mid-2013 declines to 9.25% (from 10%), which is more in line with a recent ROE decision in New York for Orange & Rockland, another utility in the state. Our revised estimates are set out in Exhibit 4.

Exhibit 4: Revised Financial Forecast (In \$MM except per share figures)

							OLD			
	2010	2011	Q1/12E	Q2/12E	Q3/12E	Q4/12E	2012E	2013E	2012E	2013E
Newfoundland Power	\$35	\$34	\$7	\$11	\$8	\$8	\$34	\$35	\$34	\$35
Other Cdn (ME + FTS Ont)	19	22	7	7	7	4	24	26	24	26
FortisBC Energy	126	139	79	16	(3)	53	144	148	144	148
FortisAlberta	67	75	23	21	20	20	83	93	83	93
FortisBC Electric	43	49	18	9	10	13	50	53	50	53
CH Energy								46		
Regulated Utilities - Caribbean	24	20	4	8	7	3	22	25	22	25
Fortis Generation	19	18	3	4	7	4	19	19	19	19
Fortis Properties	26	22	1	8	10	6	25	27	25	27
Corporate and other	(78)	(72)	(18)	(17)	(16)	(16)	(67)	(77)	(67)	(65)
Normalized earnings	\$281	\$307	\$124	\$65	\$50	\$95	\$335	\$396	\$335	\$362
Shares O/S (MM)	173	182	189	190	191	192	190	209	190	193
Normalized EPS (Basic)	\$1.63	\$1.69	\$0.65	\$0.34	\$0.26	\$0.50	\$1.76	\$1.89	\$1.76	\$1.87
Dividends Paid	\$1.12	\$1.16					\$1.20	\$1.26	\$1.20	\$1.26
Payout Ratio	69%	69%					68%	67%	68%	67%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$34.00 is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

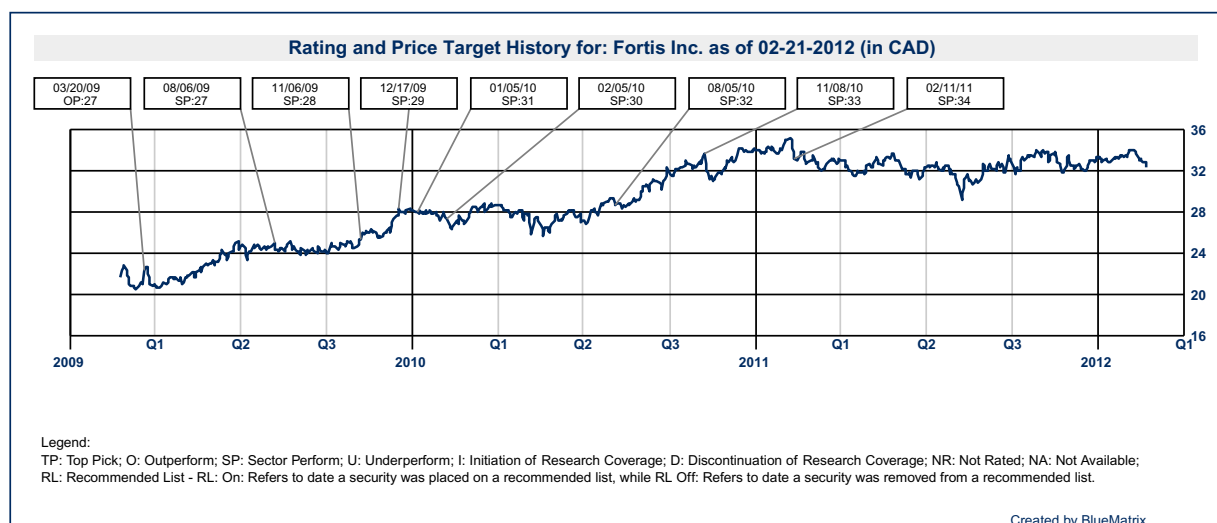
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	780	52.10	227	29.10
HOLD[SP]	648	43.20	148	22.84
SELL[U]	71	4.70	5	7.04



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbcm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary



selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

### To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.  
Copyright © RBC Capital Markets, LLC 2012 - Member SIPC



**RBC Capital Markets®**

---

Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF  
Copyright © RBC Europe Limited 2012  
Copyright © Royal Bank of Canada 2012  
All rights reserved





## PRICE TARGET REVISION | COMMENT

MAY 3, 2012

## Fortis Inc. (TSX: FTS)

## Utilities Performing Well; Busy Year on the Regulatory Front

Sector Perform  
Average Risk

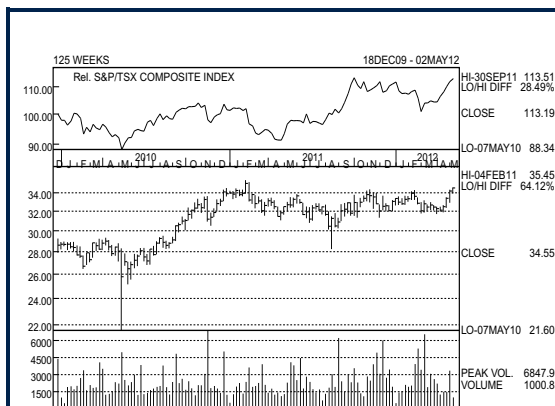
Price:	34.55	Price Target:	35.00 ↑ 34.00
Shares O/S (MM):	189.3	Implied All-In Return:	5%
Dividend:	1.20	Market Cap (MM):	6,540
Float (MM):	189.3	Yield:	3.5%
Debt to Cap:	56%		

## Event

Fortis reported Q1/12 results; increasing price target to \$35.00 (from \$34.00).

## Investment Opinion

- **Q1/12 Results Generally in Line with Expectations.** Q1/12 normalized EPS was \$0.66 compared to our estimate of \$0.65 and \$0.66 (restated) in Q1/11. All of the segments were roughly in line with our expectations. Non-Regulated Generation and FortisBC Energy were slightly ahead of expectations, whereas FortisAlberta and FortisBC Electric were slightly below expectations.
- **Various Regulatory Decisions Pending.** The generic cost of capital proceeding in B.C. to determine the cost of capital (effective January 1, 2013) and a PBR rate-regulation initiative in Alberta are in progress. Further, a cost of capital application was filed for Newfoundland Power in March 2012. We estimate that a 50 basis point change in allowed ROE in B.C. would impact EPS by roughly \$0.05/share, whereas a similar change in Newfoundland and Labrador would impact EPS by approximately \$0.01/share.
- **CH Energy Acquisition Continuing to Progress.** On April 20, 2012, Fortis filed for state regulatory approval and management expects the CH Energy shareholder transaction approval vote to be scheduled in mid to late June. Management is targeting to close the transaction during Q4/12 or Q1/13.
- **Equity Issuance Expected During H2/12.** Management indicated that the company's financing plan to issue approximately \$500 million in common equity has not materially changed. However, the equity issuance may be slightly higher, depending on discussions with the credit rating agencies, as management wants to maintain its A- credit rating. We believe that the company will not issue equity until it has greater visibility on shareholder and regulatory approval.
- **Valuation: Increasing Price Target to \$35.00 (from \$34.00).** Our new price target of \$35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately \$1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.



## RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.66	1.76	1.89
Prev.		1.69		
P/E	21.2x	20.8x	19.6x	18.3x
EPS (Op) - FD	1.60	1.64	1.74	1.87
Prev.		1.67		
P/E	21.6x	21.1x	19.9x	18.5x
DPS	1.12	1.16	1.20	1.26
Div. Yield	3.2%	3.4%	3.5%	3.6%
Payout Ratio- Basic	69%	70%	68%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.66A	0.32A	0.24A	0.44A
Prev.	0.67A	0.33A	0.25A	0.46A
2012	0.66A	0.34E	0.26E	0.49E
Prev.	0.65E			0.50E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.



## Q1/12 Generally in Line with Expectations

Fortis' Q1/12 normalized EPS was \$0.66 compared to our estimate of \$0.65 and \$0.66 (restated) in Q1/11. All of the segments were roughly in line with our expectations. Non-Regulated Generation (good hydrology in Belize) and FortisBC Energy (quarterly timing of operating costs) were slightly ahead of expectations, whereas FortisAlberta (lower consumption) and FortisBC Electric (higher-than-expected operating expenses) were slightly below expectations.

A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

### Exhibit 1: Normalized Earnings (In \$MM except per share figures)

	Q1/12	RBC CM Q1/12E	Q1/11 (Restated)	Comments
Newfoundland Power	\$7	\$7	\$6	
FortisOntario & Maritime Electric	7	7	6	
FortisBC Energy	82	79	75	Quarterly timing of operating costs
FortisAlberta	21	23	21	Lower-than-average consumption due to warm weather
FortisBC Electric	16	18	19	Higher operating expenses due to timing of expenditures
Regulated Utilities - Canadian	133	133	127	
Regulated Utilities - Caribbean	3	4	4	Higher-than-expected financing charges
Non-regulated - Fortis Generation	5	3	3	Good hydrology in Belize
Non-regulated - Fortis Properties	1	1	1	
Corporate	(17)	(18)	(19)	
<b>Normalized Earnings</b>	<b>\$125</b>	<b>\$124</b>	<b>\$116</b>	
<b>Normalized EPS</b>	<b>\$0.66</b>	<b>\$0.65</b>	<b>\$0.66</b>	
Average shares outstanding (MM)	189	189	175	
<u>Normalization adjustments:</u>				
CH Energy Transaction Costs	(4)		0	
	(4)		0	
Reported Earnings	\$121		\$116	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- **Various Regulatory Decisions Received During the Quarter.** In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates for FortisBC Energy and 2012 customer electricity distribution rates for FortisAlberta. A decision on the 2012/2013 customer electricity rates at FortisBC is expected in mid-2012.
- **Regulatory Processes Under Way for FortisBC, FortisAlberta and Newfoundland Power.** The generic cost of capital proceeding in British Columbia to determine the cost of capital as of January 1, 2013 (and an ROE automatic adjustment mechanism) is currently under way and a cost of capital application was filed by Newfoundland Power in March 2012. We estimate that a 50 basis point change in allowed ROE in B.C. would impact EPS by roughly \$0.05/share, whereas a similar change in Newfoundland and Labrador would impact EPS by approximately \$0.01/share. Lastly, the Alberta Utilities Commission is currently reviewing a PBR rate-regulation initiative.
- **Waneta Dam Expansion Continues to Progress.** Management indicated that the project is still on schedule and budget. Since construction started in late 2010, the company has invested approximately \$290 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.
- **2012 Capex Plan Remains Unchanged.** Fortis' capital expenditure plan of \$1.3 billion for 2012 is unchanged from Q4/11 guidance. Fortis spent approximately \$229 million in capital expenditures during the quarter.

## CH Energy Transaction Is Moving Along As Expected

- **CH Energy Acquisition Expected to Close by Q1/13.** In April 2012, Fortis filed for New York state regulatory approval, which management is confident it will receive. The CH Energy shareholder vote is expected to be scheduled for mid to late June. Management's target is for the transaction to close in Q4/12, but depending on the timing of approvals, the transaction could close in Q1/13. We note that our 2013 EPS estimates include a full year contribution from CH Energy, but a delay to Q1/13 would not have a material impact on our estimates.
- **CH Energy Financing Plans Virtually Unchanged.** Management indicated that the company still intends to issue approximately \$500 million in common equity. However, management wants to ensure that the A- credit rating is maintained, and depending on discussions with the credit rating agencies, the equity issuance may be slightly higher.

## Overall Estimates Remain Unchanged

We have made minor changes within the segments to our 2012 forecast, and since Q1/12 was generally in line with our estimate, we have left our overall EPS estimates unchanged through 2013. A summary of our segment forecast is set out in Exhibit 2.

Exhibit 2: Financial Forecast (In \$MM except per share figures)

	Cdn. GAAP						2012E	2013E
	2010	2011	Q1/12	Q2/12E	Q3/12E	Q4/12E		
Newfoundland Power	\$35	\$33	\$7	\$11	\$8	\$8	\$34	\$35
Other Cdn (ME + FTS Ont)	19	20	7	7	7	4	24	26
FortisBC Energy	126	137	82	16	(3)	49	144	148
FortisAlberta	67	74	21	21	20	21	83	93
FortisBC Electric	43	48	16	9	10	15	50	53
CH Energy								46
Regulated Utilities - Caribbean	24	20	3	7	6	4	21	25
Fortis Generation	19	18	5	4	7	4	21	19
Fortis Properties	26	23	1	8	10	6	25	27
Corporate and other	(78)	(72)	(17)	(17)	(16)	(17)	(67)	(77)
<b>Normalized earnings</b>	<b>\$281</b>	<b>\$301</b>	<b>\$125</b>	<b>\$66</b>	<b>\$50</b>	<b>\$95</b>	<b>\$335</b>	<b>\$396</b>
Shares O/S (MM)	173	182	189	190	191	192	190	209
<b>Normalized EPS (Basic)</b>	<b>\$1.63</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.34</b>	<b>\$0.26</b>	<b>\$0.49</b>	<b>\$1.76</b>	<b>\$1.89</b>
Dividends Paid	\$1.12	\$1.16					\$1.20	\$1.26
Payout Ratio	69%	70%					68%	67%

Source: Company reports; RBC Capital Markets estimates

## Increasing Price Target to \$35.00 (from \$34.00)

We have increased our price target to \$35.00 (from \$34.00) to reflect a forward P/E of 18.0x (previously 17.5x) applied to the 2013 EPS estimate plus a present value of approximately \$1.00/share for the Waneta Dam expansion (applying a 18.0x P/E to the estimated \$0.06/share of EPS accretion on a present value basis). The P/E multiple of 18.0x is consistent with other Canadian utility valuations.

## Valuation

Our price target of \$35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately \$1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

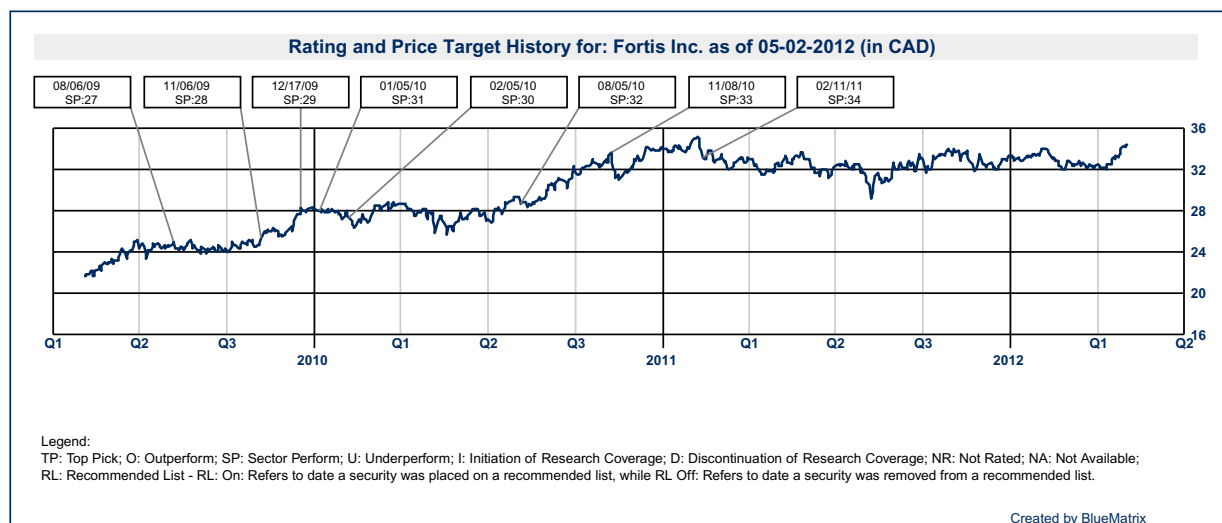
## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform,



Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	769	51.64	226	29.39
HOLD[SP]	653	43.85	154	23.58
SELL[U]	67	4.50	3	4.48



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on



market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

### To Japanese Residents:



Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2012 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF

Copyright © RBC Europe Limited 2012

Copyright © Royal Bank of Canada 2012

All rights reserved







## COMPANY UPDATE | COMMENT

JUNE 18, 2012

## Fortis Inc. (TSX: FTS)

### In a New York State of Mind

### Sector Perform

### Average Risk

Price:	32.50	Price Target:	35.00
Shares O/S (MM):	189.3	Implied All-In Return:	11%
Dividend:	1.20	Market Cap (MM):	6,152
Float (MM):	189.3	Yield:	3.7%
Debt to Cap:	56%		

### Event

We recently hosted investor meetings with Barry Perry, CFO of Fortis.

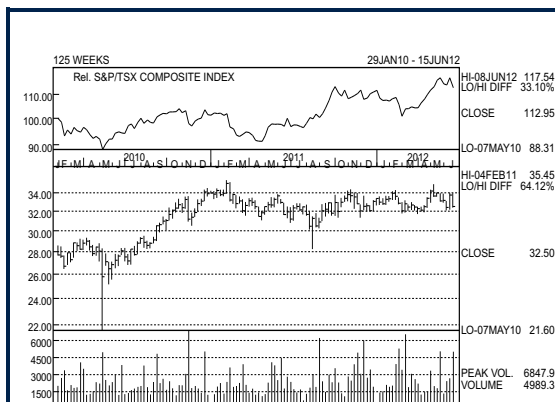
### Investment Opinion

- **Central Hudson is Both Strategic and Accretive.** We continue to view the transaction as strategic, while delivering modest EPS accretion (\$0.02/share). With a similar regulatory framework to Canada's low-risk provincial utility structures, Central Hudson is an attractive way for Fortis to enter the U.S. and demonstrate that its success with acquisitions in Canada can be applied to the U.S., particularly other utilities in New York that may come up for sale over the next several years.
- **A Big Week for the Central Hudson Transaction.** CH Energy's shareholders will vote on the takeover bid by Fortis on Tuesday, June 19. A nice positive last week was the support for the transaction from proxy firms ISS and Glass Lewis. A positive shareholder vote (50% plus one of all shareholders) will open the window for the roughly \$600 million of common equity financing. The major hurdle following the shareholder vote is New York State Public Service Commission approval, which continues to progress well. The company anticipates closing the transaction by the end of Q1/13.
- **Good Progress on the Waneta Dam Expansion.** The company is making good progress on the \$900 million Waneta Dam expansion project (51%-owned by Fortis) with both costs and timing slightly ahead of plan. The 335 MW hydro project is expected to be completed in the spring of 2015 and is underpinned by 40-year contracts.
- **An Attractive Total Return Story, Although We Would Wait for the Equity Issuance.** Based on expected regulated rate base growth along with the Waneta Dam expansion project, EPS growth should be in the mid-single digits and dividends are expected to grow at a similar rate with upside depending on acquisition activity. The expected total return profile is in the 10%-range (dividend yield 3.6%), which we see as attractive for yield-oriented investors seeking businesses with below average risk profiles. While we believe investors should look to accumulate shares on weakness, we would wait for the pending equity issuance to finance the CH Energy acquisition to build larger positions.
- **Valuation.** Our price target of \$35.00 is based on a forward P/E of 18x applied to the 2013E EPS plus a present value of approximately \$1.00/share for the Waneta Dam expansion.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

adoyle@fortisinc.com angela.doyle 07/28/15 06:28:33 PM Fortis, Inc.



### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.66	1.76	1.89
Div Yield	3.4%	3.6%	3.7%	3.9%
P/E	19.9x	19.6x	18.5x	17.2x
EPS (Op) - FD	1.60	1.64	1.74	1.87
P/E	20.3x	19.8x	18.7x	17.4x
DPS	1.12	1.16	1.20	1.26
Payout Ratio- Basic	69%	70%	68%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.66A	0.32A	0.24A	0.44A
2012	0.66A	0.34E	0.26E	0.49E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## CH Energy Acquisition is Both Strategic and Accretive

- **A Low-Risk Way to Enter the U.S.** After over five years of patiently pursuing a U.S. regulated utility acquisition, we see CH Energy, which owns Central Hudson (electric transmission and distribution in New York), as the most strategic target of the utilities that Fortis has been reported to have pursued. Specifically, we like the low-risk regulatory framework that matches up very well with Canadian provincial regulation, the relatively small size of the transaction, the ability to demonstrate a relationship with the New York State Public Service Commission (NYSPSC) ahead of potential follow-on deals in the state.
- **Similar Regulatory Framework to Canadian Provincial Regulation.** As shown in Exhibit 1, we have reproduced a slide from Fortis' presentation that shows how Central Hudson's regulatory framework compares to Canadian provincial regulation. Specifically, we note that Central Hudson's framework matches up with FortisBC Energy (formerly Terasen Gas) and has some risk-mitigation features that other utilities owned by Fortis do not have.

### Exhibit 1: Central Hudson's Regulatory Framework Matches Up Well With What Fortis' Investors Have Come to Expect

	FortisBC Energy	FortisBC Electric	Fortis Alberta	Nfld Power	Central Hudson	Comments/What This Means
Regulator	BCUC	BCUC	AUC	PUB	NYSPSC	
Cost of Service Regulation	✓	✓	✓	✓	✓	
Fwd Test Year/Neg. Rate Settlement	✓	✓	✓	✓	✓	Forecast (vs. historical) costs recovered in rates; low reg. lag
Energy Supply Cost Trackers	✓	Note 1 & 2	N/A; note 3	✓	✓	Changes in commodity costs do not impact earnings
Advance Approval for Capex	✓	✓	✓	✓	✓	Reduces risk of disallowances
Weather (Volume) Normalization	✓	Note 2	N/A; note 3	✓	✓	Warm/cold weather does not impact earnings
Pension Cost Tracker	✓	✓	N/A; note 4	✓	✓	Variances recovered from (refunded to) customers
Interest Expense Tracker	✓	✓	✗	✗	✓	Variances recovered from (refunded to) customers
Property Tax Tracker	✓	✓	✗	✓	✓	Variances recovered from (refunded to) customers
Recovery of Major Non-Controllable Costs	✓	✓	✓	✓	✓	Such as taxes, storm damage, acct'g changes
Equity Thickness (2012)	40%	40%	41%	45%	48%	
Allowed ROE (2012)	9.50%	9.90%	8.75%	8.80%	10.00%	Please see note (5)
Customers (000s)	939	162	501	248	375	As at March 31, 2012
Rate Base (\$ billion)	\$3.6	\$1.1	\$2.0	\$0.9	\$1.0	Mid-year 2012 forecast

#### Notes:

- (1) Majority of power requirements met through the utility's own generation and long-term fixed-price contracts.
- (2) FortisBC Electric has requested energy supply cost trackers for 2012 and 2013, subject to regulatory approval.
- (3) Distribution utility only. No commodity or purchased power exposure.
- (4) Primarily has a defined contribution pension plan.
- (5) ROE is for FortisBC Energy. The ROE for FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler) is 50 bps higher.

Source: Company reports; RBC Capital Markets

- **Forecast EPS Accretion Under a Range of Scenarios (Including a Lower Allowed ROE).** As shown in Exhibit 2 and Exhibit 3, our analysis indicates that the CH Energy acquisition should be modestly accretive to EPS under a range of scenarios including the cost of financing in addition to the potential for a lower allowed ROE. The most recent ROE decision from the NYSPSC was 9.5% (Orange and Rockland; June 2012).



## Exhibit 2: CH Energy Transaction Accretion Analysis (In \$MM except per share figures)

<b>Assumptions</b>				
Total Purchase Price	\$1,500			
Assumed Debt	500			
Equity Purchase Price	\$1,000			
<b>Financing of Equity Portion</b>		<b>Cost of Financing</b>		
Equity Financed	60%	\$600	\$32.50	per share
Debt Financed	20%	200	5.0%	rate
Preferred Shares	20%	200	4.0%	rate
<b>Regulated Structure</b>				
Equity Thickness	48%			
ROE	9.50%			
	<b>Full Year</b>	<b>Comments</b>		
Estimated Regulated Rate Base	\$1,022	Assumes roughly 6% rate base growth into 2013		
Equity Thickness	48%			
ROE	10%			
Regulated Net Income	47			
Unregulated Net Income	1	Based on disclosure that 3% of net income is unregulated		
Total Net Income	\$48			
Incremental Debt Financing	(8)	After-tax		
Incremental Pfd Share Dividends	(8)			
Cross-Border Tax Structuring	7	Assumes reduction in holding company effective tax rate to 25% (from 35%)		
Incremental Net Income	39			
2013E Stand Alone Net Income	362	Previous RBC estimate as a proxy for the first full-year		
Pro Forma Net Income	\$401			
Existing Shares Outstanding (MM)	193	2013E RBC estimate		
Shares Issued (MM)	18			
Pro Forma Shares (MM)	212			
Stand Alone EPS	\$1.87			
Pro Forma EPS	\$1.89			
<b>Accretion/(Dilution)</b>	<b>\$0.02</b>			

Source: Company reports; RBC Capital Markets estimates

## Exhibit 3: CH Energy Transaction Expected to be Modestly Accretive Under a Range of Scenarios

		Equity Issue Price (net of discount)				
		\$31.50	\$32.00	\$32.50	\$33.00	\$33.50
Allowed ROE	9.00%	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01
	9.25%	\$0.01	\$0.01	\$0.02	\$0.02	\$0.02
	9.50%	\$0.02	\$0.02	<b>\$0.02</b>	\$0.03	\$0.03
	9.75%	\$0.02	\$0.03	\$0.03	\$0.03	\$0.03
	10.00%	\$0.03	\$0.03	<b>\$0.04</b>	\$0.04	\$0.04

← Forecast ROE

← Current Allowed ROE

Source: Company reports; RBC Capital Markets estimates

## Exhibit 4: Model Summary (In \$MM except per share figures)

	Cdn. GAAP						2012E	2013E
	2010	2011	Q1/12	Q2/12E	Q3/12E	Q4/12E		
Newfoundland Power	\$35	\$33	\$7	\$11	\$8	\$8	\$34	\$35
Other Cdn (ME + FTS Ont)	19	20	7	7	7	4	24	26
FortisBC Energy	126	137	82	16	(3)	49	144	148
FortisAlberta	67	74	21	21	20	21	83	93
FortisBC Electric	43	48	16	9	10	15	50	53
CH Energy								46
Regulated Utilities - Caribbean	24	20	3	7	6	4	21	25
Fortis Generation	19	18	5	4	7	4	21	19
Fortis Properties	26	23	1	8	10	6	25	27
Corporate and other	(78)	(72)	(17)	(17)	(16)	(17)	(67)	(77)
<b>Normalized earnings</b>	<b>\$281</b>	<b>\$301</b>	<b>\$125</b>	<b>\$66</b>	<b>\$50</b>	<b>\$95</b>	<b>\$335</b>	<b>\$396</b>
Shares O/S (MM)	173	182	189	190	191	192	190	209
<b>Normalized EPS (Basic)</b>	<b>\$1.63</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.34</b>	<b>\$0.26</b>	<b>\$0.49</b>	<b>\$1.76</b>	<b>\$1.89</b>
Dividends Paid	\$1.12	\$1.16					\$1.20	\$1.26
Payout Ratio	69%	70%					68%	67%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately \$1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

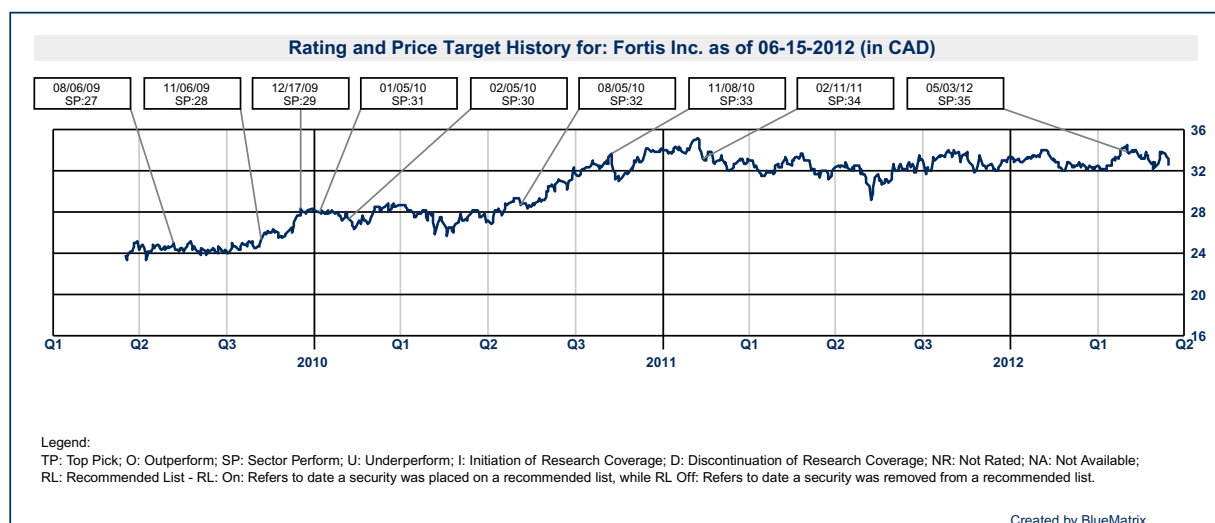
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).



Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	782	52.23	230	29.41
HOLD[SP]	650	43.42	163	25.08
SELL[U]	65	4.34	2	3.08



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary





selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

### To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

### To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.



---

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.  
Copyright © RBC Capital Markets, LLC 2012 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF  
Copyright © RBC Europe Limited 2012  
Copyright © Royal Bank of Canada 2012  
All rights reserved





## COMPANY UPDATE | COMMENT

AUGUST 1, 2012

**Fortis Inc. (TSX: FTS)****Making Good Progress on Rate Base Growth and Closing CH Energy Transaction****Sector Perform  
Average Risk**

Price:	33.54	Price Target:	35.00
Shares O/S (MM):	190.0	Implied All-In Return:	8%
Dividend:	1.20	Market Cap (MM):	6,373
Float (MM):	190.0	Yield:	3.6%
Debt to Cap:	56%		

**Event**

Fortis reported its Q2/12 results.

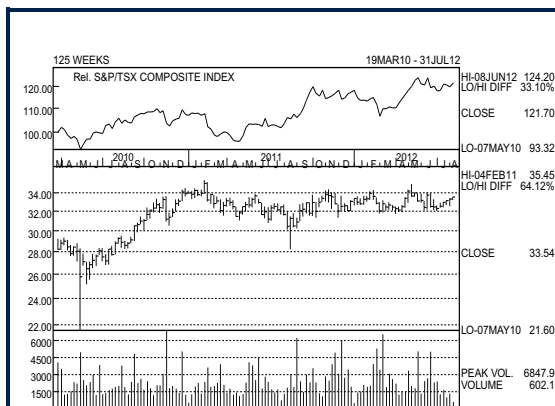
**Investment Opinion**

- **Q2/12 Results in Line with Expectations.** Fortis' Q2/12 normalized EPS was \$0.33 compared to our estimate of \$0.34 and \$0.32 (restated) in Q2/11. Most of the segments were roughly in line with our expectations. We note that normalized EPS has been adjusted for offsetting one-time items (about \$0.02/share of acquisition-related costs related to the CH Energy deal and about \$0.02/share of positive adjustments related to Q1/12 booked at FortisAlberta).
- **Waneta Dam Expansion Continues to Make Good Progress.** The company is making good progress on the \$900 million Waneta Dam expansion project (51%-owned by Fortis) with both costs and timing appearing to be slightly ahead of plan. The Waneta Expansion is a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015 and is underpinned by a 40-year contract with BC Hydro and FortisBC Electric.
- **CH Energy Shareholders Approved the Transaction.** In June 2012, the transaction received shareholder approval and regulatory approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the U.S. The New York State Public Service Commission is currently reviewing the application for approval of the transaction. The company expects to close the acquisition by the end of Q1/13 and we continue to view this transaction as strategic and modestly accretive to EPS in the first full year.
- **The B.C. Generic Cost of Capital Hearing the Last Major Decision on Allowed ROE.** Following decisions in Alberta and Newfoundland & Labrador, the remaining material ROE decision is in B.C. The oral hearings, if necessary, are not scheduled to begin until December 2012 and any changes to ROE will impact 2013 results. We estimate that a 50 basis point change in allowed ROE in B.C. would impact earnings by \$0.05/share.
- **Valuation.** Our price target of \$35.00 (unchanged) is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately \$1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

adoyle@fortisinc.com angela doyle 07/28/15 06:28:35 PM Fortis, Inc.

**RBC Dominion Securities Inc.**

**Robert Kwan, CFA (Analyst)**  
(604) 257-7611; robert.kwan@rbccm.com

**Kelsey Roste (Associate)**  
(604) 257-7383; kelsey.roste@rbccm.com

**Danny Hung, CA (Associate)**  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.66	1.76	1.89
Div Yield	3.3%	3.5%	3.6%	3.8%
P/E	20.6x	20.2x	19.1x	17.7x
EPS (Op) - FD	1.60	1.64	1.74	1.87
P/E	21.0x	20.5x	19.3x	17.9x
DPS	1.12	1.16	1.20	1.26
Payout Ratio- Basic	69%	70%	68%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.66A	0.32A	0.24A	0.44A
2012	0.66A	0.33A	0.26E	0.51E
Prev.		0.34E		0.49E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## Q2/12 Generally in Line with Expectations

Fortis' Q2/12 normalized EPS was \$0.33 compared to our estimate of \$0.34 and \$0.32 (restated) in Q2/11. Most of the segments were roughly in line with our expectations. FortisAlberta (higher-than-average consumption) was ahead of expectations, whereas FortisBC Energy (quarterly timing of operating costs) was slightly below expectations. We note that normalized EPS has been adjusted for offsetting one-time items (about \$0.02/share of acquisition-related costs related to the CH Energy deal in the Corporate segment and about \$0.02/share of positive adjustments related to Q1/12 at FortisAlberta).

A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

### Exhibit 1: Normalized Earnings (In \$MM except per share figures)

	Q2/12	RBC CM Q2/12E	Q2/11 (Restated)	Comments
Newfoundland Power	\$12	\$11	\$10	
FortisOntario & Maritime Electric	5	7	6	
FortisBC Energy	13	16	15	Quarterly timing of operating costs
FortisAlberta	23	21	18	Higher-than-average consumption due to increased oilfield activity
FortisBC Electric	9	9	9	
Regulated Utilities - Canadian	62	63	58	
Regulated Utilities - Caribbean	6	7	6	
Non-regulated - Fortis Generation	5	4	2	
Non-regulated - Fortis Properties	8	8	8	
Corporate	(19)	(17)	(17)	
<b>Normalized Earnings</b>	<b>\$62</b>	<b>\$66</b>	<b>\$57</b>	
<b>Normalized EPS</b>	<b>\$0.33</b>	<b>\$0.34</b>	<b>\$0.32</b>	
Average shares outstanding (MM)	190		177	
<b>Normalization adjustments:</b>				
FortisAlberta Regulatory Adjustment	3		0	
CH Energy Transaction Costs	(3)		0	
	0		0	
Reported Earnings	\$62		\$57	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- **Allowed ROE for Newfoundland Power Increases.** In June 2012, Newfoundland Power received regulatory approval of an increase in its allowed ROE to 8.80% for 2012, up from 8.38% for 2011. The company expects to file a general rate application during the quarter.
- **Regulatory Processes Under Way for FortisBC and FortisAlberta.** The generic cost of capital proceeding in British Columbia to determine the cost of capital as of January 1, 2013 (and an ROE automatic adjustment mechanism) and the Alberta Utilities Commission (PBR rate-regulation initiative) are currently under review. On the B.C. cost of capital proceeding, we estimate that a 50 basis point change in ROE in B.C. would impact Fortis' earnings by about \$0.05/share.
- **Equity Issuance to Fund CH Energy.** Fortis issued 18.5 million subscription receipts at \$32.50/share (gross proceeds of \$601 million) to finance a portion of the purchase price of CH Energy. The proceeds are being held in escrow pending the close of the transaction.
- **Waneta Dam Expansion Continues to Progress.** Management indicated that the project is still on schedule and budget. Since construction started in late 2010, the company has invested approximately \$345 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.
- **2012 Capex Plan Remains Unchanged.** Fortis' capital expenditure plan of \$1.3 billion for 2012 is unchanged from Q1/12 guidance. Fortis spent approximately \$511 million in capital expenditures during the H1/12. The company continues to expect a

total of \$5.5 billion of capex as part of its five-year plan with CH Energy, adding \$0.5 billion to that plan following the close of the transaction.

### CH Energy Transaction Expected to Close in Q1/13

In June, 92% of the CH Energy's shareholders who voted on the transaction voted to approve Fortis' acquisition of 100% of CH Energy. Furthermore, the transaction received regulatory approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the U.S. in June. The New York State Public Service Commission (NYSPSC) is currently reviewing the application for approval of the transaction. Management expects the transaction to close by the end of Q1/13, depending on the timing of receiving approval from NYSPSC. We note that our 2013 EPS estimates include a full-year contribution from CH Energy, but a delay in closing to the end of Q1/13 would not have a material impact on our estimates.

### Overall Estimates Remain Unchanged

We have made minor changes within the segments to our 2012 forecast, and since Q2/12 was generally in line with our estimate, we remain comfortable with our overall EPS estimates and have left them unchanged. A summary of our segment forecast is set out in Exhibit 2.

Exhibit 2: Financial Forecast (In \$MM except per share figures)

	Cdn. GAAP						2012E	2013E
	2010	2011	Q1/12	Q2/12	Q3/12E	Q4/12E		
Newfoundland Power	\$35	\$33	\$7	\$12	\$9	\$7	\$34	\$35
Other Cdn (ME + FTS Ont)	19	20	7	5	7	5	24	26
FortisBC Energy	126	137	82	13	(3)	52	144	148
FortisAlberta	67	74	21	23	21	19	83	93
FortisBC Electric	43	48	16	9	10	15	50	53
CH Energy								48
Regulated Utilities - Caribbean	24	20	3	6	7	6	21	25
Fortis Generation	19	18	5	5	7	4	22	19
Fortis Properties	26	23	1	8	10	6	25	27
Corporate and other	(78)	(72)	(17)	(19)	(16)	(17)	(69)	(75)
<b>Normalized earnings</b>	<b>\$281</b>	<b>\$301</b>	<b>\$125</b>	<b>\$62</b>	<b>\$50</b>	<b>\$97</b>	<b>\$334</b>	<b>\$400</b>
Shares O/S (MM)	173	182	189	190	191	192	190	212
<b>Normalized EPS (Basic)</b>	<b>\$1.63</b>	<b>\$1.66</b>	<b>\$0.66</b>	<b>\$0.33</b>	<b>\$0.26</b>	<b>\$0.51</b>	<b>\$1.76</b>	<b>\$1.89</b>
Dividends Paid	\$1.12	\$1.16					\$1.20	\$1.26
Payout Ratio	69%	70%					68%	67%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately \$1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

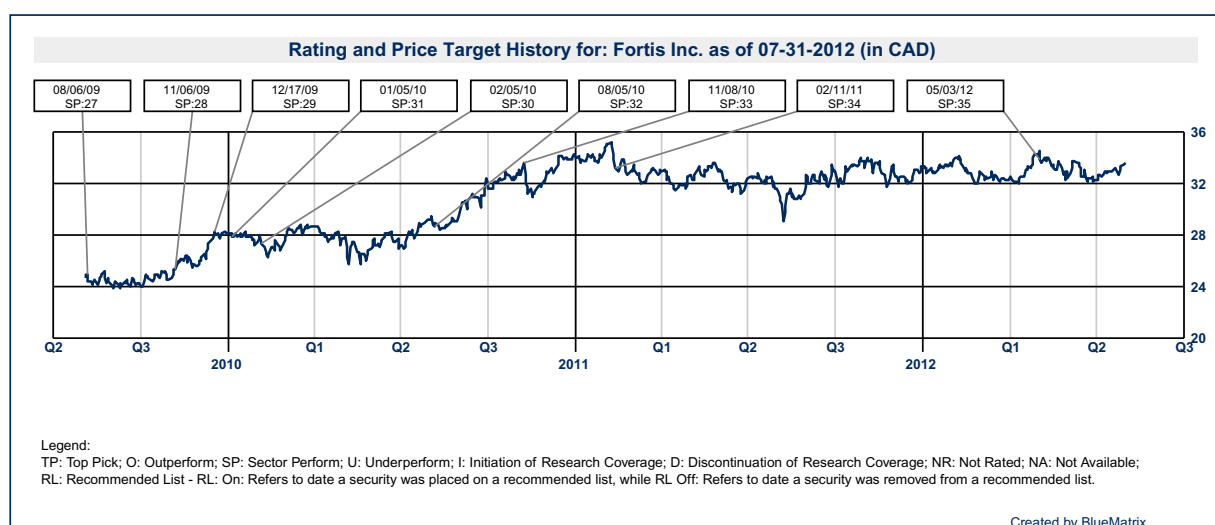




## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	774	51.98	225	29.07
HOLD[SP]	647	43.45	153	23.65
SELL[U]	68	4.57	2	2.94



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and



commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.



**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2012 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF  
Copyright © RBC Europe Limited 2012  
Copyright © Royal Bank of Canada 2012  
All rights reserved



## COMPANY UPDATE | COMMENT

NOVEMBER 2, 2012

## Fortis Inc. (TSX: FTS)

### A Busy Regulatory Calendar Ahead

#### Sector Perform

#### Average Risk

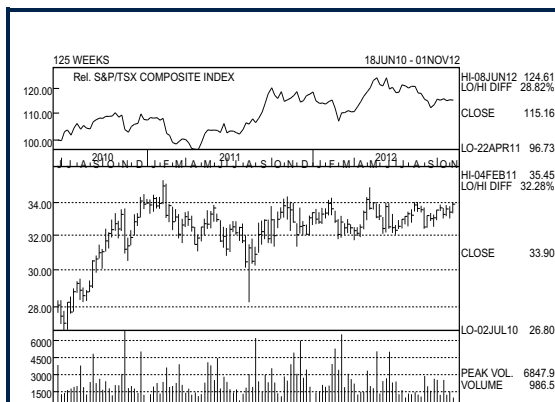
Price:	33.90	Price Target:	36.00
Shares O/S (MM):	190.7	Implied All-In Return:	10%
Dividend:	1.20	Market Cap (MM):	6,465
Float (MM):	190.7	Yield:	3.5%
Debt to Cap:	57%		

#### Event

Fortis reported Q3/12 results.

#### Investment Opinion

- Q3/12 Results Slightly Below Expectations.** Fortis' normalized Q3/12 EPS was \$0.24 compared to our estimate of \$0.26 and \$0.24 in Q3/11. Good results from FortisAlberta were more than offset by higher Corporate costs and lower-than-forecast results from FortisBC Energy.
- A Busy Regulatory Calendar Ahead.** The company faces the following major regulatory proceedings: (1) ROE reviews in B.C., Alberta and Newfoundland; (2) approval of the CH Energy transaction; and (3) a pending review and variance application and court appeal of the Alberta Utilities Commission's Performance-Based Regulation decision.
- Working to Close the CH Energy Acquisition.** Recently, Fortis received U.S. anti-trust clearance and the only major hurdle remains the approval by the New York State Public Service Commission. Fortis continues to work with commission staff with the expectation that the transaction will close by the end of Q1/13.
- Modest Reduction to Estimates.** We have reduced our 2012 EPS estimate to \$1.74 (from \$1.76) to reflect Q3/12 results and anticipated higher corporate costs in Q4/12. We have lowered our 2013 and 2014 EPS estimates to \$1.87 and \$1.98, respectively (down from \$1.89 and \$2.00, respectively) to primarily reflect higher anticipated corporate cost.
- Small Acquisitions Announced.** In August, Fortis acquired another utility in Turks & Caicos for \$13 million and in October, the company acquired a hotel in London, Ontario for \$13 million. Further, the company is working towards closing the acquisition of the City of Kelowna's electric utility assets for \$55 million.
- Valuation.** Our price target of \$36.00 is based on a forward P/E of 18.5x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.



#### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2011A	2012E	2013E	2014E
EPS (Op) - Basic	1.66	1.74	1.87	1.98
Prev.		1.76	1.89	2.00
P/E	20.4x	19.5x	18.1x	17.1x
EPS (Op) - FD	1.65	1.73	1.86	1.97
Prev.		1.75	1.88	1.99
DPS	1.16	1.20	1.26	1.32
Payout Ratio- Basic	70%	69%	67%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2011	0.66A	0.32A	0.24A	0.44A
2012	0.66A	0.33A	0.24A	0.52E
Prev.			0.26E	0.51E
2013	0.66E	0.36E	0.31E	0.56E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

## Q3/12 Slightly Short of Expectations

Fortis' Q3/12 normalized EPS was \$0.24 compared to our estimate of \$0.26 and \$0.24 (restated) in Q3/11. Good results from FortisAlberta (higher-than-expected transmission revenue) were more than offset by FortisBC Energy (mostly timing differences for revenues and costs) and higher-than-forecast Corporate costs.

A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

### Exhibit 1: Normalized Earnings (In \$MM except per share figures)

	Q3/12	RBC CM Q3/12E	Q3/11 (Restated)	Comments
Newfoundland Power	\$7	\$9	\$8	
FortisOntario & Maritime Electric	6	7	6	
FortisBC Energy	(6)	(3)	(4)	Lower demand, due to warm weather
FortisAlberta	26	21	19	Higher-than-expected net transmission revenue
FortisBC Electric	13	10	10	Higher-than-expected rate base growth
Regulated Utilities - Canadian	46	43	39	
Regulated Utilities - Caribbean	7	7	6	
Non-regulated - Fortis Generation	5	7	8	Lower-than-expected production in Belize, due to lower rainfall
Non-regulated - Fortis Properties	8	10	9	Lower occupancy rates in Atlantic and Central Canada
Corporate	(20)	(16)	(17)	
<b>Normalized Earnings</b>	<b>\$46</b>	<b>\$50</b>	<b>\$45</b>	
<b>Normalized EPS</b>	<b>\$0.24</b>	<b>\$0.26</b>	<b>\$0.24</b>	
Average shares outstanding (MM)	190		187	
<u>Normalization adjustments:</u>				
Foreign exchange rate	(3)			
Income tax	3			Newfoundland Power Part VI.1 income tax reversal
Transaction Costs	(1)		11	Costs related to CH Energy transaction; termination fee paid to Fortis in Q3/11
	(1)		11	
<b>Reported Earnings</b>	<b>\$45</b>		<b>\$56</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- Alberta PBR Framework Announced.** During the quarter, the Alberta Utilities Commission issued a generic decision for the Performance-Based Regulation (PBR) framework. FortisAlberta will file a required PBR-compliance application in November 2012. The generic cost of capital proceeding is expected to commence late 2012 or early 2013.
- Regulatory Processes to Review ROEs are Underway For Newfoundland Power and FortisBC.** In September, Fortis filed Newfoundland Power's general rate application for 2013 customer rates and cost of capital. The generic cost of capital proceeding in B.C. is scheduled to begin in December 2012. On the B.C. cost of capital proceeding, we note that a 50 basis point change in ROE in B.C. would impact Fortis' earnings by about \$0.05/share.
- Small Acquisitions.** In August, Fortis Turks and Caicos acquired Turks and Caicos Utilities Ltd., a regulated utility with a 50-year license expiring in 2036. The utility serves more than 2,000 residential and commercial customers and was acquired for approximately \$13 million. In October, the company acquired the 126-room StationPark hotel in London, Ontario for \$13 million. Last, FortisBC Electric has offered to purchase the City of Kelowna's electrical utility assets, which serve roughly 15,000 customers, for approximately \$55 million. The purchase is subject to regulatory approval and is expected to close in Q1/13.
- One More Approval Required For CH Energy.** Fortis has received the majority of the required approvals, and is now waiting for the New York State Public Service Commission (NYSPSC) to approve the transaction. The NYSPSC is currently reviewing the application for approval of the transaction. Management expects the transaction to close by the end of Q1/13.
- Waneta Dam Expansion Continues to Progress.** Management indicated that the project is still on schedule and based on our discussions, we see the potential for the project to come in under budget. Since construction started in late 2010, the company has invested approximately \$380 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.

## Modest Reduction to Estimates

We have reduced our 2012 EPS estimate to \$1.74 (from \$1.76) to reflect Q3/12 results and anticipated higher corporate costs in Q4/12. We have lowered our 2013 and 2014 EPS estimates to \$1.87 and \$1.98, respectively (down from \$1.89 and \$2.00, respectively) to primarily reflect higher anticipated corporate costs. Of note, we have pushed back the expected close of the CH Energy transaction to the end of Q1/13, although we see that change as largely being offset by a reduction in the forecast shares outstanding (i.e., subscription receipts will not convert until the close of the transaction).

A summary of our segment forecast is set out in Exhibit 2.

**Exhibit 2: Financial Forecast (In \$MM except per share figures)**

	2011	Q1/12	Q2/12	Q3/12	Q4/12E	2012E	2013E	2014E	OLD		
									2012E	2013E	2014E
Newfoundland Power	\$33	\$7	\$12	\$7	\$9	\$34	\$35	\$35	\$34	\$35	\$35
Other Cdn (ME + FTS Ont)	20	7	5	6	6	24	26	28	24	26	28
FortisBC Energy	137	82	13	(6)	55	144	148	152	144	148	152
FortisAlberta	74	21	23	26	20	90	93	102	83	93	102
FortisBC Electric	48	16	9	13	12	50	53	56	50	53	56
CH Energy							36	50		48	50
Regulated Utilities - Caribbean	20	3	6	7	5	21	25	27	21	25	27
Fortis Generation	18	5	5	5	4	19	19	19	22	19	19
Fortis Properties	23	1	8	8	6	23	27	28	25	27	28
Corporate and other	(72)	(16)	(21)	(20)	(18)	(74)	(75)	(74)	(69)	(74)	(70)
<b>Normalized earnings</b>	<b>\$301</b>	<b>\$127</b>	<b>\$60</b>	<b>\$46</b>	<b>\$99</b>	<b>\$332</b>	<b>\$387</b>	<b>\$424</b>	<b>\$334</b>	<b>\$400</b>	<b>\$428</b>
Shares O/S (MM)	182	189	190	190	192	190	207	215	190	212	215
<b>Normalized EPS (Basic)</b>	<b>\$1.66</b>	<b>\$0.67</b>	<b>\$0.32</b>	<b>\$0.24</b>	<b>\$0.52</b>	<b>\$1.74</b>	<b>\$1.87</b>	<b>\$1.98</b>	<b>\$1.76</b>	<b>\$1.89</b>	<b>\$2.00</b>
Dividends Paid	\$1.16					\$1.20	\$1.26	\$1.32	\$1.20	\$1.26	\$1.32
Payout Ratio	70%					69%	67%	67%	68%	67%	66%
Net Debt (including 50% of preferreds)	\$6,311					\$6,664	\$7,828	\$8,088	\$6,756	\$7,855	\$8,110
Net Debt / Capital	58%					58%	58%	57%	\$0.59	\$0.58	\$0.57
FFO / Net Debt	13%					12%	12%	12%	12%	12%	12%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$36.00 is based on a forward P/E of 18.5x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

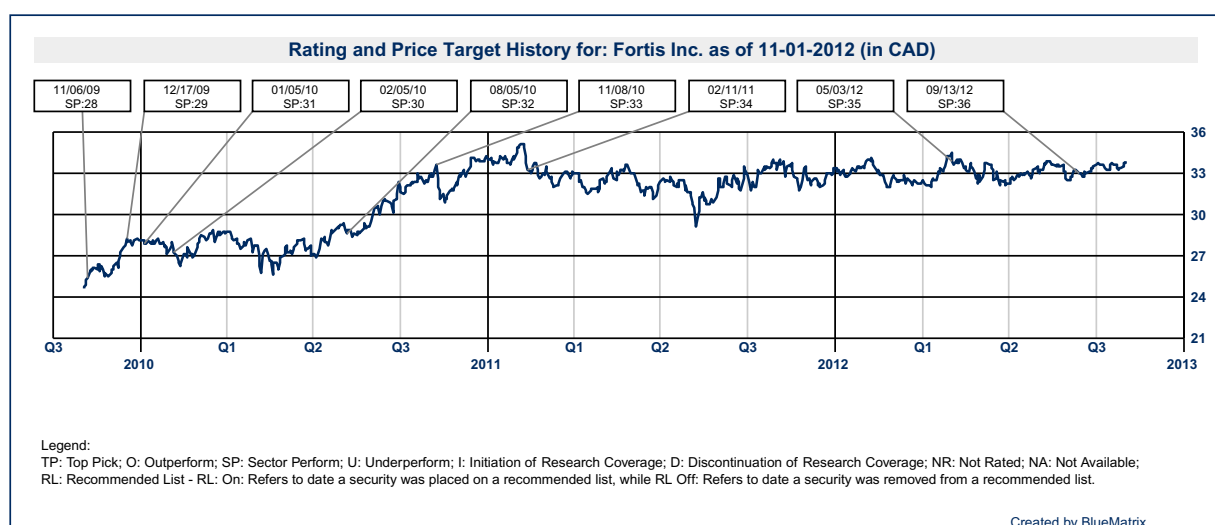


**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	770	49.94	250	32.47
HOLD[SP]	693	44.94	175	25.25
SELL[U]	79	5.12	8	10.13



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact



your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or



possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2012 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2012 - Member CIPF

Copyright © RBC Europe Limited 2012

Copyright © Royal Bank of Canada 2012

All rights reserved



## PRICE TARGET REVISION | COMMENT

FEBRUARY 8, 2013

## Fortis Inc. (TSX: FTS)

### Heading into a Noisy Regulatory Calendar

### Sector Perform

### Average Risk

Price:	34.24	Price Target:	35.00 ↓ 36.00
Shares O/S (MM):	191.6	Implied All-In Return:	6%
Dividend:	1.24	Market Cap (MM):	6,560
Float (MM):	191.6	Yield:	3.6%
Debt to Cap:	55%		

### Event

Fortis reported Q4/12 results; reducing price target to \$35.00 (from \$36.00).

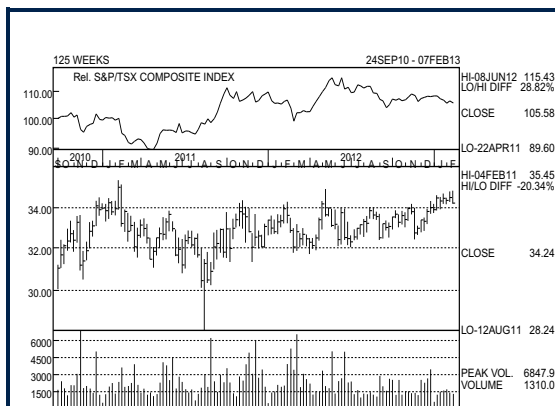
### Investment Opinion

- Q4/12 Results Below Expectations.** Q4/12 normalized EPS was \$0.47 compared to our estimate of \$0.52 and \$0.44 a year ago. The vast majority of the variance was from the unregulated segments. Overall, Canadian regulated utilities were in line with expectations.
- Noisy Regulatory Calendar.** Fortis has a number of regulatory processes ongoing, which could have a fairly material impact on earnings. The processes include the ROE proceeding in B.C. (decision expected in May/June), the ROE proceeding in Alberta (decision expected mid-year), and various issues related to the implementation of performance-based rates (PBR) in Alberta (decisions throughout the year).
- CH Energy Acquisition on Track to Close in April or May.** Following the broad-based settlement agreement, Fortis is poised to close the acquisition of CH Energy in either late April or late May following the hearing in front of the commissioners of the New York State Public Service Commission.
- Reducing EPS Estimates.** Our new 2013 and 2014 EPS estimates are \$1.81 and \$1.92, respectively (down from \$1.87 and \$1.98), with the reductions primarily driven by lower forecasts across a number of the businesses including FortisBC Energy (reflecting the 2012 baseline) along with economic headwinds in the Caribbean and for the Properties segments. Of note, our estimates do not include any downside as part of the ongoing ROE reviews. We note that a 50 basis point decrease in the ROE in B.C. would translate to a roughly \$0.05/share decline in our EPS estimate.
- Maintaining Our Neutral View for the Stock.** With 2013 likely proving to be "noisy" due to the numerous regulatory decisions, we reiterate our neutral view for the stock, particularly against the backdrop of our overall view that investors should tilt away from the ultra-defensive regulated utility names (please [click here](#) for our sector note discussing this).
- Valuation: Reducing Price Target to \$35.00 (from \$36.00) to Reflect Lower EPS Outlook.** We continue to use an 18.5x forward P/E plus an additional \$1/share reflecting value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is a slight discount to the peers, reflecting the risk with respect to a lower ROE in B.C.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

adoyle@fortisinc.com angela.doyle 07/28/15 06:28:39 PM Fortis, Inc.



### RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)  
(604) 257-7611; robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383; kelsey.roste@rbccm.com

Danny Hung, CA (Associate)  
(604) 257-7064; danny.hung@rbccm.com

FY Dec	2011A	2012A	2013E	2014E
EPS (Op) - Basic	1.65	1.71	1.81	1.92
Prev.	1.66	1.74	1.87	1.98
P/E	20.8x	20.0x	18.9x	17.8x
EPS (Op) - FD	1.64	1.70	1.80	1.91
Prev.	1.65	1.73	1.86	1.97
DPS	1.16	1.20	1.24	1.28
Prev.			1.26	1.32
Payout Ratio- Basic	70%	70%	69%	67%
EPS (Op) - Basic	Q1	Q2	Q3	Q4
2011	0.66A	0.32A	0.24A	0.44A
2012	0.67A	0.33A	0.24A	0.47A
Prev.	0.66A			0.52E
2013	0.65E	0.34E	0.29E	0.54E
Prev.	0.66E	0.36E	0.31E	0.56E

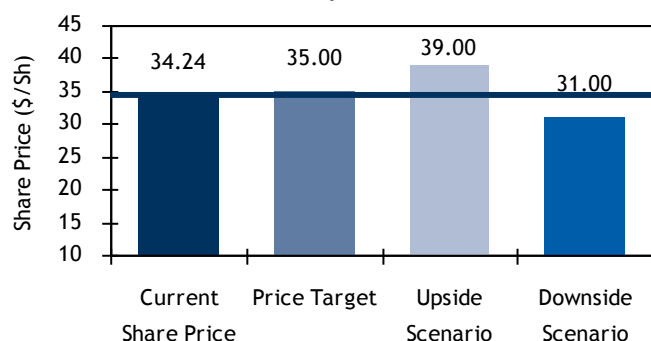
EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Scenario Analysis



Source: RBC Capital Markets

### Price Target / Base Case: \$35.00

Our \$35.00 price target is based on a forward P/E of 18.5x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is at a slight discount to its peers, reflecting the risk with respect to a lower ROE in B.C.

### Upside Scenario: \$39.00

For our upside analysis, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 2x upside in the P/E multiple. Further, our upside case assumes that ROEs in B.C. remain unchanged as part of the upcoming regulatory decision for the generic cost of capital proceeding.

### Downside Scenario: \$31.00

For our downside analysis, we assumed a 100 basis point increase in interest rates, which we believe could translate into an almost 2x downside in the P/E multiple. Further, our downside scenario reflects a 100 basis point decrease in allowed ROE in B.C. (i.e., an incremental 50 basis points over and above what we have factored into our base case valuation), resulting in a low-risk benchmark ROE of 8.5%.

## Q4/12 Results Below Expectations Mostly Due to Unregulated Segments

Exhibit 2: Normalized Earnings (In \$MM except per share figures)

	RBC CM					Comments
	Q4/12	Q4/12E	Q4/11	2012	2011	
Newfoundland Power	\$9	\$9	\$8	\$35	\$32	
FortisOntario & Maritime Electric	6	6	2	24	20	
FortisBC Energy	49	55	51	138	137	Lower-than-expected customer additions
FortisAlberta	23	20	16	96	74	
FortisBC Electric	12	12	10	50	48	
Regulated Utilities - Canadian	99	102	87	343	311	
Regulated Utilities - Caribbean	3	5	4	19	20	Negative impact of FX translation
Non-regulated - Fortis Generation	2	4	5	17	18	Weak hydrology in Belize and NY state
Non-regulated - Fortis Properties	5	6	5	22	23	
Corporate	(20)	(17)	(19)	(76)	(72)	
<b>Normalized Earnings</b>	<b>\$90</b>	<b>\$100</b>	<b>\$82</b>	<b>\$325</b>	<b>\$300</b>	
<b>Normalized EPS</b>	<b>\$0.47</b>	<b>\$0.52</b>	<b>\$0.44</b>	<b>\$1.71</b>	<b>\$1.65</b>	
Average shares outstanding (MM)	191	192	188	190	182	
<b>Normalization adjustments:</b>						
Foreign exchange rate	1			(2)		FX gains (losses)
Acquisition costs				(11)	11	Costs related to CH Energy transaction; termination fee paid to Fortis in Q3/11
Non-recurring writedown	(3)					CustomerWorks Limited Partnership
Income tax				3		Newfoundland Power Part VI income tax reversal
	(3)	0	0	(10)	11	
<b>Reported Earnings</b>	<b>\$87</b>	<b>\$100</b>	<b>\$82</b>	<b>\$315</b>	<b>\$311</b>	

Source: Company reports; RBC Capital Markets estimates





Fortis' Q4/12 normalized EPS was \$0.47 compared to our estimate of \$0.52 and \$0.44 in Q4/11. The vast majority of the variance was from the unregulated segments. Overall, Canadian regulated utilities were in line with expectations, with lower-than-forecast results from FortisBC Energy (formerly Terasen), partially offset by strong results from FortisAlberta.

## Highlights of the Quarter and Outlook

- **B.C. Generic Cost of Capital Decision Expected in April or May.** The generic cost of capital hearing to determine the low-risk benchmark ROE in the province is in the final stages and is expected to wrap up in the coming weeks. A decision from the B.C. Utilities Commission (BCUC) is expected in April or May of this year. In terms of sensitivity to earnings, a 50 basis point decline in ROE (from the current rate of 9.5%) is expected to negatively impact EPS by \$0.05/share. Following this decision, the BCUC will hold another hearing to evaluate the risk premiums for other utilities in the province including FortisBC Energy (Vancouver Island), FortisBC Energy (Whistler), and FortisBC Electric.
- **Alberta PBR Framework and Generic Cost of Capital Proceeding Update.** In September 2012, the Alberta Utilities Commission (AUC) issued a generic decision for a Performance-Based Regulation (PBR) framework. FortisAlberta filed the required PBR-compliance application in November 2012 and a 2013 Capital Tracker application in December 2012. A decision on the PBR-compliance application is expected in Q1/13, while a decision on the 2013 Capital Tracker application is expected in Q3/13. Further, the AUC is holding a generic cost of capital proceeding with a decision expected sometime closer to mid-2013 or into Q3/13. Since the AUC fairly recently reduced the allowed ROE, we see less downside potential for Alberta as compared to B.C. In our opinion, the decision is more likely to address whether a formula-based ROE is appropriate in addition to whether there should be any adjustments to ROEs and/or regulated capital structures as part of the PBR decision (i.e., support for the current 8.75% ROE with a case to be made that increased risk under the PBR could support a higher ROE).
- **CH Energy Transaction Expected to Close Q2/13.** Subsequent to the quarter, Fortis filed a settlement agreement with the New York State Public Service Commission (NYSPSC) for the previously announced acquisition of CH Energy. Fortis expects the acquisition to close in Q2/13 (likely the end of April), subject to receiving approval from the NYSPSC. Highlights of the settlement agreement include a one-year customer rate freeze (until July 1, 2014) and a write-off of roughly \$35 million in storm costs.
- **Waneta Dam Expansion Continues to Make Good Progress.** Management indicated that the project is still on schedule. Since construction started in late 2010, the company has invested approximately \$436 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. Management anticipates spending approximately \$227 million on the project during 2013. Fortis has a 51% interest in the project.

## Modestly Reducing Estimates to Reflect 2012 Actual Results and Economic Headwinds

We have reduced our 2013 and 2014 EPS estimates to \$1.81 and \$1.92, respectively (from \$1.87 and \$1.98), with the reductions primarily driven by lower forecasts across various business segments. The most significant changes encompass FortisBC Energy (reflecting a new baseline using the 2012 actual results), along with the Caribbean and Properties segments, due to economic headwinds. Furthermore, we have revised our 2013 estimated earnings contribution from CH Energy to reflect the timing of the close of the acquisition (now the end of April versus the end of March). We note that our estimates do not include any downside as part of the ongoing ROE reviews and that a 50 basis point decline in ROE (i.e., what we have reflected in our price target) would reduce our EPS estimates by roughly \$0.05/share. Our revised estimates are set out in Exhibit 2.



## Exhibit 3: Revised Financial Forecast (In \$MM except per share figures)

	2011	2012	Q1/13E	Q2/13E	Q3/13E	Q4/13E	2013E	2014E	<i>Old</i>	
									2013E	2014E
Newfoundland Power	\$32	\$35	\$7	\$13	\$7	\$9	\$36	\$38	\$35	\$35
Other Cdn (ME + FTS Ont)	20	24	8	5	7	7	26	28	26	28
FortisBC Energy	137	138	84	13	(6)	50	141	144	148	152
FortisAlberta	74	96	22	25	26	23	95	103	93	102
FortisBC Electric	48	50	16	9	13	12	52	55	53	56
CH Energy				6	10	16	32	50	36	50
Regulated Utilities - Caribbean	20	19	4	7	8	4	22	25	25	27
Fortis Generation	18	17	2	3	8	6	19	19	19	19
Fortis Properties	23	22	1	9	9	5	24	26	27	28
Corporate and other	(72)	(76)	(18)	(21)	(19)	(17)	(76)	(77)	(75)	(74)
<b>Normalized earnings</b>	<b>\$300</b>	<b>\$325</b>	<b>\$126</b>	<b>\$70</b>	<b>\$62</b>	<b>\$114</b>	<b>\$371</b>	<b>\$412</b>	<b>\$387</b>	<b>\$424</b>
Shares O/S (MM)	182	190	192	205	212	213	205	215	207	215
<b>Normalized EPS (Basic)</b>	<b>\$1.65</b>	<b>\$1.71</b>	<b>\$0.65</b>	<b>\$0.34</b>	<b>\$0.29</b>	<b>\$0.54</b>	<b>\$1.81</b>	<b>\$1.92</b>	<b>\$1.87</b>	<b>\$1.98</b>
Dividends Paid	\$1.16	\$1.20					\$1.24	\$1.28	\$1.26	\$1.32
Payout Ratio	70%	70%					69%	67%	67%	67%
Net Debt / Capital	58%	56%					57%	58%	58%	57%
FFO / Net Debt	13%	14%					12%	12%	12%	12%

Source: Company reports; RBC Capital Markets estimates

## Valuation

Our price target of \$35.00 is based on a forward P/E of 18.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is a slight discount to the peers, reflecting the risk with respect to a lower ROE in B.C.

## Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Danny Hung (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

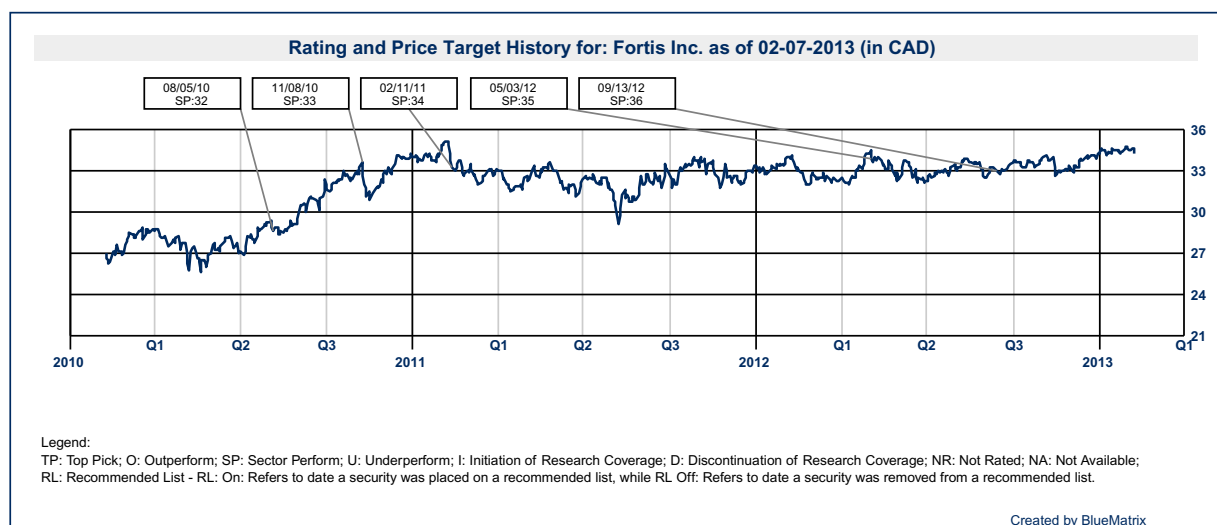
## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy,



Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	787	50.32	280	35.58
HOLD[SP]	705	45.08	180	25.53
SELL[U]	72	4.60	9	12.50



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects



the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

### To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution



under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF  
Copyright © RBC Europe Limited 2013  
Copyright © Royal Bank of Canada 2013  
All rights reserved





## RBC Capital Markets

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

May 5, 2013

### Fortis Inc.

#### Does New York Not Love Fortis Back?

**Impact: Mildly Negative**

#### First Impression

**CH Energy Acquisition Under Fire.** On May 3, two Administrative Law Judges (ALJ) submitted their Recommended Decision, which will be considered by the New York State Public Service Commission with respect to Fortis' proposed acquisition of CH Energy. In the decision, the ALJs stated, "We find it relatively easy to conclude that the benefits of the merger transaction...are outweighed by the detriments remaining after mitigation." The Recommended Decision can be found by [clicking here](#).

**Fortis Intends to Work for an Approval.** The commission holds the final decision and Fortis stated that it intends to engage in further discussions to obtain the commission's approval. Fortis expects the commission to issue a decision in June 2013. The ALJs recommended that the commission consider potential changes to the proposed benefits to rate payers that "would alter the transaction's balance of risks and benefits."

**Financial Impact Not Likely to Be Material, Although a Denial Would Be a Strategic Setback.** Our initial analysis concluded that the transaction is expected to be mildly accretive to EPS (i.e., less than \$0.05/share). However, Fortis has long had its eye on expansion into the U.S., and we felt that the acquisition of CH Energy was a good step in executing that strategy as it was relatively small, had a regulatory framework that was comparable to Canadian provincial utility regulation, and occurred in a state where Fortis would have future acquisition opportunities (namely larger utilities from European owners).

**The Stock May Trade Modestly Weaker than Its Peers, Reflecting Uncertainty About the Success of the Acquisition.** We believe that the shares could be weaker than the peer group due to uncertainty regarding the closing of the CH Energy acquisition. With respect to the roughly \$600 million of subscription receipts that were issued in June 2012 to finance the CH Energy deal, the "release conditions" deadline is June 30, 2013 (note: one of the "release conditions" is the receipt of regulatory approval).

#### Sector Perform

TSX: FTS; CAD 34.88

Price: 34.88

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 2.**

adoyle@fortisinc.com angela.doyle 07/26/15 06:28:42 PM Fortis, Inc.





### Required Disclosures

#### Non-U.S. Analyst Disclosure

Kelsey Roste (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

#### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

#### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

##### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

##### Risk Rating

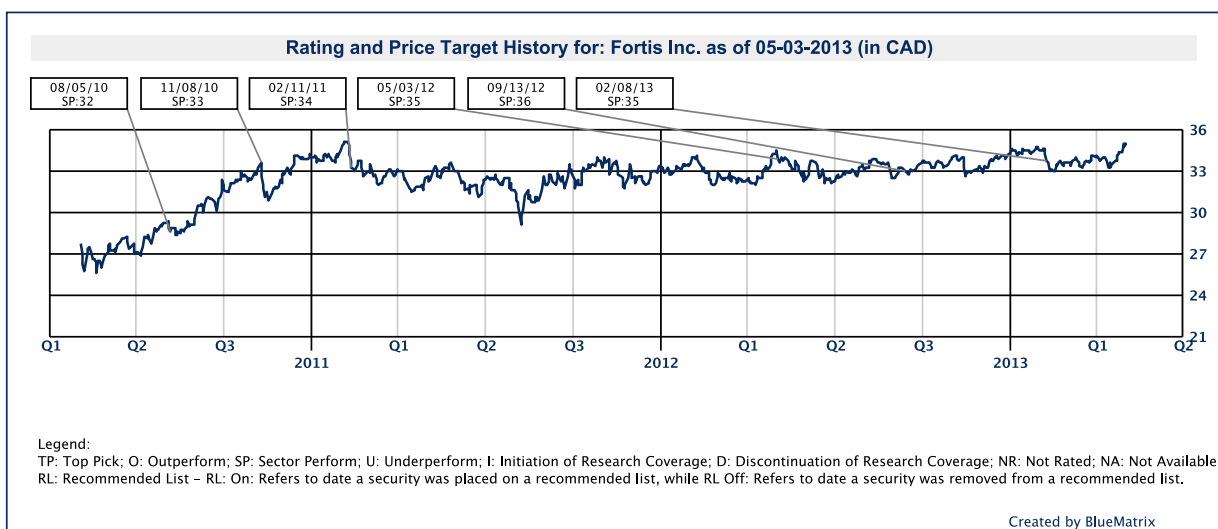
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	760	50.39	294	38.68
HOLD[SP]	672	44.56	170	25.30
SELL[U]	76	5.04	8	10.53



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure



eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:



This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF

Copyright © RBC Europe Limited 2013

Copyright © Royal Bank of Canada 2013

All rights reserved



## RBC Capital Markets

May 8, 2013

### Fortis Inc.

#### Q1/13 Earnings In-Line; All Eyes Remain on New York

**Our View:** Neutral - The Q1/13 results were in-line with expectations.

#### Key Points:

**Normalized Q1/13 Results In-Line With Expectations.** Q1/13 normalized EPS was \$0.66, which matched our estimate of \$0.66 and compared to \$0.67 in Q1/12. Modestly better-than-expected results at FortisAlberta were offset by higher Corporate costs. Reported EPS of \$0.79 included a \$22 million gain (\$0.22/share) from the settlement of the Exploits River Hydro expropriation in Newfoundland along with FX gains (\$0.01/share).

**The Focus Remains on the New York Regulatory Process to Approve the CH Energy Acquisition.** As discussed in our *First Glance Note* dated May 5, 2013, two Administrative Law Judges (ALJ) submitted their Recommended Decision, which stated that, "We find it relatively easy to conclude that the benefits of the merger transaction...are outweighed by the detriments remaining after mitigation." The Recommended Decision will be considered by the New York State Public Service Commission and Fortis intends to engage in further discussions on ways to obtain the commission's approval. The transaction already has the support of numerous parties, including the staff of the commission.

**CH Energy: A Strategic Acquisition With Mild Expected Accretion.** Our initial analysis concluded that the transaction is expected to be mildly accretive to EPS (i.e., less than \$0.05/share). However, Fortis has long had its eye on expansion into the U.S., and we feel that the acquisition of CH Energy is a good step in executing that strategy as it's relatively small, has a regulatory framework that is comparable to Canadian provincial utility regulation, and is in a state where Fortis has future acquisition opportunities (namely larger utilities from European owners).

**Busy Regulatory Calendar Ahead.** Fortis continues to have a number of potentially impactful regulatory proceedings ongoing. Specifically, key processes include the ROE hearing in B.C. (decision expected in mid-2013), the ROE proceeding in Alberta (hearing scheduled for early 2014), and various proceedings related to the performance-based rates (PBR) in Alberta.

**Valuation.** Our price target of \$35.00 is based on a forward P/E of 18.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is a slight discount to the peers, reflecting the risk with respect to a lower ROE in B.C.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Sector Perform

TSX: FTS; CAD 34.97

### Price Target CAD 35.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
31.00 ↓ 8%	34.97	35.00 ↑ 4%	39.00 ↑ 15%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	192.5	Market Cap (MM):	6,732
Dividend:	1.24	Yield:	3.5%
Float (MM):	191.6		
Debt to Cap:	55%		

#### RBC Estimates

FY Dec	2011A	2012A	2013E	2014E
EPS (Op) - Basic	1.65	1.71	1.81	1.92
P/E	21.2x	20.5x	19.3x	18.2x
DPS	1.16	1.20	1.24	1.28
Payout Ratio-Basic	70%	70%	69%	67%

EPS (Op)	Q1	Q2	Q3	Q4
2012	0.67A	0.33A	0.24A	0.47A
2013	0.66A	0.34E	0.27E	0.49E
Prev.			0.29E	0.54E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

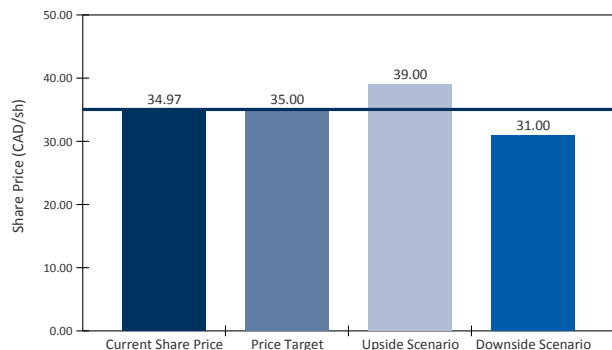
Priced as of prior trading day's market close, EST (unless otherwise noted).

**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.**



### Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: RBC Capital Markets estimates

#### Target Price/ Base Case

Our \$35.00 price target is based on a forward P/E of 18.5x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is at a slight discount to its peers, reflecting the risk with respect to a lower ROE in B.C.

#### Upside Scenario

For our upside analysis, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 2x upside in the P/E multiple. Further, our upside case assumes that ROEs in B.C. remain unchanged as part of the upcoming regulatory decision for the generic cost of capital proceeding.

#### Downside Scenario

For our downside analysis, we assumed a 100 basis point increase in interest rates, which we believe could translate into an almost 2x downside in the P/E multiple. Further, our downside scenario reflects a 100 basis point decrease in allowed ROE in B.C. (i.e., an incremental 50 basis points over and above what we have factored into our base case valuation), resulting in a low-risk benchmark ROE of 8.5%.

### Investment Thesis

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

- **Shares Appear Fairly Valued in Light of Regulatory Headwinds.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued, particularly in light of the regulatory headwinds that the company faces in 2013.
- **Good Defensive Investment.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has the highest percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets.



## Q1/13 Results In Line With Expectations

Fortis' normalized EPS was \$0.66 compared to our estimate of \$0.66 and \$0.67 in Q1/12. Consensus for the quarter was \$0.67 (six estimates with a range of \$0.65 to \$0.70). Reported EPS during the quarter was \$0.79, but included a \$22 million (\$0.12/share) gain related to the settlement of the December 2008 expropriation of a hydro facility in Newfoundland along with a \$2 million (\$0.01/share) FX gain. Overall, earnings from Canadian Regulated Utilities were slightly ahead of expectations mostly driven by FortisAlberta (2012 transmission variances booked in Q1/13), partially offset by higher-than-expected corporate costs. All other segments were generally in line with expectations. A summary of our normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized Earnings (In \$MM except per share figures)

	Q1/13	RBC CM Q1/13E	Q1/12	Comments
Newfoundland Power	\$7	\$7	\$7	
FortisOntario & Maritime Electric	6	8	7	
FortisBC Energy	85	84	82	
FortisAlberta	26	22	22	\$2 million true-up of transmission revenue
FortisBC Electric	18	16	16	Lower operating expenses due to timing of expenditures
Regulated Utilities - Canadian	142	137	134	
Regulated Utilities - Caribbean	3	4	3	
Non-regulated - Fortis Generation	2	2	5	
Non-regulated - Fortis Properties	0	1	1	
Corporate	(20)	(17)	(16)	
<b>Normalized Earnings</b>	<b>\$128</b>	<b>\$127</b>	<b>\$128</b>	
<b>Normalized EPS</b>	<b>\$0.66</b>	<b>\$0.66</b>	<b>\$0.67</b>	
Average shares outstanding (MM)	192		189	
<u>Normalization adjustments:</u>				
Gain related to Exploits Partnership	22		0	
FortisAlberta Regulatory Adjustment	0		(1)	
Foreign exchange rate	2		(2)	
Transaction Costs	(1)		(4)	Costs related to CH Energy transaction
	24		(7)	
<b>Reported Earnings</b>	<b>\$151</b>		<b>\$121</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- B.C. Generic Cost of Capital Decision Expected in Mid-2013.** The generic cost of capital hearing to determine the low-risk benchmark ROE in the province is in the final stages. A decision from the B.C. Utilities Commission (BCUC) is expected in the coming months. In terms of sensitivity to earnings, a 50 basis point decline in ROE (from the current rate of 9.5%) is expected to negatively impact EPS by \$0.05/share. Following this decision, the BCUC will hold another hearing to evaluate the risk premiums for other utilities in the province including FortisBC Energy (Vancouver Island), FortisBC Energy (Whistler) and FortisBC Electric.
- Alberta PBR Framework and Generic Cost of Capital Proceeding Update.** In March 2013, the Alberta Utilities Commission (AUC) denied FortisAlberta's Review and Variance application for the PBR decision and subsequently, FortisAlberta has filed a leave to appeal the decision. Further, the AUC set rates on an interim basis, allowing 60% of the recovery of the revenue requirement (\$14.5 million of the \$24 million) associated with the 2013 Capital Tracker application, leaving approximately \$9.5 million subject to approval. The final utility's rates are expected in H2/13.
- CH Energy Transaction Expected to Close By The End of June.** As discussed in our *First Glance Note*, dated May 5, 2013, two Administrative Law Judges (ALJ) submitted their





Recommended Decision, which stated that, "We find it relatively easy to conclude that the benefits of the merger transaction...are outweighed by the detriments remaining after mitigation." The Recommended Decision will be considered by the New York State Public Service Commission (PSC) and a final decision by the PSC is expected in June. Fortis intends to engage in further discussions on ways to obtain the commission's approval. The transaction already has the support of numerous parties, including the staff of the commission.

- **Subscription Receipts May Need to be Extended.** Fortis is expected to fund a portion of the CH Energy transaction with the proceeds from the \$601 million subscription receipts issued in June 2012 that expire at the end of June 2013. If it is determined that the PSC decision may not be received in time to close the transaction on or before June 30, the company may seek an extension. In order to receive an extension, a special resolution must be approved by at least two-thirds of the subscription receipt holders at a meeting with a quorum for the meeting representing at least 25% of the subscription receipts.
- **Newfoundland Power ROE Remains Unchanged.** In April 2013, Newfoundland Power, 100%-owned by Fortis, received a decision from the Newfoundland and Labrador Board of Commissioners of Public Utilities on its 2013-2014 General Rate Application (GRA). As part of that decision, the regulated ROE will remain at 8.80% from 2013 through 2015, which is a level that is unchanged from what was embedded in 2012 rates.
- **Waneta Dam Expansion Continues to Make Good Progress.** Management indicated that the project is still on schedule and budget. Since construction started in late 2010, the company has invested approximately \$483 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.

## Estimates Remain Unchanged

Given the in line Q1/13 results, we remain comfortable with our 2013 and 2014 EPS estimates of \$1.81 and \$1.92, respectively, but we have made changes within the business segments. We note that our estimates do not include any downside as part of the ongoing ROE reviews and that a 50 basis point decline in ROE in B.C. (i.e., what we have reflected in our price target) would reduce our EPS estimates by roughly \$0.05/share. Our revised estimates are set out in Exhibit 3.

Exhibit 3: Financial Forecast (In \$MM except per share figures)

	2011	2012	Q1/13	Q2/13E	Q3/13E	Q4/13E	2013E	2014E
Newfoundland Power	\$32	\$35	\$7	\$13	\$7	\$10	\$36	\$38
Other Cdn (ME + FTS Ont)	20	24	6	5	7	8	26	28
FortisBC Energy	137	138	85	13	(6)	50	142	144
FortisAlberta	74	96	26	25	26	22	99	106
FortisBC Electric	48	50	18	9	14	11	52	55
CH Energy					8	16	24	50
Regulated Utilities - Caribbean	20	19	3	7	8	4	22	25
Fortis Generation	18	17	2	3	8	6	19	19
Fortis Properties	23	22	0	9	9	7	24	26
Corporate and other	(72)	(76)	(20)	(19)	(20)	(20)	(78)	(79)
<b>Normalized earnings</b>	<b>\$300</b>	<b>\$325</b>	<b>\$128</b>	<b>\$66</b>	<b>\$59</b>	<b>\$113</b>	<b>\$366</b>	<b>\$414</b>
Shares O/S (MM)	182	190	192	193	220	232	202	215
<b>Normalized EPS (Basic)</b>	<b>\$1.65</b>	<b>\$1.71</b>	<b>\$0.66</b>	<b>\$0.34</b>	<b>\$0.27</b>	<b>\$0.49</b>	<b>\$1.81</b>	<b>\$1.92</b>
Dividends Paid	\$1.16	\$1.20					\$1.24	\$1.28
Payout Ratio	70%	70%					69%	67%
Net Debt / Capital	58%	56%					57%	57%
FFO / Net Debt	13%	14%					12%	13%

Source: Company reports; RBC Capital Markets estimates



### Valuation

Our price target of \$35.00 is based on a forward P/E of 18.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is a slight discount to the peers, reflecting the risk with respect to a lower ROE in B.C.

### Price Target Impediments

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



### Required Disclosures

#### Non-U.S. Analyst Disclosure

Kelsey Roste (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

#### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

#### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

##### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

##### Risk Rating

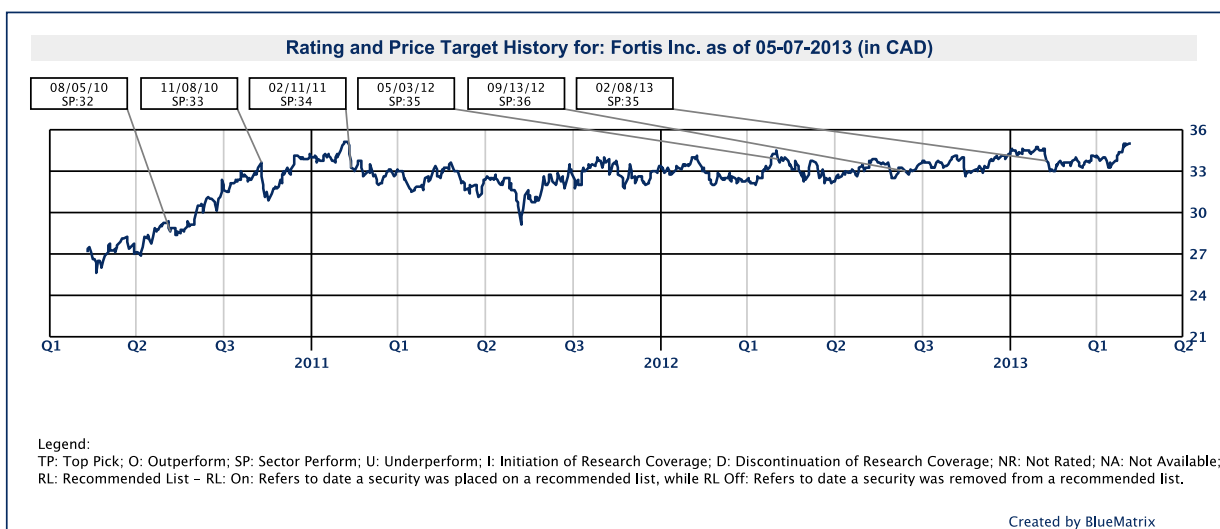
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	762	50.49	283	37.14
HOLD[SP]	670	44.40	161	24.03
SELL[U]	77	5.10	10	12.99



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure



eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:



This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF

Copyright © RBC Europe Limited 2013

Copyright © Royal Bank of Canada 2013

All rights reserved



# RBC Capital Markets

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

May 13, 2013

## Fortis Inc.

### First Glance: BCUC Reduces ROE and Equity Component

**Impact: Modestly Negative**

#### First Impression

**ROE Reduction Not Surprising, Although Slightly More Than We Had Expected.** As part of its generic cost of capital review, the British Columbia Utilities Commission (BCUC) reduced the return on equity for FortisBC Energy to 8.75% (down from 9.50%) effective January 1, 2013 (i.e., there will be a retroactive adjustment). While a reduction in the allowed ROE was not surprising and within the range of our expectations of up to 100 basis points, it was slightly lower than our base case reduction of 50 bps to 9.00%.

**Equity Component Reduction a Surprise.** The BCUC reduced FortisBC Energy's equity component to 38.5% (down from 40%) effective January 1, 2013. The new equity component, along with the ROE, will remain in effect until the end of 2015. We did not expect a reduction in the equity component.

**New Automatic Adjustment Formula Kicks In Only If Long Bond Yields Rise Above 3.8%.** The BCUC has instituted an automatic adjustment mechanism to the ROE if long bond yields rise materially from current levels. If the 3.8% threshold is met, the new formula will adjust ROEs upwards based on a combination of changes in the long bond yield in addition to changes in the A-rated utility bond spreads over 30-year Government of Canada bond yields.

**Phase II Will Review the Risk Premiums and Capital Structures for Other Utilities.** The ROE component of the decision also applies to Fortis' other utilities in the province including FortisBC Inc., FortisBC Energy (Vancouver Island), and FortisBC Energy (Whistler) effective January 1, 2013. The BCUC has commenced a second phase to determine the appropriate risk premiums and capital structures for these utilities.

**Earnings Outlook Moderates as Part of the Decision.** Based on our previously disclosed sensitivity that a 50 basis point move equates to a \$0.05/share earnings impact, the BCUC decision should negatively impact earnings by about \$0.07-\$0.08/share annually. Further, the reduction in FortisBC Energy's equity component is expected to reduce earnings by another \$0.02/share.

### Sector Perform

TSX: FTS

Price: CAD 34.48

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 2.**

adoyle@fortisinc.com angela.doyle 07/28/15 06:28:45 PM Fortis, Inc.





### Required Disclosures

#### Non-U.S. Analyst Disclosure

Kelsey Roste (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

#### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

#### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

##### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

##### Risk Rating

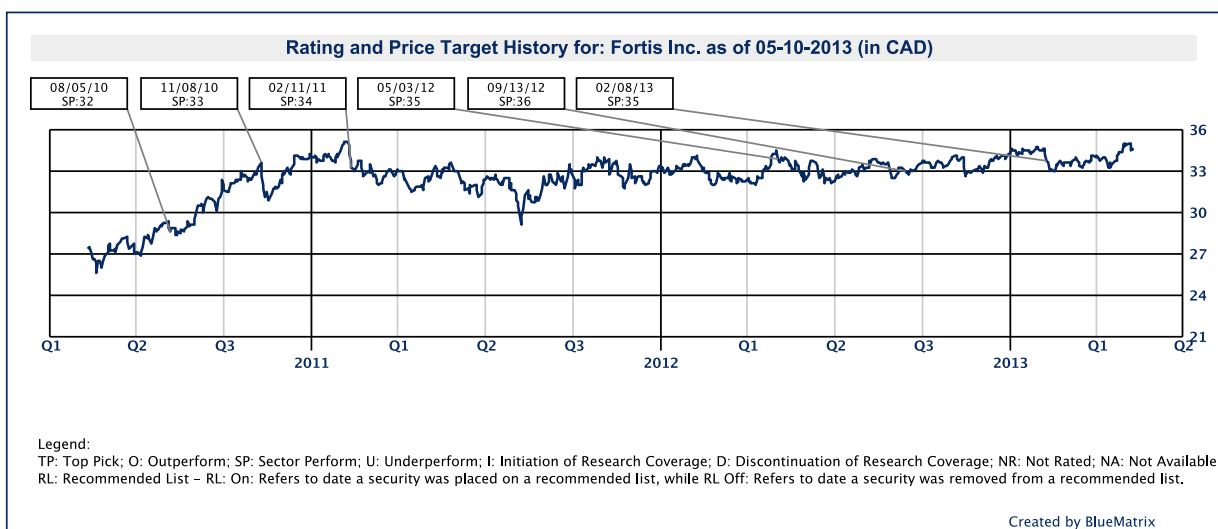
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	757	50.16	281	37.12
HOLD[SP]	673	44.60	161	23.92
SELL[U]	79	5.24	10	12.66



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure



eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:



This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF

Copyright © RBC Europe Limited 2013

Copyright © Royal Bank of Canada 2013

All rights reserved



## RBC Capital Markets

May 14, 2013

### Fortis Inc.

#### BCUC ROE Decision Slightly More Negative than Anticipated

**Our View:** While the decision was more negative than we had anticipated, the upside is that the uncertainty regarding the decision has been eliminated. We believe that the relative underperformance of the shares yesterday was reasonable in the context of the BCUC's decision.

#### Key Points:

**ROE Reduction Slightly More than We Had Expected.** As part of its generic cost of capital review, the British Columbia Utilities Commission (BCUC) reduced the return on equity for FortisBC Energy to 8.75% (from 9.50%) effective January 1, 2013 (i.e., there will be a retroactive adjustment). While a reduction in the allowed ROE was not surprising and within the range of our expectations of up to 100 basis points, it was slightly lower than our base case reduction of 50 bps to 9.00%.

**Equity Component Reduction Was a Surprise.** The BCUC reduced FortisBC Energy's equity component to 38.5% (from 40%) effective January 1, 2013. The new equity component, along with the ROE, will remain in effect until the end of 2015. We did not expect a reduction in the equity component.

**If Long-Term Bond Yields Rise Above 3.8%, a New Automatic Adjustment Formula Applies.** The BCUC has instituted an automatic adjustment mechanism to the ROE if long bond yields rise materially from current levels. If the 3.8% yield threshold is met, the new formula will adjust ROEs upwards based on 50% of the change in the long-term bond yield and 50% of the change in the A-rated utility bond spreads over 30-year Government of Canada bond yields.

**Stage Two Will Review the Risk Premiums and Capital Structures for Fortis' Other Utilities.** The ROE component of the decision also applies to Fortis' other utilities in the province including FortisBC Inc., FortisBC Energy (Vancouver Island), and FortisBC Energy (Whistler) effective January 1, 2013. The BCUC has commenced a second phase to determine the appropriate risk premiums and capital structures for these utilities.

**Reducing Estimates to Reflect the Decision.** Pending the decision, our previous estimates reflected a constant return framework. As a result of the decision, we have reduced our 2013 and 2014 EPS estimates to \$1.72 and \$1.83 (from \$1.81 and \$1.92), respectively, to reflect stage one of the BCUC's decision.

**Valuation.** Our price target of \$35.00 is based on a forward P/E of 19.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

RBC Dominion Securities Inc.  
Robert Kwan, CFA (Analyst)  
(604) 257-7611  
robert.kwan@rbccm.com

Kelsey Roste (Associate)  
(604) 257-7383  
kelsey.roste@rbccm.com

### Sector Perform

TSX: FTS; CAD 34.21

### Price Target CAD 35.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
31.00 ↓ 6%	34.21	35.00 ↑ 6%	38.00 ↑ 15%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	192.5	Market Cap (MM):	6,585
Dividend:	1.24	Yield:	3.6%
Float (MM):	191.6		
Debt to Cap:	55%		

### RBC Estimates

FY Dec	2011A	2012A	2013E	2014E
EPS (Op) - Basic	1.65	1.71	1.72	1.83
Prev.			1.81	1.92
P/E	20.7x	20.0x	19.9x	18.7x
DPS	1.16	1.20	1.24	1.28
Payout Ratio-Basic	70%	70%	72%	70%
EPS (Op)	Q1	Q2	Q3	Q4
2012	0.67A	0.33A	0.24A	0.47A
2013	0.66A	0.29E	0.27E	0.51E
Prev.		0.34E		0.49E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

EPS (Op): In addition to adjusting the 2013 quarterly estimates for the ROE decision, our Q3 and Q4 estimates have been amended for a correction to the forecast share count. There is no impact on our annual estimates for this change.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

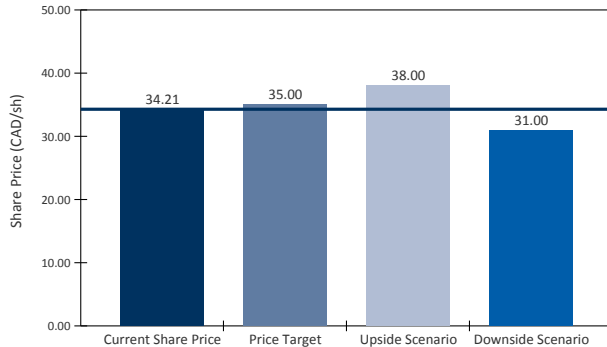
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

adoyle@fortisinc.com angela.doyle 07/28/15 06:28:46 PM Fortis, Inc.



### Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: RBC Capital Markets estimates

#### Target Price/ Base Case

Our \$35.00 price target is based on a forward P/E of 19.5x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

#### Upside Scenario

For our upside analysis, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 2x upside in the P/E multiple.

#### Downside Scenario

For our downside analysis, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 2x downside in the P/E multiple.

### Investment Thesis

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

- **Shares Appear Fairly Valued in Light of Regulatory Headwinds.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued, particularly in light of the regulatory headwinds that the company faces in 2013.
- **Good Defensive Investment.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has the highest percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets.



## BCUC Decision Modestly More Negative Than Expected

Exhibit 2 below sets out the total EPS impact on Fortis' shares from the BCUC decision. We estimate the total impact to be roughly \$0.09/share for 2013 and 2014, reflecting the lower ROE for all of the utilities and the lower equity component for FortisBC Energy. We note that the equity thickness for FortisBC Energy (Vancouver Island), FortisBC Energy (Whistler) and FortisBC Inc. is unchanged at 40%, pending the decision from Stage 2 of the Generic Cost of Capital proceeding. If the BCUC reduces the equity thickness for those three utilities to 38.5% (from 40%), we estimate that the impact on EPS would be approximately \$0.01.

The decision can be found at: [BCUC Generic Cost of Capital Decision \(Stage 1\)](#)

Exhibit 2: Impact of the Decision on Fortis (In \$ billions except per share figures)

	Estimated Rate Base	ROE		Equity Component		Est. EPS Impact
		Old	New	Old	New	
<b>Fortis</b>						
FortisBC Energy	\$3.1	9.50%	8.75%	40.0%	38.5%	(\$0.07)
FortisBC Energy (Vancouver Island and Whistler)	0.6	10.00%	9.25%	40.0%	40.0%	(0.01)
FortisBC	1.2	9.90%	9.15%	40.0%	40.0%	(0.02)
<b>BCUC Decision Impact (Stage 1)</b>						<b><u>(\$0.09)</u></b>

Source: Company reports; RBC Capital Markets estimates

## Reducing Estimates to Reflect the Decision

We lower our 2013 and 2014 EPS estimates to \$1.72 and \$1.83 (from \$1.81 and \$1.92), respectively, to reflect the BCUC's 2013 generic cost of capital decision. Our revised estimates are set out in Exhibit 3.

Exhibit 3: Financial Forecast (In \$MM except per share figures)

	2011	2012	Q1/13	Q2/13E	Q3/13E	Q4/13E	2013E	2014E	Old	
									2013E	2014E
Newfoundland Power	\$32	\$35	\$7	\$13	\$7	\$10	\$36	\$38	\$36	\$38
Other Cdn (ME + FTS Ont)	20	24	6	5	7	8	26	28	26	28
FortisBC Energy	137	138	85	8	(7)	41	127	130	142	144
FortisAlberta	74	96	26	26	27	20	99	106	99	106
FortisBC Electric	48	50	18	5	11	15	48	51	52	55
CH Energy					8	16	24	50	24	50
Regulated Utilities - Caribbean	20	19	3	7	8	4	22	25	22	25
Fortis Generation	18	17	2	3	8	6	19	19	19	19
Fortis Properties	23	22	0	9	9	7	24	26	24	26
Corporate and other	(72)	(76)	(20)	(19)	(20)	(19)	(78)	(80)	(78)	(79)
<b>Normalized earnings</b>	<b>\$300</b>	<b>\$325</b>	<b>\$128</b>	<b>\$57</b>	<b>\$56</b>	<b>\$108</b>	<b>\$348</b>	<b>\$394</b>	<b>\$366</b>	<b>\$414</b>
Shares O/S (MM)	182	190	192	193	205	213	202	215	202	215
<b>Normalized EPS (Basic)</b>	<b>\$1.65</b>	<b>\$1.71</b>	<b>\$0.66</b>	<b>\$0.29</b>	<b>\$0.27</b>	<b>\$0.51</b>	<b>\$1.72</b>	<b>\$1.83</b>	<b>\$1.81</b>	<b>\$1.92</b>
Dividends Paid	\$1.16	\$1.20					\$1.24	\$1.28	\$1.24	\$1.28
Payout Ratio	70%	70%					72%	70%	69%	67%
Net Debt / Capital	58%	56%					57%	57%	57%	57%
FFO / Net Debt	13%	14%					12%	13%	12%	13%

Source: Company reports; RBC Capital Markets estimates





### Valuation

Our price target of \$35.00 is based on a forward P/E of 19.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

### Price Target Impediments

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



### Required Disclosures

#### Non-U.S. Analyst Disclosure

Kelsey Roste (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

#### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

#### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

##### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

##### Risk Rating

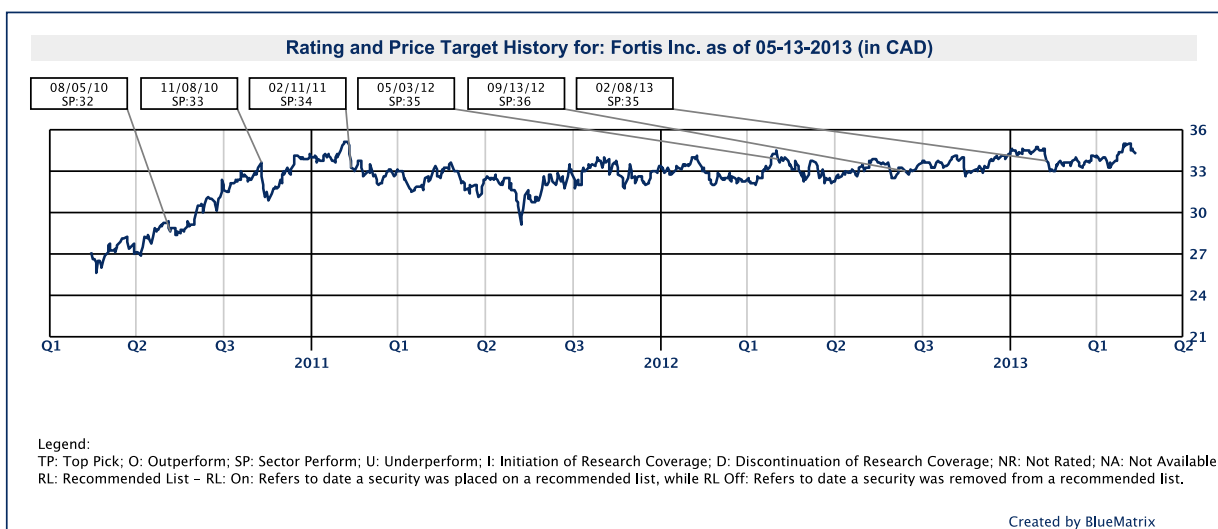
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	759	50.30	280	36.89
HOLD[SP]	671	44.47	163	24.29
SELL[U]	79	5.24	10	12.66



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure



eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

### To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

### To Canadian Residents:



This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF

Copyright © RBC Europe Limited 2013

Copyright © Royal Bank of Canada 2013

All rights reserved



## RBC Capital Markets

June 14, 2013

### Fortis Inc.

#### New York Loves Fortis Back

**Our View:** We view clarity, and successful regulatory approval, of the CH Energy acquisition as positive for the Fortis story. However, we note that the impact of the acquisition was already included in our estimates, valuation and outlook for the stock.

#### Key Points:

**CH Energy Acquisition Finally Approved.** After over a year long wait, the New York State Public Service Commission (NYSPSC) voted to approve Fortis' agreement to acquire CH Energy Group. Since NYSPSC approval was the final regulatory requirement, closing of the acquisition is expected to occur shortly after the review and acceptance of the official written order from the NYSPSC.

**Central Hudson is a Strategic Acquisition.** We continue to view the transaction as strategic, even though we see the financial impact resulting in modest initial EPS accretion (i.e., about \$0.02/share). With New York state having a similar regulatory framework to Canada's low-risk provincial utility structures, Central Hudson is an attractive way for Fortis to enter the U.S. and demonstrate that its success with acquisitions in Canada can be applied south of the border. In particular, we see the potential for significant follow-on acquisitions of utility assets in New York state over time.

**Estimates Remain Unchanged.** Management filed a letter with the NYSPSC on May 30, 2013 offering additional enhancements for the transaction, which we do not expect to materially impact the earnings accretion for the acquisition. As such, we remain comfortable with our 2013 and 2014 estimates of \$1.72 and \$1.83, respectively. For additional details on our financial forecast, please refer to Exhibit 2 on page 3.

**Valuation.** Our price target of \$35.00 is based on a forward P/E of 19.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com  
**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

**Michelle Zuliani** (Associate)  
 (604) 257-7064  
 michelle.zuliani@rbccm.com

#### Sector Perform

TSX: FTS; CAD 32.34

#### Price Target CAD 35.00

##### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
31.00 -0%	32.34	35.00 ↑ 12%	38.00 ↑ 21%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	192.5	Market Cap (MM):	6,225
Dividend:	1.24	Yield:	3.8%
Float (MM):	191.6		
Debt to Cap:	55%		

#### RBC Estimates

FY Dec	2011A	2012A	2013E	2014E
EPS (Op) - Basic	1.65	1.71	1.72	1.83
P/E	19.6x	18.9x	18.8x	17.7x
DPS	1.16	1.20	1.24	1.28
Payout Ratio-Basic	70%	70%	72%	70%

EPS (Op)	Q1	Q2	Q3	Q4
2012	0.67A	0.33A	0.24A	0.47A
2013	0.66A	0.29E	0.27E	0.51E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

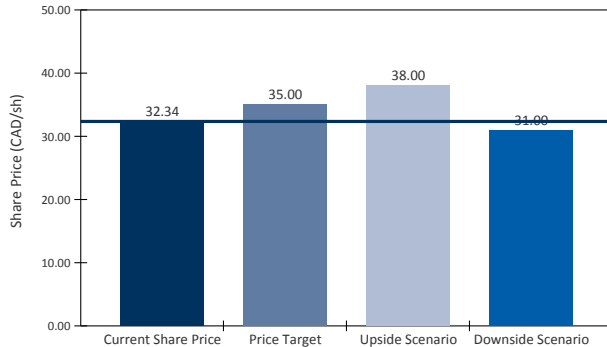
**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.**

adoyle@fortisinc.com angela.doyle 07/26/15 06:28:43 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: RBC Capital Markets estimates

### Target Price/ Base Case

Our \$35.00 price target is based on a forward P/E of 19.5x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

### Upside Scenario

For our upside analysis, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 2x upside in the P/E multiple.

### Downside Scenario

For our downside analysis, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 2x downside in the P/E multiple.

## Investment Thesis

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

- **Shares Appear Fairly Valued in Light of Regulatory Headwinds.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued, particularly in light of the regulatory headwinds and downward pressure on ROEs (as we saw with the B.C. generic cost of capital decision).
- **Good Defensive Investment Although Market Sentiment has Shifted Away From Ultra-Defensiveness.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has the highest percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names towards stocks with higher growth, albeit with moderately higher risk profiles.





## Exhibit 2: Financial Forecast (In \$MM except per share figures)

	2011	2012	Q1/13	Q2/13E	Q3/13E	Q4/13E	2013E	2014E
Newfoundland Power	\$32	\$35	\$7	\$13	\$7	\$10	\$36	\$38
Other Cdn (ME + FTS Ont)	20	24	6	5	7	8	26	28
FortisBC Energy	137	138	85	8	(7)	41	127	130
FortisAlberta	74	96	26	26	27	20	99	106
FortisBC Electric	48	50	18	5	11	15	48	51
CH Energy					8	16	24	50
Regulated Utilities - Caribbean	20	19	3	7	8	4	22	25
Fortis Generation	18	17	2	3	8	6	19	19
Fortis Properties	23	22	0	9	9	7	24	26
Corporate and other	(72)	(76)	(20)	(19)	(20)	(19)	(78)	(80)
<b>Normalized earnings</b>	<b>\$300</b>	<b>\$325</b>	<b>\$128</b>	<b>\$57</b>	<b>\$56</b>	<b>\$108</b>	<b>\$348</b>	<b>\$394</b>
Shares O/S (MM)	182	190	192	193	205	213	202	215
<b>Normalized EPS (Basic)</b>	<b>\$1.65</b>	<b>\$1.71</b>	<b>\$0.66</b>	<b>\$0.29</b>	<b>\$0.27</b>	<b>\$0.51</b>	<b>\$1.72</b>	<b>\$1.83</b>
Dividends Paid	\$1.16	\$1.20					\$1.24	\$1.28
Payout Ratio	70%	70%					72%	70%
Net Debt / Capital	58%	56%					57%	57%
FFO / Net Debt	13%	14%					12%	13%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$35.00 is based on a forward P/E of 19.5x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

## **Price Target Impediments**

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company Description**

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, CH Energy and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Michelle Zuliani (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.



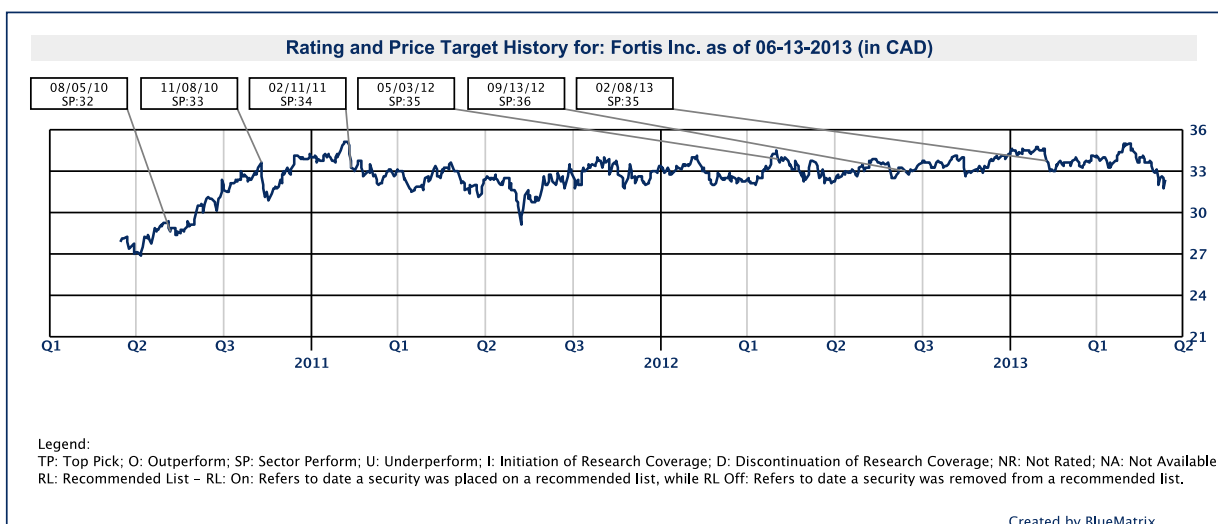
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	763	50.93	283	37.09
HOLD[SP]	657	43.86	168	25.57
SELL[U]	78	5.21	10	12.82



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.



## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:

June 14, 2013

Robert Kwan (604) 257-7611; [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com) 7



This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF

Copyright © RBC Europe Limited 2013

Copyright © Royal Bank of Canada 2013

All rights reserved



## RBC Capital Markets

August 2, 2013

### Fortis Inc.

#### Noisy Quarter on the Surface but Utility-Like After Adjustments

**Our View:** Cutting through a number of sizable non-recurring adjustments reveals a quarter that was fairly close to our expectations with almost all of the business segments coming in close to our forecast.

#### Key Points:

**Cutting Through the Adjustments Reveals Q2/13 Results that Were Fairly Close to Our Expectations.** Normalized EPS was \$0.27 compared to our estimate of \$0.29 and \$0.33 in Q2/12. Reported EPS was \$0.28 and included a \$32 million (\$0.17/share) of acquisition-related expenses and customer benefits offered to obtain regulatory approval of CH Energy, \$25 million (\$0.13/share) favourable income tax recovery due to the enactment of higher deductions associated with Part VI.1 tax, a \$5 million (\$0.03/share) tax provision reversal from a prior period, and a \$3 million foreign exchange gain (\$0.02/share).

**Completion of the Long-Awaited CH Energy Acquisition.** On June 27, 2013, Fortis closed the CH Energy acquisition for approximately US\$1.5 billion, including the assumption of US\$518 million of debt. In order to obtain regulatory approval of the acquisition, Fortis committed to provide CH Energy's customers with approximately US\$50 million in financial benefits (of which US\$40 million were recognized in Q2/13). In addition, Fortis agreed to a rate freeze through to June 30, 2015, which is a contributing factor to management's guidance that the acquisition is not expected to be accretive to EPS until 2015.

**Are Additional U.S. Acquisitions on the Horizon?** While the company may take some time to digest the CH Energy acquisition after a year-long plus process to receive regulatory approval, we expect the company to continue to pursue utility acquisitions in the U.S. as a key part of the growth strategy.

**Estimates Unchanged.** We remain comfortable with our 2013 and 2014 EPS estimates of \$1.72 and \$1.83, respectively.

**Valuation.** Our price target of \$33.00 (unchanged) is based on a forward P/E of 18x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com  
**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

**Michelle Zuliani** (Associate)  
 (604) 257-7064  
 michelle.zuliani@rbccm.com

#### Sector Perform

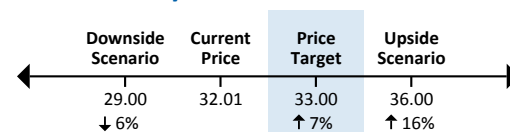
TSX: FTS; CAD 32.01

#### Price Target CAD 33.00

##### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	211.7	Market Cap (MM):	6,777
Dividend:	1.24	Yield:	3.9%
Float (MM):	211.7		
Debt to Cap:	55%		

#### RBC Estimates

FY Dec	2011A	2012A	2013E	2014E
EPS (Op) - Basic	1.65	1.71	1.72	1.83
P/E	19.4x	18.7x	18.6x	17.5x
DPS	1.16	1.20	1.24	1.28
Payout Ratio-Basic	70%	70%	72%	70%

EPS (Op)	Q1	Q2	Q3	Q4
2012	0.67A	0.33A	0.24A	0.47A
2013	0.66A	0.27A	0.29E	0.50E
Prev.		0.29E	0.27E	0.51E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

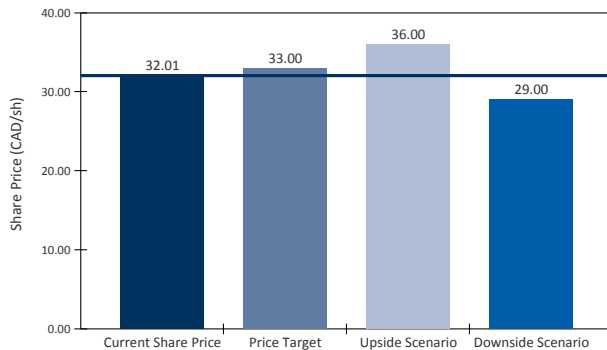
**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.**





## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: RBC Capital Markets estimates

### Target Price/ Base Case

Our \$33.00 price target is based on a forward P/E of 18x applied to the forward EPS, which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

### Upside Scenario

For our upside scenario of \$36.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside Scenario

For our downside scenario of \$29.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 2.5x downside in the P/E multiple.

## Investment Thesis

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares Appear Fairly Valued in Light of Regulatory Headwinds.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued, particularly in light of the regulatory headwinds and downward pressure on ROEs (as we saw with the B.C. generic cost of capital decision).

**Good Defensive Investment Although Market Sentiment Has Shifted Away from Ultra-Defensiveness.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has the highest percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.



## Q2/13 Results Modestly Below Expectations

Fortis' Q2/13 normalized EPS was \$0.27 compared to our estimate of \$0.29 and \$0.33 in Q2/12. Consensus for the quarter was \$0.32 (seven estimates with a range of \$0.29 to \$0.35). Reported EPS was \$0.28 and included a \$32 million (\$0.17/share) of acquisition-related expenses and customer benefits offered to obtain regulatory approval of CH Energy, \$25 million (\$0.13/share) favourable income tax recovery due to the enactment of higher deductions associated with Part VI.1 tax, a \$5 million (\$0.03/share) tax provision reversal from a prior period and a \$3 million foreign exchange gain (\$0.02/share). Overall, the Canadian Regulated segment was in line with expectations and all of the unregulated segments were within +/- \$1 million of our forecast.

A summary of our normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized Earnings (In \$MM except per share figures)

	Q2/13	RBC CM Q2/13E	Q2/12	Comments
Newfoundland Power	\$11	\$13	\$12	Normalized for \$13mm Part VI.1 tax recovery
FortisOntario & Maritime Electric	5	5	5	Normalized for \$4mm Part VI.1 tax recovery
FortisBC Energy	6	8	13	
FortisAlberta	25	26	25	
FortisBC Electric	8	5	9	Lower-than-expected finance charges
Regulated Utilities - Canadian	55	56	64	
Regulated Utilities - Caribbean	6	7	6	
Non-regulated - Fortis Generation	3	3	5	
Non-regulated - Fortis Properties	9	9	8	
Corporate	(20)	(19)	(21)	Numerous normalizations outlined below
<b>Normalized Earnings</b>	<b>\$53</b>	<b>\$57</b>	<b>\$62</b>	
<b>Normalized EPS</b>	<b>\$0.27</b>	<b>\$0.29</b>	<b>\$0.33</b>	
Average shares outstanding (MM)	193		190	
<b>Normalization adjustments:</b>				
FortisAlberta Regulatory Adjustment	0		1	
Income tax recoveries	30		0	\$13 million of which related to Corporate
Foreign exchange rate	3		2	Corporate
Transaction Costs	(32)		(3)	Corporate; costs in Q2/13 related to CH Energy
	1		0	
<b>Reported Earnings</b>	<b>\$54</b>		<b>\$62</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- Phase 2 of B.C.'s Generic Cost of Capital Decision Is Under Way.** In May, as part of its generic cost of capital review, the British Columbia Utilities Commission (BCUC) reduced the return on equity for FortisBC Energy to 8.75% (from 9.50%) effective January 1, 2013. The ROE component of the decision also applies to Fortis' other utilities in the province including FortisBC Inc., FortisBC Energy (Vancouver Island), and FortisBC Energy (Whistler). The BCUC is currently in the second phase of its review, whereby it will determine the appropriate risk premiums and capital structures for these other utilities.
- CH Energy Acquisition Closed; No Material Contribution to EPS Expected Until 2015.** On June 27, 2013, Fortis closed the acquisition of CH Energy for approximately US\$1.5 billion, including the assumption of US\$518 million of debt. In order to obtain regulatory approval of the acquisition, Fortis committed to provide CH Energy customers with approximately US\$50 million in financial benefits (of which US\$40 million were



recognized in Q2/13). Fortis agreed to a rate freeze through to June 30, 2015, which is a contributing factor to management's guidance that the acquisition is not expected to be accretive to EPS until 2015.

- **Waneta Dam Expansion Continues to Make Good Progress.** Management indicated that the project is still on-schedule and on-budget. Since construction started in late 2010, the company has invested approximately \$513 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.

## Estimates Remain Unchanged

We remain comfortable with our 2013 and 2014 EPS estimates of \$1.72 and \$1.83, respectively. We note that we have made changes within the business segments. Our financial forecast is set out in Exhibit 3.

Exhibit 3: Financial Forecast (In \$MM except per share figures)

	2011	2012	Q1/13	Q2/13	Q3/13E	Q4/13E	2013E	2014E	<i>Old</i>	
									2013E	2014E
Newfoundland Power	\$32	\$35	\$7	\$11	\$8	\$11	\$36	\$38	\$36	\$38
Other Cdn (ME + FTS Ont)	20	24	6	5	7	9	26	28	26	28
FortisBC Energy	137	138	85	6	(7)	43	127	130	127	130
FortisAlberta	74	96	26	25	27	22	100	107	99	106
FortisBC Electric	48	50	18	8	11	11	48	50	48	51
CH Energy					10	13	24	49	24	50
Regulated Utilities - Caribbean	20	19	3	6	8	5	22	25	22	25
Fortis Generation	18	17	2	3	8	6	18	19	19	19
Fortis Properties	23	22	0	9	9	6	24	26	24	26
Corporate and other	(72)	(76)	(20)	(20)	(20)	(20)	(79)	(80)	(78)	(80)
<b>Normalized earnings</b>	<b>\$300</b>	<b>\$325</b>	<b>\$128</b>	<b>\$53</b>	<b>\$60</b>	<b>\$107</b>	<b>\$347</b>	<b>\$392</b>	<b>\$348</b>	<b>\$394</b>
Shares O/S (MM)	182	190	192	193	206	213	202	215	202	215
<b>Normalized EPS (Basic)</b>	<b>\$1.65</b>	<b>\$1.71</b>	<b>\$0.66</b>	<b>\$0.27</b>	<b>\$0.29</b>	<b>\$0.50</b>	<b>\$1.72</b>	<b>\$1.83</b>	<b>\$1.72</b>	<b>\$1.83</b>
Dividends Paid	\$1.16	\$1.20					\$1.24	\$1.28	\$1.24	\$1.28
Payout Ratio	70%	70%					72%	70%	72%	70%
Net Debt / Capital	58%	56%					57%	57%	57%	57%
FFO / Net Debt	13%	14%					12%	13%	12%	13%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$33.00 is based on a forward P/E of 18x our 2014E EPS (adjusted for the estimated capitalized interest related to the Waneta expansion), which includes approximately \$1.00/share of value for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

## **Price Target Impediments**

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company Description**

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, CH Energy and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste and Michelle Zuliani (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

## Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.



## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

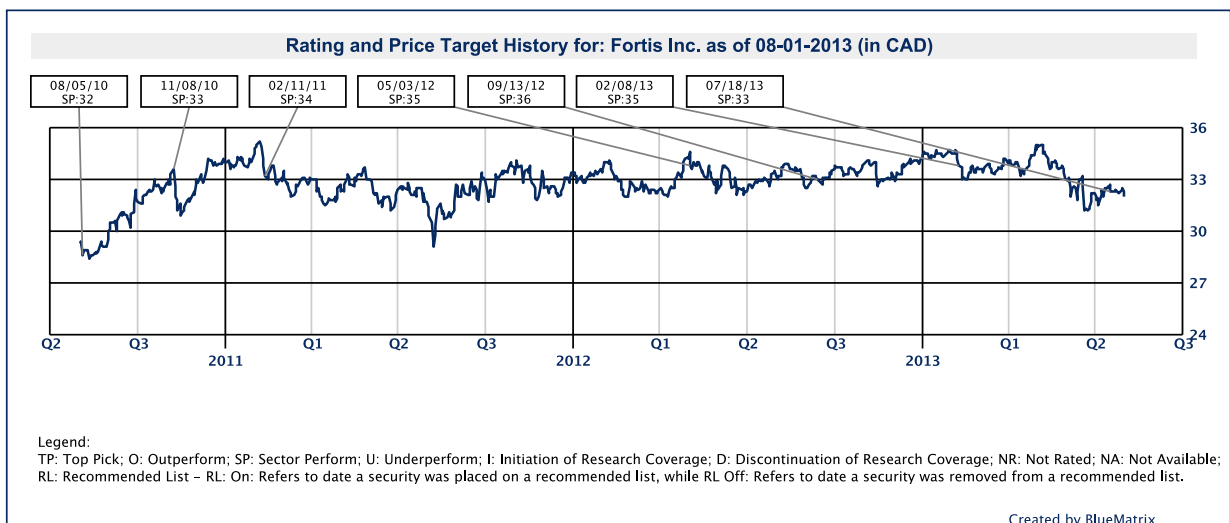
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	762	51.07	276	36.22
HOLD[SP]	646	43.30	159	24.61
SELL[U]	84	5.63	12	14.29



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets, LLC. These Recommended Lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), and the Guided Portfolio: ADR (RL 10). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy



RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not





legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

**\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.**

**Copyright © RBC Capital Markets, LLC 2013 - Member SIPC**

**Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF**

**Copyright © RBC Europe Limited 2013**

**Copyright © Royal Bank of Canada 2013**

**All rights reserved**



## Fortis Inc. (FTS): Normalized Q3/13 Results Below Expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Friday, November 01 2013, 7:24 AM ET

### Details

- Q3/13 normalized EPS was \$0.24 compared to our estimate of \$0.29 and \$0.24 in Q3/12. Consensus for the quarter was \$0.27 (six estimates with a range of \$0.24 to \$0.29). The variance was primarily due to lower-than-forecast results from FortisBC Energy and a higher-than-expected share count.
- With the exception of FortisBC Energy, all of the North American regulated utility segments were close to our forecast. FortisBC Energy's results were worse than expected with a loss of \$14 million compared to our estimate of a loss of \$7 million and a loss of \$6 million in Q3/12. Given the tight cost-of-service nature of the gas utility, we will look to management for colour as to whether this was a quarterly timing difference and/or a change in the underlying earnings trend.
- Management continues to expect capital spending through 2017 of \$6 billion, with the majority of that spending directed towards the lower-risk North American regulated utilities.
- The company does not hold a quarterly conference call.

### Our Take: Slightly Negative

We believe that the modestly lower-than-expected results may slightly weigh on the share price today.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Currency	Price	Price Date
Fortis Inc.	Toronto SE	FTS	Sector Perform	Not Assigned	CAD	32.43	10/31/2013 4:14:23 PM EST

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [FORTIS INC.](#), [Robert Kwan](#)



November 1, 2013

## Fortis Inc.

### Soft Q3/13 Results Although No Major Implications for the Future

**Our View:** Neutral - While the Q3/13 results fell short of expectations (our's and consensus), our discussion with management leaves us with the impression that there are no material changes to the underlying business prospects.

#### Key Points:

**Q3/13 Results Below Expectations.** Normalized EPS in Q3/13 was \$0.24 compared to our estimate of \$0.29 and \$0.24 in Q3/12. The major drivers behind the variance to our estimate were lower-than-expected earnings at FortisBC Energy (higher costs) and higher shares outstanding. This was the first quarter that Fortis reported results from CH Energy and earnings were in line with expectations.

**Organic Mid-Single Digit EPS Growth Plus Upside From Acquisitions.** We continue to expect the core North American regulated utility business to be the major driver behind EPS growth, and management re-affirmed its expectation that capital spending for the company through 2017 is expected to total \$6 billion (with the majority directed towards the regulated utilities). We expect acquisitions to continue to be part of the growth story with the focus on North American regulated utility businesses.

**Waneta Dam Remains On-Budget.** Construction of the \$900 million Waneta hydro project in B.C. remains on-time and on-budget and the company expects the 335 MW facility to be completed in the spring of 2015. Fortis has a 51% ownership interest in the Waneta expansion.

**A Steady Stream of Regulatory Decisions.** Major regulatory processes that we are watching include the Alberta Utilities Commission (AUC) ruling on the capital tracker under performance-based rates (likely Q4/13), the British Columbia Utilities Commission (BCUC) process to determine the ROEs and capital structures for the smaller utilities in B.C. (likely H1/14), and the AUC's generic cost of capital proceeding that may result in the re-implementation of an ROE formula in Alberta (hearings to start in early 2014).

**Minor Reductions to Estimates.** We have reduced our 2013-2015 EPS estimates to \$1.67, \$1.81 and \$1.94, respectively (down from \$1.72, \$1.83 and \$1.96, respectively). The primary driver behind the slight reduction in our EPS estimates is lower forecast earnings from FortisBC Energy and the utilities in the Caribbean.

**Valuation: Increasing Price Target to \$35.00 (up from \$33.00).** Based on a roll-forward of our valuation using our 2015 EPS estimate, we have increased our price target to \$35.00, which continues to be based on an 18x forward P/E multiple.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Sector Perform

TSX: FTS; CAD 32.43

**Price Target CAD 35.00 ↑ 33.00**

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
29.00	32.43	35.00	38.00
↓ 7%		↑ 12%	↑ 21%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	212.4	Market Cap (MM):	6,888
Dividend:	1.24	Yield:	3.8%
Float (MM):	212.4		
Debt to Cap:	56%		

#### RBC Estimates

FY Dec	2012A	2013E	2014E	2015E
EPS (Op) - Basic	1.71	1.67	1.81	1.94
Prev.		1.72	1.83	1.96
Div Yield	3.7%	3.8%	3.9%	4.1%
P/E	19.0x	19.4x	17.9x	16.7x
DPS	1.20	1.24	1.28	1.32
Payout Ratio- Basic	70%	74%	71%	68%

EPS (Op)	Q1	Q2	Q3	Q4
2012	0.67A	0.33A	0.24A	0.47A
2013	0.66A	0.27A	0.24A	0.50E
Prev.			0.29E	
2014	0.68E	0.33E	0.27E	0.53E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

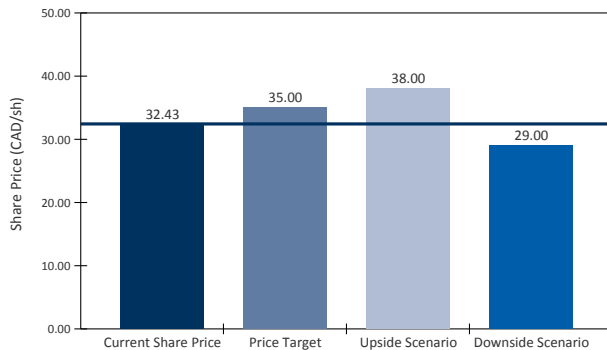
**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.**

adoyle@fortisinc.com angela doyle 07/28/15 06:28:54 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: RBC Capital Markets estimates

### Target Price/ Base Case

Our \$35.00 price target is based on a P/E of 18x applied to the forward EPS. An 18x multiple is consistent with the regulated utility peer group.

### Upside Scenario

For our upside scenario of \$38.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside Scenario

For our downside scenario of \$29.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple.

## Investment Summary

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares Appear Fairly Valued.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued. While we expect the company to continue its long-standing trend of regular annual dividend growth, modest EPS growth is likely to limit annual dividend growth in the mid-single digits. In general, we see the market gravitating to stocks with dividend growth (or at least underlying earnings/cash flow growth closer to 10%).

**Good Defensive Investment Although Market Sentiment Has Shifted Away from Ultra-Defensiveness.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has the highest percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.

**Potential Catalysts:** an Alberta Utilities Commission decision that allows for 100% recovery of capital under the PBR framework; a North American utility acquisition with immediate and meaningful EPS accretion; and a materially higher-than-expected increase in the annual dividend.

**Key Risks:** the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Q3/13 Results Modestly Below Expectations

Normalized EPS in Q3/13 was \$0.24 compared to our estimate of \$0.29 and \$0.24 in Q3/12. The major drivers behind the variance to our estimate were lower-than-expected earnings at FortisBC Energy (higher costs) and higher shares outstanding. Consensus for the quarter was \$0.27 (six estimates with a range of \$0.24 to \$0.29). With the exception of FortisBC Energy, all of the North American regulated utility segments were close to our forecast.

A summary of our normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized Earnings (In \$MM except per share figures)

	Q3/13	RBC CM Q3/13E	Q3/12	Comments
Newfoundland Power	\$8	\$8	\$7	
FortisOntario & Maritime Electric	7	7	6	
FortisBC Energy	(14)	(7)	(6)	Higher-than-expected operating costs
FortisAlberta	26	27	26	
FortisBC Electric	11	11	13	
Regulated Utilities - Canadian	38	45	46	
CH Energy	12	10	0	In line after accounting for the shift in Griffith Energy to Non-Regulated - Other segment
Regulated Utilities - Caribbean	6	8	7	Lower consumption (customer shutdown in Belize; heavy rainfall lowered cooling demand)
Non-regulated - Fortis Generation	8	8	5	
Non-regulated - Other	6	9	8	
Corporate	(19)	(20)	(20)	Griffith Energy (acq. as part of CH Energy booked here) lost \$2.5mm (normal seasonality)
<b>Normalized Earnings</b>	<b>\$51</b>	<b>\$60</b>	<b>\$46</b>	
<b>Normalized EPS</b>	<b>\$0.24</b>	<b>\$0.29</b>	<b>\$0.24</b>	
Average shares outstanding (MM)	212	206	190	
<b>Normalization adjustments:</b>				
Preferred share redemption costs	(2)		0	Corporate
Income tax recoveries	2		3	Corporate
Foreign exchange rate	(2)		(3)	Corporate
Alberta Flooding Impact	(1)		0	FortisAlberta
Transaction Costs	0		(1)	Corporate
	(3)		(1)	
<b>Reported Earnings</b>	<b>\$48</b>		<b>\$45</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights of the Quarter and Outlook

- Alberta PBR Framework and Generic Cost of Capital Proceeding Update.** In March 2013, the AUC set rates on an interim basis, allowing 60% of the recovery of the revenue requirement (\$14.5 million of the \$24 million) associated with the 2013 Capital Tracker application, leaving approximately \$9.5 million subject to approval. Management indicated that it expects the finalization of rates by the end of November.
- Phase 2 of B.C.'s Generic Cost of Capital Decision is Underway.** In May, as part of its generic cost of capital review, the British Columbia Utilities Commission (BCUC) reduced the return on equity for FortisBC Energy to 8.75% (from 9.50%) effective January 1, 2013. The ROE component of the decision also applies to Fortis' other utilities in the province including FortisBC Inc., FortisBC Energy (Vancouver Island), and FortisBC Energy (Whistler). The BCUC is currently in the second phase of its review, whereby it will determine the appropriate risk premiums and capital structures for these other utilities. A decision on the proceeding is expected in the first half of 2014.
- Waneta Dam Expansion Continues to Make Good Progress.** Management indicated that the project is still on-schedule and on-budget. Since construction started in late



2010, the company has invested approximately \$534 million into the \$900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. Fortis has a 51% interest in the project.

## Reducing Estimates to Reflect Q3/13 Results

We are reducing our 2013 EPS estimate to \$1.67 (down from \$1.72) to primarily reflect the 'miss' this quarter. Also, we are reducing our 2014 and 2015 EPS estimates to \$1.81 and \$1.94, respectively (down from \$1.83 and \$1.96, respectively) to reflect modestly higher costs for FortisBC Energy and a slower recovery for the utilities in the Caribbean. Our financial forecast is set out in Exhibit 3.

Exhibit 3: Financial Forecast (In \$MM except per share figures)

	2012	Q1/13	Q2/13	Q3/13	Q4/13E	2013E	2014E	2015E	Old		
									2013E	2014E	2015E
Newfoundland Power	\$35	\$7	\$11	\$8	\$11	\$37	\$38	\$39	\$36	\$38	\$39
Other Cdn (ME + FTS Ont)	24	6	5	7	9	27	28	31	26	28	31
FortisBC Energy	138	85	6	(14)	43	120	128	132	127	130	134
FortisAlberta	96	26	25	26	22	99	107	116	99	106	116
FortisBC Electric	50	18	8	11	11	48	50	52	48	51	52
CH Energy				12	12	24	48	52	24	50	53
Regulated Utilities - Caribbean	19	3	6	6	5	20	23	24	22	25	27
Non-Regulated - Generation	17	2	3	8	6	19	19	40	19	19	40
Non-Regulated - Other	22	0	9	6	8	23	28	29	24	26	27
Corporate and other	(76)	(20)	(20)	(19)	(20)	(79)	(81)	(91)	(78)	(80)	(91)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$128</b>	<b>\$53</b>	<b>\$51</b>	<b>\$107</b>	<b>\$339</b>	<b>\$388</b>	<b>\$423</b>	<b>\$348</b>	<b>\$394</b>	<b>\$427</b>
Shares O/S (MM)	190	192	193	212	213	202	215	218	202	215	218
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$0.66</b>	<b>\$0.27</b>	<b>\$0.24</b>	<b>\$0.50</b>	<b>\$1.67</b>	<b>\$1.81</b>	<b>\$1.94</b>	<b>\$1.72</b>	<b>\$1.83</b>	<b>\$1.96</b>
Dividends Paid	\$1.20					\$1.24	\$1.28	\$1.32	\$1.24	\$1.28	\$1.32
Payout Ratio	70%					74%	71%	68%	72%	70%	68%
Net Debt / Capital	56%					57%	58%	57%	57%	57%	57%
FFO / Net Debt	14%					12%	13%	13%	12%	13%	13%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$35.00 is based on a forward P/E of 18x our 2015E EPS. An 18x multiple is consistent with the regulated utility peer group.

## **Price Target Impediments**

The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company Description**

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, CH Energy and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.





## Required Disclosures

### Non-U.S. Analyst Disclosure

Kelsey Roste (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.



**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

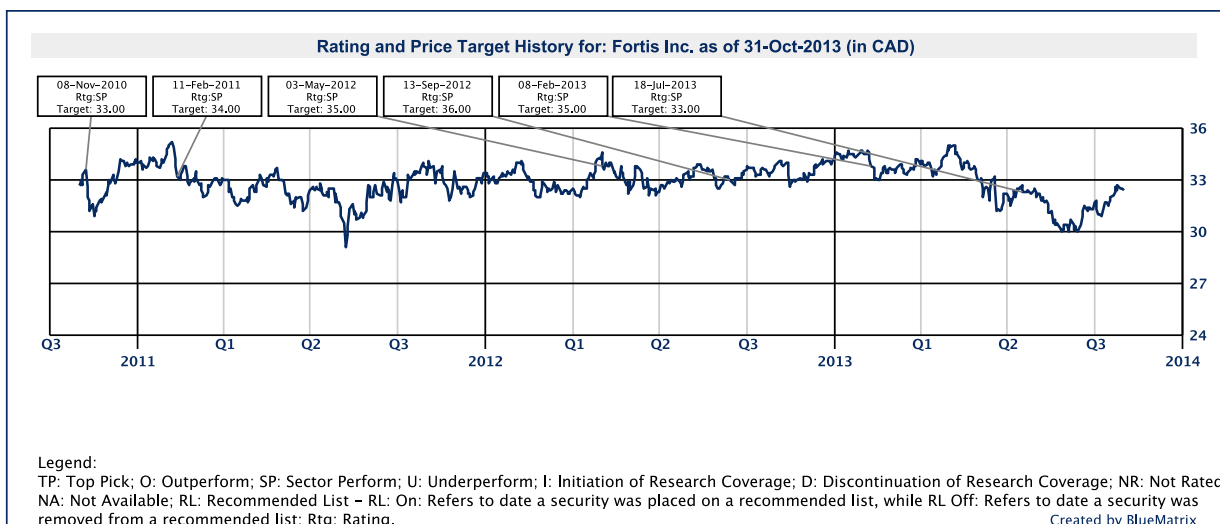
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research As of 30-Sep-2013				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	769	51.00	271	35.24
HOLD [Sector Perform]	656	43.50	179	27.29
SELL [Underperform]	83	5.50	13	15.66



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity Valuation and Risks



For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of Research and Short-Term Trade Ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking



revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2013 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2013 - Member CIPF

Copyright © RBC Europe Limited 2013  
Copyright © Royal Bank of Canada 2013

All rights reserved



## Fortis (FTS): Dividend Increase In Line With Expectations

**Sentiment Indicator :** neutral

Posted by Robert Kwan on Monday, December 09 2013, 10:20 AM ET

### Details:

- FTS declared a common share dividend of \$0.32 per share for Q1/14 payable on March 1, 2014 to common shareholders of record at the close of business on February 14, 2014.
- The quarterly dividend of \$0.32 (up from \$0.31) represents approximately a 3.2% increase.
- The new annualized dividend of \$1.28/share is in line with our estimate.

### Our Take: Neutral

The timing and magnitude of the increase was in line with our expectations; as such, we do not believe the dividend increase will have a material impact on the stock price.

**Robert Kwan** | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



January 24, 2014

## Fortis Inc.

### Stepping into the Southwest

**Our view:** Modestly positive - We view the pending acquisition of UNS as a positive development for the share price due to: (1) EPS accretion, (2) projected accretion to Fortis' underlying growth rate, and (3) diversification of regulatory exposure.

#### Key points:

**Moving into Arizona.** Recently, Fortis agreed to acquire UNS Energy, which owns electric & gas utilities in Arizona, for US\$2.5 billion plus the assumption of roughly US\$1.8 billion in debt. The acquisition is subject to UNS shareholder approval and customary regulatory approvals including the Arizona Corporation Commission (ACC), and is expected to close by the end of 2014.

**Accretive to EPS.** Fortis stated that it expects the transaction to be accretive in the first full-year excluding one-time transaction costs. Based on our analysis (please see Exhibit 2), we estimate that the acquisition could be \$0.08 accretive to EPS in 2015. As such, we have increased our 2015 EPS estimate to \$2.02 (up from \$1.94).

**Expected accretion to Fortis' long-term growth rate.** The company expects UNS' rate base to reach US\$3 billion by 2015 and grow at a 7% CAGR through 2018. While Fortis also expects its own rate base (ex-UNS) to grow at a 7% CAGR through 2018, we note that growth is front-end loaded due to the Waneta expansion and from 2015-2018, rate base is forecast to grow at closer to 5%. As such, it appears that the acquisition of UNS is likely to be accretive to Fortis' long-term growth rate. Further, there is potential EPS upside in the range of \$0.06/share if Fortis can increase the regulated equity component for Tucson Electric, the largest of UNS' utilities, from 43.5% to 50% (or higher), which would be in line with UNS' other two utilities.

**Financed in essence via a common equity issuance.** Concurrent with the announced acquisition, Fortis issued \$1.8 billion of convertible unsecured subordinated debentures. Although the form of the issuance is a convertible debenture, effectively the security addresses the shortcomings of the common equity subscription receipts that were used as part of the CH Energy acquisition (i.e., these converts will pay cash quarterly approximating the underlying common dividend; dividends are paid even if the deal does not go through).

**Valuation.** While we believe that the acquisition will likely be accretive value in the medium to longer-term, we expect the market to take a wait-and-see approach to the integration of UNS and the ultimate impact on earnings. As such, we remain comfortable with our \$35.00/share price target and have left it unchanged.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Sector Perform

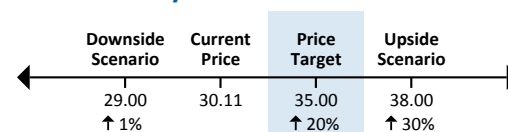
TSX: FTS; CAD 30.11

### Price Target CAD 35.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	212.4	Market Cap (MM):	6,395
Dividend:	1.28	Yield:	4.3%
Float (MM):	212.4		
Debt to Cap:	56%		

### RBC Estimates

FY Dec	2012A	2013E	2014E	2015E
EPS, Adj Basic	1.71	1.67	1.81	2.02
P/AEPS	17.6x	18.0x	16.6x	14.9x
DPS	1.20	1.24	1.28	1.36
Prev.				1.32
Div Yield	4.0%	4.1%	4.3%	4.5%
EPS, Adj Basic	Q1	Q2	Q3	Q4
2012	0.67A	0.33A	0.24A	0.47A
2013	0.66A	0.27A	0.24A	0.50E
2014	0.68E	0.33E	0.27E	0.53E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

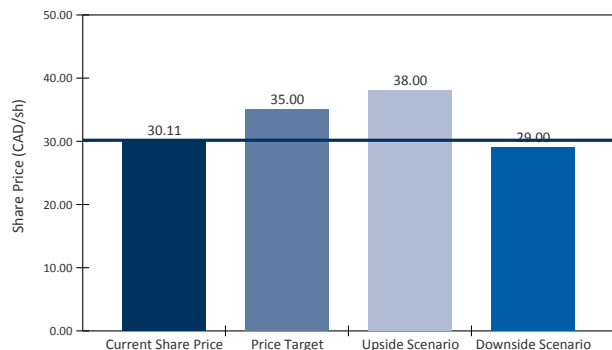
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 9.

adoyle@fortisinc.com angela.doyle 07/28/15 06:28:57 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: RBC Capital Markets estimates

### Target price/ base case

Our \$35.00 price target is based on a P/E of 17x applied to the forward EPS. A 17x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$38.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside scenario

For our downside scenario of \$29.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple.

## Investment summary

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares appear fairly valued.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued. While we expect the company to continue its long-standing trend of regular annual dividend growth, modest EPS growth is likely to limit annual dividend growth in the mid-single digits. In general, we see the market gravitating to stocks with dividend growth (or at least underlying earnings/cash flow growth closer to 10%).

**Good defensive investment although market sentiment has shifted away from ultra-defensiveness.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has the highest percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.

**Potential catalysts:** UNS shareholder approval of the transaction; news that provides a line of sight with respect to ACC approval of the UNS acquisition; and a materially higher-than-expected increase in the annual dividend.

**Key risks:** the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.





### 3 things that you should know about the UNS deal

Based on our conversations to date, the top three topics that we have been asked about have focused on: (1) the financial impact and the strategic nature of the acquisition; (2) the risk to the deal closing given the CH Energy experience; and (3) the rationale for using the convertible security.

#### **UNS expected to be financially accretive while providing a platform for growth**

We believe that the UNS acquisition is a positive development for the stock given a forecast for immediate EPS accretion (we estimate \$0.08 per share in 2015—please refer to Exhibit 2), but more importantly (at least to us) is the expectation that UNS will be accretive to Fortis' medium to long-term growth rate. Specifically, UNS' rate base is forecast to grow at a 7% CAGR from 2015-2018 compared to approximately 5% for Fortis (pre-UNS) over that same time period. Another potential for earnings upside would be moving the equity component for Tucson Electric Power, the largest of the three utilities owned by UNS, in line with the other two utilities (i.e., north of 50%). A lift from the current 43.5% to 50% has the potential to almost double the estimated EPS accretion from the deal by adding about \$0.06/share to earnings. Furthermore, management sees a number of potential utility acquisition targets in the U.S. west, which could add to EPS growth.

#### **Regulatory approval should be smoother than it was for CH Energy**

The key regulatory approval will be the Arizona Corporation Commission (ACC). In general, Fortis' approach to managing utilities by affording significant autonomy and retaining local management is generally viewed positively from a regulatory and political perspective. We believe that the ACC will favourably view Fortis' main business being the operation of electric and gas utilities, its well-demonstrated track record for being able to access capital and Fortis' stronger credit ratings (i.e., key aspects that the ACC felt were not met as part of its decision to reject the private equity takeover of UniSource in 2004).

The current regulatory schedule includes the potential for a settlement with commission staff and the Residential Utility Consumer Office (RUCO) with direct testimony being filed shortly, settlement discussions beginning in late April and a hearing commencing in mid-June. The schedule provides for the ability for the commission to consider the matter prior to the end of Q3/14.

The ACC has five elected commissioners, who are all Republican, with two commissioners' terms expiring in early 2015 with the other three (including the Chairman) expiring in early 2017.

The merger application can be found by [clicking here](#).

#### **We view the convert as a common equity subscription receipt in disguise**

When Fortis financed the CH Energy acquisition, it used a subscription receipt structure that had been commonly used by Canadian companies. The convert structure being used as part of the UNS acquisition addresses two key issues that many investors had with the subscription receipts that Fortis used for the CH Energy deal: (1) the convert pays a cash amount approximating the dividend during the regulatory review period (under the subscription receipt structure, dividends were accrued, but not paid, until closing); and (2) investors receive cash whether or not the deal closes (only nominal interest would be accrued and paid if the CH Energy acquisition did not close and we note that as the CH Energy process wore on, investors were increasingly worried that the New York regulator would deny the transaction).



In our view, the convert is basically an enhanced version of the common equity subscription receipt. While confusing to some, the “instalment receipt” structure is a sweetener in that the purchaser of the convert only has to put up one-third of the cash prior to closing, yet is paid an interest rate on the full amount (i.e., the cash on cash yield at the original purchase price was about triple the dividend yield on the common shares).

## Exhibit 2: Estimated EPS accretion (in \$MM except per share figures)

<b>Assumptions</b>					
Total Purchase Price	\$4,300				
Assumed Debt	1,800				
Equity Purchase Price	\$2,500				
<b>Financing of Equity Portion</b>		<b>Cost of Financing</b>			
Equity Financed	72%	\$1,800	\$30.72	per share	
Debt Financed	28%	700	4.5%	rate	
	<b>2015E</b>	<b>TEP</b>	<b>UNS Electric</b>	<b>UNS Gas</b>	<b>Comments</b>
Est. Regulated Rate Base	\$3,000	\$2,520	\$270	\$210	Based on estimate for end of 2014
Allocation		84.0%	9.0%	7.0%	Based on current mix of total assets
<b>Regulated Structure</b>					
Equity Thickness		43.5%	52.6%	50.8%	
ROE		10.0%	9.5%	9.8%	
Regulated Net Income	\$134	\$110	\$13	\$10	
Incremental Debt Financing	(24)				Assumes a pre-tax interest rate of 4.5%
Cross-Border Tax Structuring	25				Assumes reduction in holding company effective tax rate to 25% (from 37%)
Incremental Net Income	\$135				
2015E Stand Alone Net Income	423				Previous RBC estimate as a proxy for the first full-year
Pro Forma Net Income	\$559				
Previous Shares O/S (MM)	218				Previous 2015E RBC estimate
Shares Issued (MM)	59				
Pro Forma Shares (MM)	277				
Stand Alone EPS	\$1.94				
Pro Forma EPS	\$2.02				
<b>Accretion/(Dilution)</b>	<b>\$0.08</b>				

Source: Company reports; RBC Capital Markets estimates

## Transaction metrics

**Purchase price.** Fortis entered into an agreement to acquire UNS Energy (NYSE: UNS; US\$59.69; not rated) for US\$60.25 per share in cash. The takeover offer is approximately a 31% premium to the close immediately prior to the announcement of the transaction.

**Premium to rate base looks expensive, but it is not meaningful.** Premium to rate base is a commonly cited metric for utility acquisitions and the UNS acquisition is pricey at 1.4x on this metric. However, this metric ignores earnings and cash flow dynamics that we believe acquirors, like Fortis, focus on as part of their acquisition analysis. Specifically, the ability to use preferred shares and modest amounts of additional debt, along with tax efficient structures result in expected earnings and cash flow accretion despite what appears to be a high multiple to rate base being paid. Further, growth at the utility being acquired helps “amortize” the premium over time.



**Multiple of earnings a bit more reasonable, but remember that Fortis will likely use a tax efficient structure along with a modest amount of double leverage to drive accretion.** Based on UNS management's previously published 2015 outlook, Fortis is paying about 17.5x earnings. While this is a modest premium to Fortis' multiple of our 2015 EPS estimate (i.e., about 15.5x), we view the valuation as reasonable with immediate EPS accretion ultimately being driven by tax efficiencies and a modest amount of double leverage. With UNS expected to grow faster than Fortis, we expect the EPS accretion to increase over time.

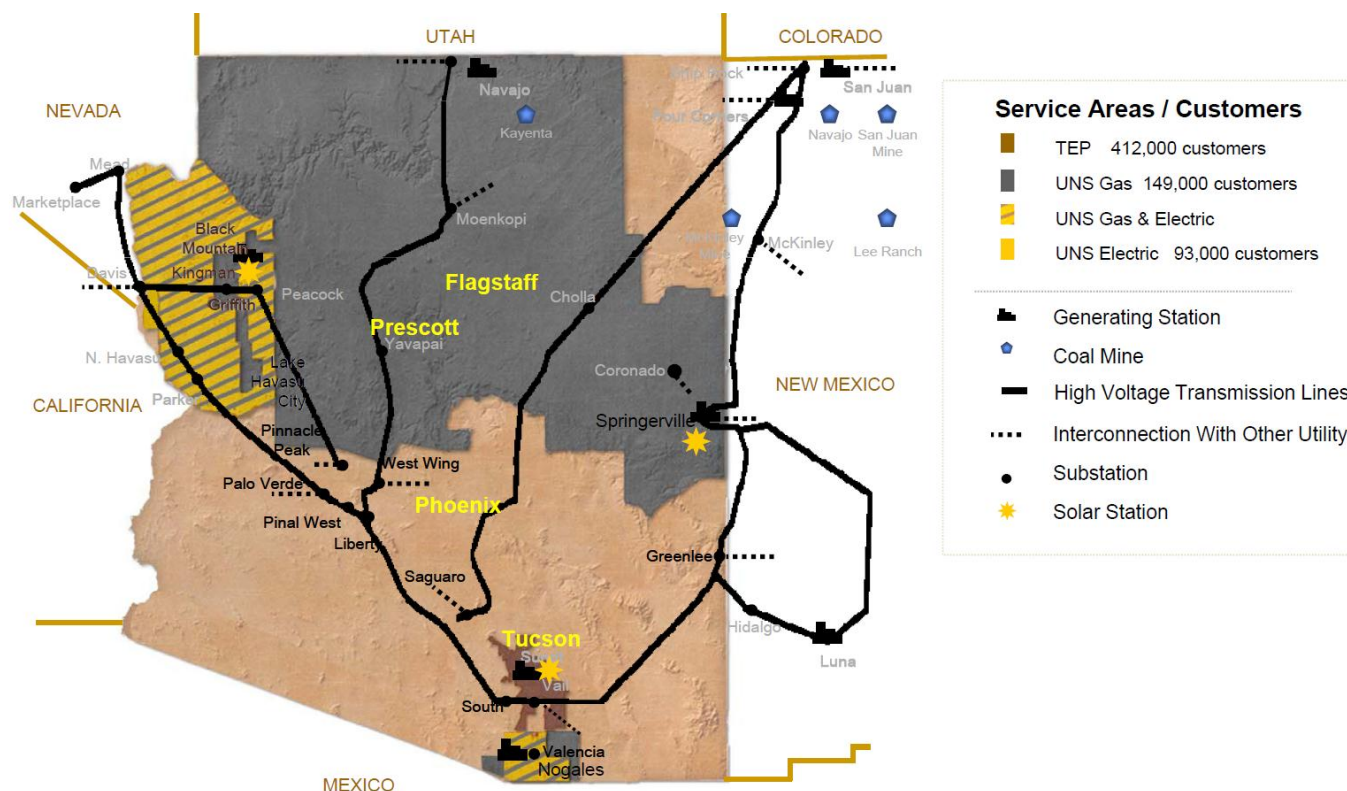
### Overview of UNS Energy

**Vertically integrated regulated utility in Arizona.** UNS Energy operates three regulated utilities: 1) Tucson Electric Power (TEP), 2) UNS Gas, and 3) UNS Electric, which combine to serve roughly 505,000 electric and 149,000 gas customers in Arizona. TEP comprises the majority of the assets (84% as at September 30, 2013) with a similar level of net income (85% year-to-date).

**Attractive organic growth outlook.** Capex for UNS over the next five years is expected to total US\$2.3 billion with rate base reaching US\$3 billion by 2015 and growing at an approximate 7% CAGR, which is fairly similar to the growth in UNS' net income over the past 10 years.

**Attractive capital structure and ROE compared to Fortis' Canadian utility assets.** The 2013 rate order for TEP, the largest of UNS' utilities, allows for a 10% ROE on a 43.5% equity component. For UNS Energy's two smaller utilities, UNS Electric and UNS Gas have current ROEs of 9.5% and 9.75%, respectively, based on an equity thickness of 52.6% and 50.8%, respectively (UNS Electric's cost of capital framework is embedded in a settlement agreement that is currently in front of the ACC). The cost of capital framework compares favourably to an 8.75% ROE in B.C. and Alberta on common equity components that are 41% or lower (depending on the utility).

Exhibit 3: Map of UNS' utility service areas



Source: Company reports

## Increasing estimates to reflect forecast EPS accretion

We have increased our 2015 EPS estimate to \$2.02 (up from \$1.94) to reflect the UNS acquisition, which is expected to close at the end of 2014. We remain comfortable with our 2013 and 2014 EPS estimates of \$1.67 and \$1.81, respectively. Our estimates ignore transaction costs and any mis-matches between the carrying costs of the convertible debentures versus the interest expense and tax savings associated with the converts until the transaction is completed.

Also, due to the forecast EPS accretion from the transaction combined with the anticipated commissioning of the Waneta hydro project, we have increased our forecast dividend for 2015 to \$1.36 (up from \$1.32). Our financial forecast is set out in Exhibit 4.



Exhibit 4: Financial forecast (in \$MM except per share figures)

	2012	Q1/13	Q2/13	Q3/13	Q4/13E	2013E	2014E	2015E	Old		
									2013E	2014E	2015E
Newfoundland Power	\$35	\$7	\$11	\$8	\$11	\$37	\$38	\$39	\$37	\$38	\$39
Other Cdn (ME + FTS Ont)	24	6	5	7	9	27	28	31	27	28	31
FortisBC Energy	138	85	6	(14)	44	121	128	132	120	128	132
FortisAlberta	96	26	25	26	23	100	107	116	99	107	116
FortisBC Electric	50	18	8	11	11	48	50	52	48	50	52
CH Energy				12	12	24	48	52	24	48	52
UNS Energy								135			
Regulated Utilities - Caribbean	19	3	6	6	5	20	23	24	20	23	24
Fortis Generation	17	2	3	8	6	19	19	40	19	19	40
Fortis Properties	22	0	9	6	6	21	28	29	23	28	29
Corporate and other	(76)	(20)	(20)	(19)	(20)	(79)	(81)	(91)	(79)	(81)	(91)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$128</b>	<b>\$53</b>	<b>\$51</b>	<b>\$107</b>	<b>\$338</b>	<b>\$388</b>	<b>\$558</b>	<b>\$339</b>	<b>\$388</b>	<b>\$423</b>
Shares O/S (MM)	190	192	193	212	213	202	215	277	202	215	218
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$0.66</b>	<b>\$0.27</b>	<b>\$0.24</b>	<b>\$0.50</b>	<b>\$1.67</b>	<b>\$1.81</b>	<b>\$2.02</b>	<b>\$1.67</b>	<b>\$1.81</b>	<b>\$1.94</b>
Dividends Paid	\$1.20					\$1.24	\$1.28	\$1.36	\$1.24	\$1.28	\$1.32
Payout Ratio	70%					74%	71%	67%	74%	71%	68%
Net Debt / Capital	56%					57%	58%	57%	57%	58%	57%
FFO / Net Debt	14%					12%	13%	13%	12%	13%	13%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$35.00 is based on a forward P/E of 17x our 2015E EPS. A 17x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, CH Energy and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to





the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

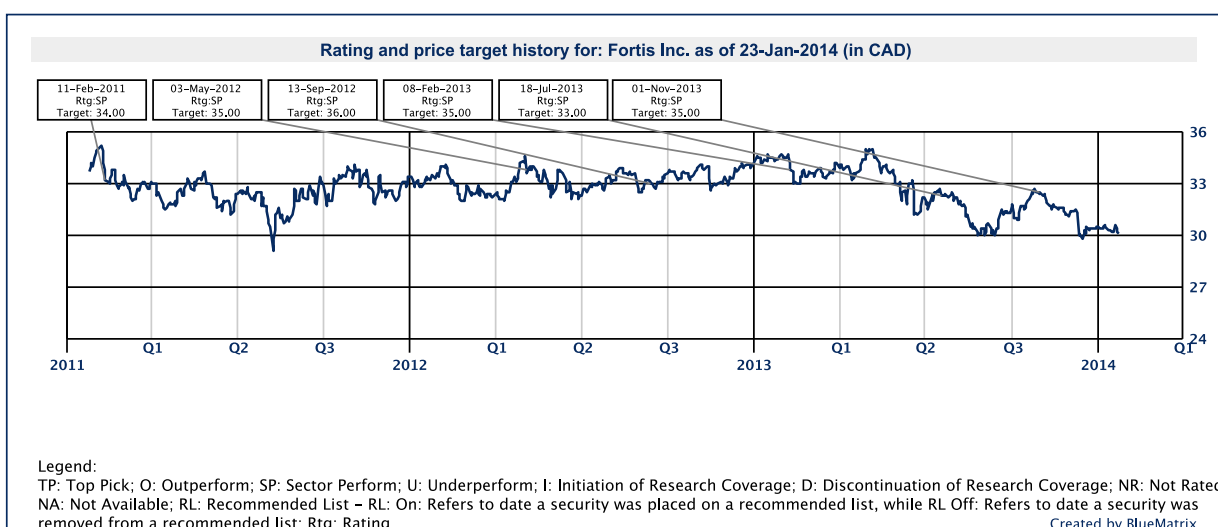
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 31-Dec-2013				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	791	51.13	274	34.64
HOLD [Sector Perform]	666	43.05	179	26.88
SELL [Underperform]	90	5.82	14	15.56



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include



a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney



Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved

## Fortis (FTS): UNS regulatory approval timeline set

Sentiment Indicator : neutral

Posted by Robert Kwan on Monday, February 03 2014, 9:24 AM ET

### Details

- The Arizona Corporation Commission (ACC) issued a procedural order setting a schedule that is consistent with what was filed with the ACC by Fortis/UNS on January 23, 2014.
- The timeline has two potential tracks depending on whether a settlement agreement is reached. The two timelines are as follows:

#### • Settlement timeline

- Fortis/UNS testimony has already been filed
- April 22, 2014: ACC Staff/Intervenor testimony
- April 28, 2014: Settlement discussions begin
- May 12, 2014: Settlement agreement filed
- May 30, 2014: Testimony in support of/opposition to the settlement agreement
- June 13, 2014: Settlement agreement responsive testimony
- June 16, 2014: Administrative Law Judge (ALJ) hearing commences

#### No settlement timeline

- Fortis/UNS testimony has already been filed
- April 22, 2014: ACC Staff/Intervenor testimony
- May 7, 2014: Rebuttal testimony
- May 30, 2014: ACC Staff/Intervenor rebuttal testimony
- June 13, 2014: UNS Energy and Fortis rejoinder testimony
- June 16, 2014: ALJ hearing commences

As further detailed in our January 24th note (attached) summarizing our views on the UNS acquisition, we continue to expect a smoother regulatory approval process than what Fortis experienced for CH Energy and ultimately, we expect Fortis to be able to achieve approval from the ACC.

#### Our take: Neutral

Since the regulatory process timeline is similar to what was previously filed by Fortis/UNS (as part of a settlement with the ACC Staff and the Residential Utility Consumer Office), we do not expect the press release to materially impact the share price.

 [FTS012414](#)

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)



## Fortis Inc. (FTS): Q4/13 results slightly short of expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Thursday, February 06 2014, 7:42 AM ET

### Details

- Q4/13 headline EPS was \$0.47, although our initial pass through the results looks like normalized EPS is closer to \$0.48 after adjusting for tax losses related to Griffith (now divested) offset by an upward adjustment in Corporate costs (FX gain). This compares to our estimate of \$0.50 and \$0.47 in Q4/12. Consensus for the quarter was \$0.49 (six estimates with a range of \$0.46 to \$0.50).
- There was variation in a number of the segments with the major differences being FortisBC Energy (+\$6 million in earnings; timing of O&M) and FortisAlberta (-\$5 million; timing of O&M, lower transmission revenue).
- Management expects capital spending from 2014 to 2018 in excess of \$6.5 billion with a forecast for UNS capital spending of \$1.5 billion from 2015 through 2018.
- On dividends, we would note that there are some news service headlines that the dividend has been increased. However, this is not new (the dividend increase was originally announced in December 2013).
- The company does not hold a quarterly conference call.

### Our take: neutral

Despite results that were mildly short of consensus and our expectations, we do not expect the results to materially impact the share price.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Currency	Price	Price Date
Fortis Inc.	Toronto SE	FTS	Sector Perform	Not Assigned	CAD	30.41	2/4/2014 4:15:00 PM EST

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), Robert Kwan



February 7, 2014

## Fortis Inc.

### From one transition year to the next, but 2015 looks brighter

**Our view:** Neutral - Although Q4/13 results were mildly short of expectations, we believe that the market will continue to focus on the steps to close the UNS acquisition. While we see an inflection point for dividend and EPS growth ahead with expected stronger results in 2015, we expect the shares to be rangebound, likely until we get closer to the closing of the UNS transaction.

#### Key points:

**Q4/13 slightly short of expectations.** Normalized EPS in Q4/13 was \$0.48 compared to our estimate of \$0.50 and \$0.47 in Q4/12. There were a number of segment variances, although in aggregate we see no major implications for the run-rate of consolidated earnings.

**Transition years leading to an uplift in 2015.** In 2013, earnings were hurt by a negative cost-of-capital decision in British Columbia (utilities there contributed over half of 2013 earnings) while we expect actual earnings in 2014 to be depressed due to the negative carry associated with pre-financing the UNS deal (we estimate financing charges in the range of \$0.25/share would depress our \$1.81/share earnings estimate).

**UNS acquisition remains on track.** Based on the approved regulatory timeline that contemplates both a settlement and no-settlement track, an Administrative Law Judge hearing is expected to commence on June 16. If that timeline holds, there is the potential to have the merger application reviewed at the September commission hearing with a positive ruling possibly paving the way for an October close.

**Estimates unchanged.** We remain comfortable with our 2014 and 2015 EPS estimates of \$1.81 and \$2.02, respectively. We note that our 2014 EPS estimate excludes charges related to the pending UNS acquisition, including the negative cost of carry of the converts (including the interest expense would result in 2014E EPS of \$1.55).

**Time to be patient.** We expect the shares to be rangebound, likely until we get closer to the closing of the UNS transaction. As such, we believe that investors have time to be patient and pick attractive entry points based on any undue weakness in the stock. Overall, we believe that the UNS deal is a positive development due to the expected EPS accretion that we expect to result in acceleration of dividend growth, accretion to Fortis' long-term growth rate (as we see UNS growing faster than Fortis) and, to a lesser extent, regulatory diversification. For additional details on the UNS acquisition, [please click here](#).

**Valuation.** Our \$35.00 price target is based on a P/E of 17x applied to the 2015 EPS estimate. We note that a 17x multiple is consistent with the regulated utility peer group.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

## Sector Perform

TSX: FTS; CAD 30.65

### Price Target CAD 35.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
27.00	30.65	35.00	38.00
↓ 8%		↑ 18%	↑ 28%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	213.2	Market Cap (MM):	6,535
Dividend:	1.28	Yield:	4.2%
Float (MM):	213.2		
Debt to Cap:	56%		

#### RBC Estimates

FY Dec	2012A	2013A	2014E	2015E
EPS, adjusted	1.71	1.64	1.81	2.02
P/E	17.9x	18.7x	16.9x	15.2x
DPS	1.20	1.24	1.28	1.36
Dividend Yield	3.9%	4.0%	4.2%	4.4%
EPS, adjusted	Q1	Q2	Q3	Q4
2013	0.66A	0.27A	0.24A	0.48A
2014	0.67E	0.31E	0.26E	0.57E

All values in CAD unless otherwise noted. C\$MM except per share data.

Priced as of prior trading day's market close, EST (unless otherwise noted).

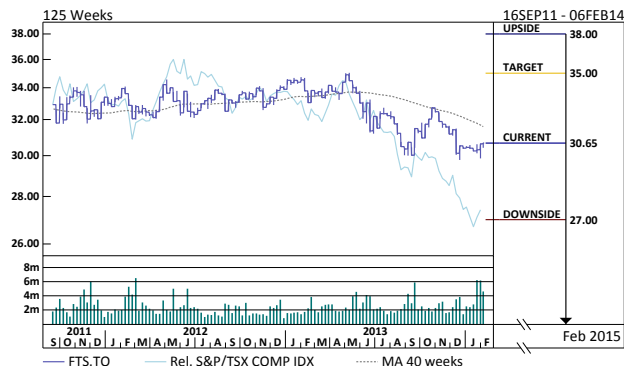
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 8.

adoyle@fortisinc.com angela.doyle 07/28/15 06:29:02 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/ base case

Our \$35.00 price target is based on a P/E of 17x applied to the forward EPS. A 17x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$38.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside scenario

For our downside scenario of \$27.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple in addition to the UNS acquisition not closing (i.e., foregone EPS accretion).

## Investment summary

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares appear fairly valued.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued. Although we expect the company to continue its long-standing trend of regular annual dividend growth, modest EPS growth is likely to limit annual dividend growth in the mid-single digits. In general, we see the market gravitating to stocks with dividend growth (or at least underlying earnings/cash flow growth) closer to 10%.

**Good defensive investment although market sentiment has shifted away from ultra-defensiveness.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has a high percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.

**Potential catalysts:** UNS shareholder approval of the transaction; news that provides a line of sight with respect to ACC approval of the UNS acquisition; and a materially higher-than-expected increase in the annual dividend.

**Key risks:** rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.





## Q4/13 results mildly short of expectations

Normalized EPS in Q4/13 was \$0.48 compared to our estimate of \$0.50 and \$0.47 in Q4/12. There were a number of segment variances, although in aggregate we see no major implications for the run-rate of consolidated earnings.

A summary of our normalized earnings is detailed in Exhibit 2, which sets out each segment's results for the quarter and the year along with comments on selected drivers of the quarter and normalizations.

Exhibit 2: Normalized Earnings (In \$MM except per share figures)

	RBC CM					Comments
	Q4/13	Q4/13	Q4/12	2013	2012	
Newfoundland Power	\$9	\$11	\$9	\$35	\$35	Normalized for \$1mm gain on land sale
FortisOntario & Maritime Electric	4	9	6	22	24	Lower-than-expected annual growth
FortisBC Energy	50	44	49	127	138	Solid quarter and a good year
FortisAlberta	18	23	23	95	96	Timing of opex
FortisBC Electric	13	11	12	50	50	
Regulated Utilities - Canadian	94	98	99	329	343	
Central Hudson	11	12	0	23	0	CH Energy was acquired in mid-2013
Regulated Utilities - Caribbean	8	5	3	23	19	\$3mm benefit from capitalization of previously-expensed costs
Non-Regulated Generation	4	6	2	17	17	
Non-Regulated (Non-Utility)	7	6	5	22	22	Normalized for \$3.5mm tax related to Griffith sale
Corporate	(22)	(20)	(20)	(81)	(76)	
<b>Normalized Earnings</b>	<b>\$102</b>	<b>\$107</b>	<b>\$90</b>	<b>\$333</b>	<b>\$325</b>	
<b>Normalized EPS</b>	<b>\$0.48</b>	<b>\$0.50</b>	<b>\$0.47</b>	<b>\$1.64</b>	<b>\$1.71</b>	
Average shares outstanding (MM)	213	213	191	203	190	

Source: Company reports; RBC Capital Markets estimates

## Thoughts coming out of the quarter

- **Still early days, but the UNS acquisition continues to make progress.** Based on the approved regulatory timeline that contemplates both a settlement and no-settlement track, an Administrative Law Judge hearing is expected to commence on June 16. If that timeline holds, there is the potential to have the merger application reviewed at the September commission hearing with a positive ruling possibly paving the way for an October close. It appears that the approval process will not be as contentious as the CH Energy acquisition.
- **Weaker Canadian dollar will help earnings translation.** Pre-UNS, a \$0.10 move in the US\$/C\$ exchange rate is expected to impact EPS by roughly \$0.02/share. Following the UNS transaction, a \$0.10 move in the exchange rate is expected to impact EPS by roughly \$0.08/share.
- **In the mix for AltaLink.** As the process remains ongoing, the company could not provide much colour with respect to its involvement in the AltaLink process. While we do not think the company would have been overly aggressive in its pursuit of AltaLink, we believe that the UNS acquisition, and the related accretion, has taken some pressure off the company from a growth perspective. That being said, we believe that Fortis has the potential to be a successful bidder should it be able to retain a portion of the synergies that could be realized by merging AltaLink into its own Alberta wires business.



- **Waneta making good progress.** Construction continues on the \$900 million Waneta expansion project, which is 51%-owned by Fortis. The project remains on-schedule and on-budget with an expected commissioning in the spring of 2015.
- **Updated capital plan projects over \$6.5 billion of spending through 2018 (excluding UNS).** Fortis expects to spend over \$6.5 billion over the five-year period from 2014 through 2018. In 2014, \$1.4 billion is expected to be spent with 85% of that amount earmarked for the regulated utilities. On top of that, UNS has forecast that its capital plan will be roughly \$1.5 billion from 2015 through 2018. To compare, the previous five-year plan (2013-2017) projected spending of \$6 billion. We see spending that drives increases in regulated utility rate base resulting in low-risk earnings growth.

### Comfortable with existing EPS estimates

We remain comfortable with our 2014 and 2015 EPS estimates of \$1.81 and \$2.02, respectively, although we have made a number of changes to the segment forecasts to reflect the Q4/13 results and the outlook for the businesses.

Our estimates reflect the following key assumptions:

- **UNS pre-financing not in our base estimates.** Using a thought process along the lines of capitalizing interest for projects that are under construction (e.g., Waneta), our 2014 EPS estimate of \$1.81 excludes the negative carry associated with the converts that have been issued to finance the UNS acquisition. Our 2014E EPS would be \$1.55 if the after-tax interest expense was included as shown in Exhibit 3.
- **We assume FortisAlberta will recover the full capital tracker in late 2014.** Our estimates for 2014 and 2015 assume a positive Alberta Utilities Commission (AUC) decision with respect to the recovery of uncollected amounts associated with the capital tracker under performance-based regulation. We estimate the annual amount to be roughly \$7 million after-tax (or about \$0.03/share). While a positive decision would also likely include amounts for 2013, our 2014 estimate does not include the retroactive booking.
- **UNS acquisition expected to close at the end of 2014.** We have not recorded any earnings from UNS in 2014, with 2015 representing the first full-year of earnings from that business along with recognizing the associated financing.

Our financial forecast is set out in Exhibit 3.



Exhibit 3: Financial forecast (in \$MM except per share figures)

	2012	2013	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	<i>Old</i>	
									2014E	2015E
Newfoundland Power	\$35	\$35	\$7	\$12	\$9	\$9	\$36	\$37	\$38	\$39
Other Cdn (ME + FTS Ont)	24	22	6	5	7	4	23	24	28	31
FortisBC Energy	138	127	85	6	(14)	57	134	141	128	132
FortisAlberta	96	95	28	27	28	23	106	114	107	116
FortisBC Electric	50	50	19	9	12	14	53	56	50	52
Central Hudson		23	13	10	13	12	48	52	48	52
UNS Energy								135		135
Regulated Utilities - Caribbean	19	23	3	7	7	9	25	27	23	24
Non-Regulated Power Gen.	17	17	2	3	8	6	19	40	19	40
Non-Regulated (Non-Utility)	22	22	1	9	7	7	24	24	28	29
Corporate and other	(76)	(81)	(22)	(21)	(20)	(18)	(81)	(91)	(81)	(91)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$333</b>	<b>\$143</b>	<b>\$67</b>	<b>\$56</b>	<b>\$122</b>	<b>\$388</b>	<b>\$559</b>	<b>\$388</b>	<b>\$559</b>
Shares O/S (MM)	190	203	213	214	215	216	215	277	215	277
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$1.64</b>	<b>\$0.67</b>	<b>\$0.31</b>	<b>\$0.26</b>	<b>\$0.57</b>	<b>\$1.81</b>	<b>\$2.02</b>	<b>\$1.81</b>	<b>\$2.02</b>
EPS (net of convert interest)	\$1.71	\$1.64	\$0.61	\$0.25	\$0.20	\$0.50	\$1.55	\$2.02	\$1.55	\$2.02
Dividends Paid	\$1.20	\$1.24					\$1.28	\$1.36	\$1.28	\$1.36
Payout Ratio	70%	75%					71%	67%	71%	67%
Net Debt / Capital	56%	58%					58%	58%	58%	56%
FFO / Net Debt	14%	12%					12%	12%	13%	13%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$35.00 is based on a forward P/E of 17x our 2015E EPS. A 17x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta and B.C.), the U.S. (New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S. and Belize) and real estate (commercial and hospitality in Canada).



All values in CAD unless otherwise noted. C\$MM except per share data.

VALUATION	2012	2013	2014E	2015E
EPS, adjusted	1.71	1.64	1.81	2.02
P/E	17.9x	18.7x	16.9x	15.2x
EV/Adj EBITDA	10.4x	10.7x	10.3x	9.9x
DPS	1.20	1.24	1.28	1.36
Dividend Yield	3.9%	4.0%	4.2%	4.4%
Payout ratio	70.2%	75.6%	70.7%	67.3%
Wgt'd Avg Shares Outstanding, Diluted	190.0	202.5	214.8	276.9
INCOME STATEMENT	2012	2013	2014E	2015E
Revenue	3,654.0	4,047.0	4,774.8	6,571.9
Adjusted EBITDA	1,264.0	1,393.0	1,516.8	2,025.5
Net interest expense/other	(366.0)	(389.0)	(355.0)	(504.7)
Net Income after tax	315.0	353.0	387.8	558.0
Adjusted Net Income	325.0	333.0	388.0	558.0
CASH FLOW	2012	2013	2014E	2015E
Operating Cash Flow	976.0	899.0	1,013.1	1,351.0
Capex	(1,130.0)	(1,175.0)	(1,367.8)	(1,275.0)
Free Cash Flow	(154.0)	(276.0)	(354.7)	76.0
Dividends Paid	(225.0)	(248.0)	(340.2)	(441.9)
Free Cash Flow (post Dividends)	(379.0)	(524.0)	(695.0)	(365.9)
Acquisitions-Disposals	(21.0)	(1,055.0)	0	(4,300.0)
Issuance (Repayment) Long-Term Debt	85.0	775.0	482.6	2,668.2
Net change in cash	67.0	(79.0)	(42.0)	0
BALANCE SHEET	2012	2013	2014E	2015E
Cash and Cash Equivalents	154.0	72.0	30.0	30.0
Total Current Assets	1,093.0	1,296.0	1,254.0	1,254.0
Total Assets	14,950.0	17,908.0	18,649.6	23,477.3
Short-Term, Current Long-Term Debt	260.0	947.0	829.6	1,697.7
Total Current Liabilities	1,308.0	2,084.0	1,966.6	2,834.7
Long-Term Borrowings	5,783.0	6,424.0	7,024.0	8,824.0
Total Liabilities	9,850.0	11,907.0	12,435.3	15,153.8
Total Shareholders' Equity	5,100.0	6,001.0	6,214.3	8,323.5
KEY PERFORMANCE METRICS	2012	2013	2014E	2015E
EBITDA margin	34.6%	34.4%	31.8%	30.8%
Net Debt/Total Capitalization	56.3%	57.6%	58.4%	57.8%
ROE	8.3%	7.0%	7.8%	7.9%
FFO/net debt	13.9%	11.9%	12.0%	12.2%

Source: Company reports, RBC Capital Markets estimates



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to



the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

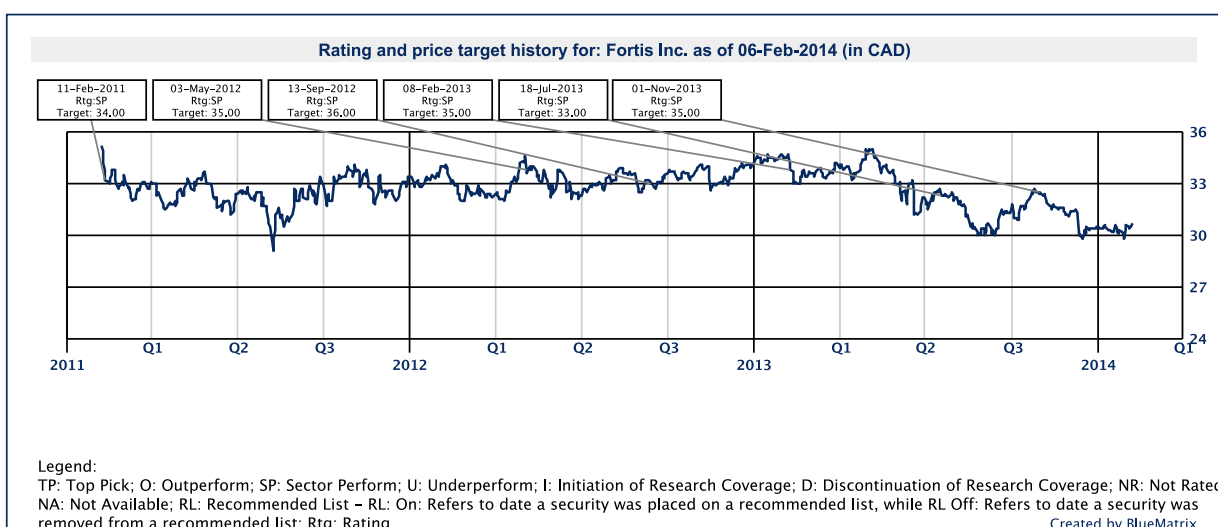
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 31-Dec-2013				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	791	51.13	274	34.64
HOLD [Sector Perform]	666	43.05	179	26.88
SELL [Underperform]	90	5.82	14	15.56



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include





a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney



Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved

## Fortis (FTS) and AltaGas (ALA): Stage 2 of the BCUC Generic Cost of Capital Decision; FTS Receives UNS Shareholder Approval

Sentiment Indicator : neutral

Posted by Robert Kwan on Wednesday, March 26 2014, 6:15 PM ET

### Details: BCUC generic cost of capital decision

- In May 2013, the British Columbia Utilities Commission (BCUC) issued its decision on the first stage of the 2013 generic cost of capital (GCOC) decision for the BC benchmark utility, FortisBC Energy (FEI), whereby the return on capital was set at 8.75%, with a common equity thickness of 38.5%, effective January 1, 2013.
- As part of the first stage, the BCUC introduced an Automatic Adjustment Mechanism (AAM), effective January 2014, to set the ROE on an annual basis for the benchmark utility. In January 2014, the BCUC determined that the AAM was not triggered and the 2014 GCOC would remain unchanged for the benchmark utility.
- Today the BCUC issued the second stage of the 2013 GCOC review for BC utilities, whereby the BCUC recognized various risk premiums over the benchmark utility.

### Fortis:

- Pursuant to the second stage of the GCOC review, the ROEs for FortisBC Inc., FortisBC Vancouver Island (FEVI) and FortisBC Whistler (FEW) have been set to 9.15%, 9.25% and 9.50%, respectively (previously 9.15%, 9.25% and 9.25%, respectively), with allowed equity thickness of 40.0%, 41.5% and 41.5%, respectively (previously 40% for all). Effective January 1, 2015, Fortis expects to amalgamate FEI, FEVI and FEW, and then the common equity return and capital structure would be the same as the benchmark utility.
- In addition to the second stage of the GCOC review, Fortis announced that 97% of UNS Energy shareholders voted favourably for Fortis' proposed acquisition of UNS Energy for approximately US\$4.3 billion. The acquisition is still subject to regulatory approval and is expected to close by the end of 2014.

### AltaGas:

- The Commission Panel has also determined appropriate equity thicknesses and risk premiums for Pacific Northern Gas (PNG), a wholly owned subsidiary of AltaGas. The equity thickness for PNG West, PNG North East (Fort St. John/Dawson Creek) and PNG North East (Tumbler Ridge) have been set at 46.5%, 41.0% and 46.5%, respectively (previously 45%, 40% and 40%, respectively) with equity risk premiums of 75 bps, 50 bps and 75 bps, respectively (previously 65 bps, 40 bps and 65 bps, respectively).

### Our take: neutral

Given the minor changes to both ROEs and equity thickness, coupled with the changes being applied to utilities with modest rate bases compared to their parent companies, we do not view the BCUC changes as material to both AltaGas and Fortis' share prices.

While a good step forward in the process, we expected UNS' shareholders to approve the transaction.

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [ALTAGAS LTD](#), [Robert Kwan](#)



## Fortis (FTS): Q1/14 results slightly ahead of expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Thursday, May 08 2014, 7:31 AM ET

### Details

- Q1/14 EPS was \$0.70 (company-calculated) and compares to our estimate of \$0.67 and \$0.66 in Q1/13. In calculating the \$0.70/share figure, management excluded the interest on the convertible debentures used to pre-finance the UNS acquisition along with earnings from Griffith Energy, which was sold during the quarter. That basis is directly comparable with our estimate for the quarter. Of note, the interest expense on the converts was \$11 million (about \$0.05/share) and Griffith contributed earnings of \$5 million in Q1/14 (about \$0.02/share).
- Better-than-expected results came from CH Energy (appears to be seasonality), Non-regulated Generation (good production in Belize and New York) and Newfoundland Power (timing).
- Management continues to expect capital spending from 2014 to 2018 to be in excess of \$6.5 billion with a forecast for UNS capital spending of \$1.5 billion from 2015 through 2018.
- Progress on the Waneta Expansion continues to be on time and on budget with completion expected in the spring of 2015.
- The company does not hold a quarterly conference call.

### Our take: neutral

Overall, with the results fairly close to our estimates, we do not expect the Q1/14 release to have a material impact on the share price.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here](#) for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)



May 8, 2014

## Fortis Inc.

### Good start to 2014; UNS remains the key focus for the year

**Our view:** The Q1/14 results represent a good start to the year, but we think the market will continue to focus on the closing of the UNS acquisition.

#### Key points:

**The stock is looking more interesting, but it is still a bit early.** We are maintaining our Sector Perform ranking as we see the stock as more of a late 2014 or 2015 story at this point. We see the UNS acquisition, and associated EPS accretion, supporting our view that we are coming to an inflection point for accelerating EPS and dividend growth. Further, we think the stock's relative valuation is reasonable, trading at 16x next year's EPS versus the peers at 15x to 17x. While investors should consider accumulating positions on days of undue weakness, we believe that it is still a bit early to jump in given the ongoing UNS approval process and uncertainty with respect to the recycling of shares following the close of the transaction (including conversion of the debentures).

**Q1/14 results slightly ahead of expectations.** Normalized Q1/14 EPS was \$0.69 compared to our estimate of \$0.67 and \$0.66 in Q1/13. Good results from CH Energy and Non-Regulated Generation (above average water flow in Belize) were the primary contributors to the quarterly variance.

**So far, so good for the UNS regulatory proceeding.** For the US\$4.3 billion acquisition of UNS in Arizona, the company is working towards a settlement agreement that has to be filed by May 16 and if an agreement is not reached, a litigated regulatory process would proceed in front of the Arizona Corporation Commission. Regardless of the process, the final decision could possibly be made at a September hearing, which could result in a September or October close.

**Increasing 2014 estimate.** We have increased our 2014 EPS estimate to \$1.83 (up from \$1.81) to reflect the Q1/14 results. We remain comfortable with our 2015 EPS estimate of \$2.02.

**Valuation unchanged.** Our \$35.00 price target is based on a P/E of 17.5x applied to the forward EPS. A 17.5x multiple is consistent with the regulated utility peer group.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Sector Perform

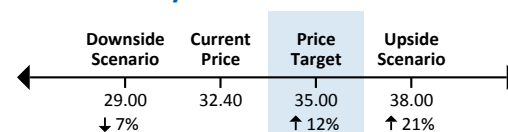
TSX: FTS; CAD 32.40

### Price Target CAD 35.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	214.3	Market Cap (MM):	6,943
Dividend:	1.28	Yield:	4.0%
Float (MM):	214.3		
Debt to Cap:	58%		

#### RBC Estimates

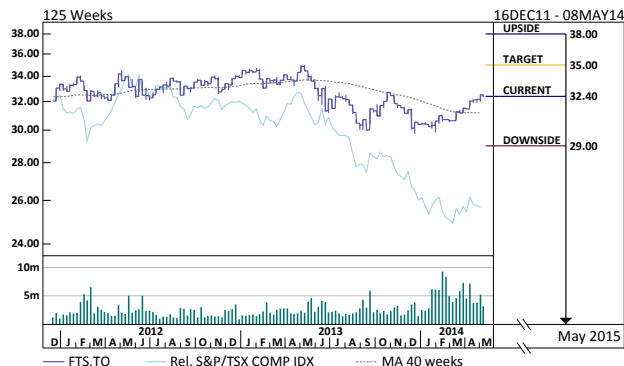
FY Dec	2012A	2013A	2014E	2015E
EPS, adjusted	1.71	1.64	1.83	2.02
Prev.			1.81	
P/E	18.9x	19.8x	17.7x	16.0x
DPS	1.20	1.24	1.28	1.36
Dividend yield	3.7%	3.8%	4.0%	4.2%
EPS, adjusted	Q1	Q2	Q3	Q4
2013	0.66A	0.27A	0.24A	0.48A
2014	0.69A	0.34E	0.25E	0.56E
Prev.	0.67E	0.31E	0.26E	0.57E

All values in CAD unless otherwise noted. C\$MM except per share data.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/ base case

Our \$35.00 price target is based on a P/E of 17.5x applied to the forward EPS. A 17.5x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$38.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside scenario

For our downside scenario of \$29.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple in addition to the UNS acquisition not closing (i.e., foregone EPS accretion).

## Investment summary

We expect Fortis' shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares appear fairly valued.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued. Although we expect the company to continue its long-standing trend of regular annual dividend growth, modest EPS growth is likely to limit annual dividend growth in the mid-single digits. In general, we see the market gravitating to stocks with dividend growth (or at least underlying earnings/cash flow growth) closer to 10%.

**Good defensive investment although market sentiment has shifted away from ultra-defensiveness.** We believe Fortis' utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has a high percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.

**Potential catalysts:** UNS shareholder approval of the transaction; news that provides a line of sight with respect to ACC approval of the UNS acquisition; and a materially higher-than-expected increase in the annual dividend.

**Key risks:** rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Q1/14 results modestly ahead of expectations

Normalized EPS in Q1/14 was \$0.69 compared to our estimate of \$0.67 and \$0.66 in Q1/13. There were a number of segment variances, and with the exception of CH Energy and the Caribbean Utilities, we see no major implications for the run-rate of consolidated earnings.

A summary of our normalized earnings is detailed in Exhibit 2, which sets out each segment's results for the quarter and the year along with comments on selected drivers of the quarter and normalizations.

Exhibit 2: Normalized earnings (in \$MM except per share figures)

	RBC CM			Comments
	Q1/14	Q1/14	Q1/13	
Newfoundland Power	\$10	\$7	\$7	Timing of quarterly earnings
FortisOntario & Maritime Electric	7	6	6	
FortisBC Energy	79	85	85	Higher effective income tax rate; timing of earnings
FortisAlberta	25	28	26	
FortisBC Electric	18	19	18	
Regulated Utilities - Canadian	139	146	142	
Central Hudson	18	13	0	Higher usage due to extreme cold weather
Regulated Utilities - Caribbean	5	3	3	Increase to electricity sales due to warmer weather
Non-Regulated Generation	6	2	2	Higher production in Belize, due to heavy rainfall
Non-Regulated (Non-Utility)	0	1	0	
Corporate	(21)	(22)	(20)	
<b>Normalized Earnings</b>	<b>\$147</b>	<b>\$143</b>	<b>\$128</b>	
<b>Normalized EPS</b>	<b>\$0.69</b>	<b>\$0.67</b>	<b>\$0.66</b>	
Average shares outstanding (MM)	214	213	192	
Gain related to Exploits Partnership	0		22	
Foreign exchange translation	4		2	On the long-term Belize receivable
Transaction Costs	(2)		(1)	Costs related to UNS and CH Energy transactions in 2014 and 2013, respectively
Convertible debt interest	(11)		0	
Sale of Griffith	5		0	Earnings related to the business; sold during the quarter
<b>Reported Earnings</b>	<b>\$143</b>		<b>\$151</b>	

Source: Company reports; RBC Capital Markets estimates

## Thoughts coming out of the quarter

**UNS acquisition continues to make progress.** In December, Fortis announced the US\$4.3 billion acquisition of UNS in Arizona. The company is working towards a settlement agreement that has to be filed by May 16. If a settlement agreement is not reached, a litigated regulatory process would proceed in front of the Arizona Corporation Commission (ACC). A final decision could be made at a September ACC hearing, which could result in a late September or early October close.

**FortisAlberta re-filing of its 2013 capital tracker application.** In December 2013, the Alberta Utilities Commission (AUC) approved the continuing use of interim rates based on 60% of the estimated revenue requirement for 2013 and 2014. As part of the interim rate approval, the company will be re-filing its 2013 Capital Tracker Application (as well as its 2014 and 2015 Capital Tracker Applications), by May 2014. Given the prolonged regulatory process, management does not expect a final decision until late 2014/early 2015.





**Sale of Griffith Completed.** During the quarter, Fortis completed the sale of Griffith Energy Services for proceeds of approximately \$105 million (US\$95 million). It is important to note that the Q1/14 earnings of \$5 million from Griffith were excluded from the calculation of normalized earnings.

**Stage 2 of GCOC decision has no material impact.** Pursuant to the second stage of the 2013 generic cost of capital (GCOC) review, the return on equity for FortisBC Electric, FortisBC Vancouver Island (FEVI) and FortisBC Whistler (FEW) has been set to 9.15%, 9.25% and 9.50%, respectively (previously 9.15%, 9.25% and 9.25%, respectively), with an allowed equity thickness of 40.0%, 41.5% and 41.5%, respectively (previously 40% for all). Effective January 1, 2015, Fortis expects to amalgamate Fortis BC Energy, FEVI and FEW, and then the common equity return and capital structure will be the same as the benchmark utility (i.e., 8.75% ROE on a 38.5% equity component).

**Capital plan for \$6.5 billion of spending through 2018 (excluding UNS) is unchanged.** Fortis expects to spend over \$6.5 billion over the five-year period from 2014 through 2018. The approximate breakdown of the capital spending expected to be incurred is as follows: 50% at Canadian Regulated Electric Utilities, 27% at Canadian Regulated Gas Utilities; 11% at Central Hudson; 5% at Caribbean Regulated Electric Utilities; and the remaining 7% at non-regulated operations. Furthermore, UNS has forecast that its capital plan will be roughly \$1.5 billion from 2015 through 2018.

**Tilbury LNG facility expansion commenced.** FortisBC has begun preliminary work related to the expansion of its Tilbury liquefied natural gas (LNG) facility in British Columbia. The Tilbury expansion, which remains subject to certain approvals, is estimated to cost approximately \$400 million. The expansion is expected to include a second LNG tank and a new liquefier, both with an in-service date of 2016. We note that FortisBC is pursuing additional LNG investment opportunities, including a pipeline expansion for the proposed Woodfibre LNG site in British Columbia.

**Waneta hydro project making good progress.** Construction continues on the \$900 million Waneta expansion project, which is 51%-owned by Fortis. The project remains on-schedule and on-budget with an expected commissioning in April or May 2015.

## Increasing 2014 estimate to reflect the quarter

We have increased our 2014 EPS estimate to \$1.83 (up from \$1.81) primarily to reflect the quarter. We remain comfortable with our 2015 EPS estimate of \$2.02, although we have made various changes within the business segments.

Please note that we have not included the UNS pre-financing in our base estimates. Given that the company would capitalize interest for projects that are under construction (e.g., Waneta), we have treated the acquisition similarly by excluding the negative carry amount (i.e., interest expense) associated with the converts that were issued to finance the acquisition. Lastly on the UNS acquisition, we have not recorded any earnings from UNS in 2014, so if the acquisition closes in September/October there is upside to our estimates.

Our financial forecast is set out in Exhibit 3.



Exhibit 3: Financial forecast (in \$MM except per share figures)

	2012	2013	Q1/14	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	Old	
									2014E	2015E
Newfoundland Power	\$35	\$35	\$10	\$11	\$6	\$9	\$36	\$37	\$36	\$37
Other Cdn (ME + FTS Ont)	24	22	7	5	7	4	23	24	23	24
FortisBC Energy	138	127	79	12	(12)	55	134	139	134	141
FortisAlberta	96	95	25	25	26	30	106	114	106	114
FortisBC Electric	50	50	18	9	12	15	53	56	53	56
Central Hudson		23	18	11	12	10	51	53	48	52
UNS Energy								135		135
Regulated Utilities - Caribbean	19	23	5	7	7	8	27	29	25	27
Non-Regulated Power Gen.	17	17	6	4	8	6	23	40	19	40
Non-Regulated (Non-Utility)	22	22	0	9	7	4	20	21	24	24
Corporate and other	(76)	(81)	(21)	(20)	(20)	(19)	(80)	(88)	(81)	(91)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$333</b>	<b>\$147</b>	<b>\$72</b>	<b>\$53</b>	<b>\$121</b>	<b>\$394</b>	<b>\$561</b>	<b>\$388</b>	<b>\$559</b>
Shares O/S (MM)	190	203	214	215	215	216	215	277	215	277
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$1.64</b>	<b>\$0.69</b>	<b>\$0.34</b>	<b>\$0.25</b>	<b>\$0.56</b>	<b>\$1.83</b>	<b>\$2.02</b>	<b>\$1.81</b>	<b>\$2.02</b>
EPS (net of convert interest)	\$1.71	\$1.64	\$0.64	\$0.27	\$0.18	\$0.50	\$1.60	\$2.02	\$1.55	\$2.02
Dividends Paid	\$1.20	\$1.24					\$1.28	\$1.36	\$1.28	\$1.36
Payout Ratio	70%	75%					70%	67%	71%	67%
Net Debt / Capital	56%	58%					58%	58%	58%	58%
FFO / Net Debt	14%	12%					12%	12%	12%	12%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$35.00 is based on a forward P/E of 17.5x our 2015E EPS. A 17.5x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta and B.C.), the U.S. (New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S. and Belize) and real estate (commercial and hospitality in Canada).



All values in CAD unless otherwise noted. C\$MM except per share data.

VALUATION	2012	2013	2014E	2015E
EPS, adjusted	1.71	1.64	1.83	2.02
P/E	18.9x	19.8x	17.7x	16.0x
EV/Adj EBITDA	10.7x	10.9x	10.5x	10.1x
DPS	1.20	1.24	1.28	1.36
Dividend yield	3.7%	3.8%	4.0%	4.2%
Payout ratio	70.2%	75.6%	69.9%	67.3%
Wgtd avg shares outstanding, Diluted	190.0	202.5	214.8	276.9
INCOME STATEMENT	2012	2013	2014E	2015E
Revenue	3,654.0	4,047.0	4,815.0	6,591.6
Adjusted EBITDA	1,264.0	1,393.0	1,523.9	2,031.4
Net interest expense/other	(366.0)	(389.0)	(361.4)	(505.6)
Net Income after tax	315.0	353.0	390.3	559.5
Adjusted net income	325.0	333.0	394.0	560.0
CASH FLOW	2012	2013	2014E	2015E
Operating Cash Flow	976.0	899.0	1,019.0	1,354.7
Capex	(1,130.0)	(1,175.0)	(1,367.8)	(1,275.0)
Free Cash Flow	(154.0)	(276.0)	(348.8)	79.7
Dividends Paid	(225.0)	(248.0)	(341.0)	(441.9)
Free Cash Flow (post Dividends)	(379.0)	(524.0)	(689.8)	(362.3)
Acquisitions-Disposals	(21.0)	(1,055.0)	0	(4,300.0)
Issuance (Repayment) Long-Term Debt	85.0	775.0	477.4	2,664.5
Net change in cash	67.0	(79.0)	(42.0)	0
BALANCE SHEET	2012	2013	2014E	2015E
Cash and cash equivalents	154.0	72.0	30.0	30.0
Total current assets	1,093.0	1,296.0	1,254.0	1,254.0
Total assets	14,950.0	17,908.0	18,651.5	23,481.6
Short-term, current long-term debt	260.0	947.0	824.4	1,688.9
Total current liabilities	1,308.0	2,084.0	1,961.4	2,825.9
Long-term borrowings	5,783.0	6,424.0	7,024.0	8,824.0
Total liabilities	9,850.0	11,907.0	12,434.7	15,154.1
Total shareholders' equity	5,100.0	6,001.0	6,216.8	8,327.5
KEY PERFORMANCE METRICS	2012	2013	2014E	2015E
EBITDA margin	34.6%	34.4%	31.6%	30.8%
Net debt/Total capitalization	56.3%	57.6%	58.4%	57.7%
ROE	8.3%	7.0%	7.9%	7.9%
FFO/net debt	13.9%	11.9%	12.1%	12.2%

Source: Company reports, RBC Capital Markets estimates



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.



## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

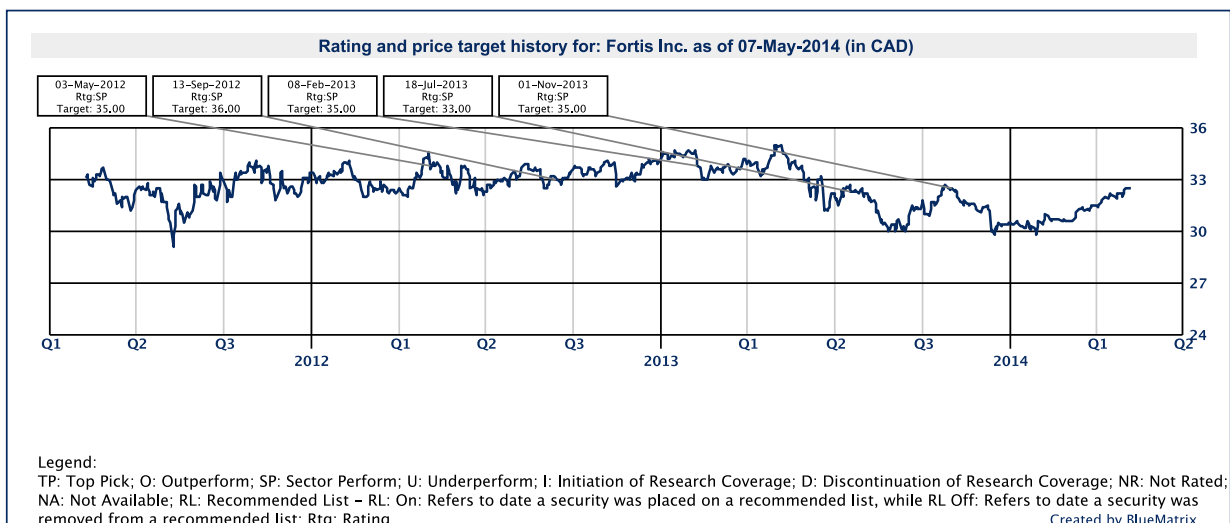
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 31-Mar-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	822	52.49	303	36.86
HOLD [Sector Perform]	654	41.76	170	25.99
SELL [Underperform]	90	5.75	11	12.22



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List



and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty,





express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved



## Fortis (FTS): Stan Marshall to retire as CEO; Barry Perry (CFO) appointed as his successor

Sentiment Indicator : neutral

Posted by Robert Kwan on Monday, May 12 2014, 7:48 AM ET

### Details:

- Stan Marshall current President and CEO, will retire from the company, including his seat on the board of directors, as of December 31, 2014. As part of the transition, he will relinquish his role as President on June 30, 2014.
- Barry Perry, VP Finance and CFO, will succeed Stan Marshall as CEO. Barry has been CFO of Fortis since 2004 and he has been with the company since 2000.

### Our take: neutral

While the specific timing was unexpected, we do not expect the announcement to have a material impact on the share price. Barry is well-known to the investment community and his role as CFO through the company's transformational growth should be viewed as a sign that the strategy is not likely going to materially change.

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



# RBC Capital Markets

RBC Dominion Securities Inc.

**Robert Kwan, CFA** (Analyst)  
(604) 257-7611  
robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
(604) 257-7383  
kelsey.roste@rbccm.com

May 16, 2014

## Fortis Inc.

### Settlement agreement filed for UNS acquisition

**Impact: positive**

**First impression**

**Settlement agreement a positive step forward.** Fortis, UNS Energy, staff of the Arizona Corporation Commission (ACC), the Residential Utility Consumer Office (RUCO) and other parties to the merger proceedings entered into a settlement agreement. The parties agree that the merger is in the public interest and recommend approval by the ACC subject to certain conditions, which include:

**Customer benefits totalling US\$30 million over five years.** Retail customers of Tucson Electric, UNS Electric and UNS Gas will receive credits to customer bills totalling US\$10 million in year one and US\$5 million in years two through five. We view these benefits as reasonable for both Fortis and UNS customers.

**UNS will be ringfenced.** The utilities will adopt certain ringfencing and corporate governance provisions. This is effectively how Fortis operates its existing utilities, so we do not view this as material.

**Dividends cannot exceed 60% of UNS net income for five years or until UNS equity capitalization reaches 50%; US\$220 million equity infusion.** While Fortis' payout ratio is modestly higher than the 60% threshold, we do not expect there to be any issues with funding Fortis Inc. dividends due to the size of UNS relative to the other utilities. We also do not view the equity infusion as onerous.

**A positive step forward for the UNS acquisition process.** The approval process was expected to be much less contentious than CH Energy due to what appeared to be a realization that Fortis could bring material benefits to Arizona and a more constructive regulatory environment. Nonetheless, a settlement agreement paves the way for a smoother, and possibly quicker, regulatory process.

**Closing could possibly occur at the end of September or early October if the ACC hearing is in September.** In addition to ACC approval, the merger requires HSR (anti-trust) expiration or termination of the waiting period, review by the Committee on Foreign Investment and other customary closing conditions.

**We continue to view the UNS acquisition positively.** We continue to positively view the acquisition of UNS due to: (1) immediate EPS accretion that we expect to be in the \$0.05-\$0.10/share range; (2) accretion to Fortis' overall growth rate as UNS' rate base is expected to grow modestly faster than Fortis' existing businesses in aggregate; and (3) regulatory diversification against the backdrop of recent challenging decisions in both British Columbia and Alberta.

## Sector Perform

TSX: FTS

Price: CAD 32.34

All values in CAD unless otherwise noted. C\$MM except per share data.

Priced as of prior trading day's market close, EST (unless otherwise noted).

**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 2.**

adoyle@fortisinc.com angela.doyle 07/28/15 06:29:12 PM Fortis, Inc.



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.



## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

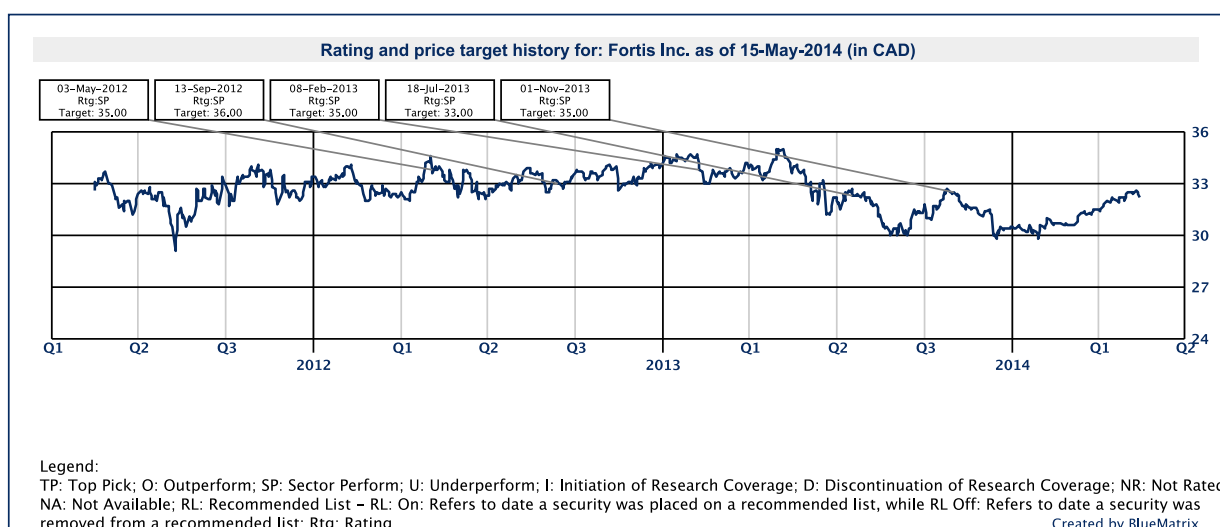
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 31-Mar-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	822	52.49	303	36.86
HOLD [Sector Perform]	654	41.76	170	25.99
SELL [Underperform]	90	5.75	11	12.22



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List



and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty,





express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved





## Fortis (FTS): Announced early termination of Hart-Scott-Rodino waiting period

Sentiment Indicator : neutral

Posted by Robert Kwan on Friday, June 13 2014, 4:02 PM ET

### Details:

- Fortis and UNS Energy announced the receipt of early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act), in connection with the previously announced acquisition of UNS Energy by Fortis.
- We note that transaction received UNS Energy shareholder approval in March 2014 and approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States in April and May, respectively. As such, review by the Arizona Corporation Commission (ACC) is the only significant approval remaining.

### Our take: neutral

Although this is a positive step for the transaction to move forward, it still requires approval from the ACC, which is expected to occur in September. We expect the transaction to close shortly after ACC approval.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here for disclosures for Fortis Inc/Canada, Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



## Fortis (FTS): UNS deal approval in good shape; could close by the end of August

Sentiment Indicator : **positive**

Posted by Robert Kwan on Wednesday, July 30 2014, 1:47 PM ET

### Details

- The Administrative Law Judge (ALJ) assigned by the Arizona Corporation Commission (ACC) recommends the approval by the ACC of Fortis' acquisition of UNS Energy per the conditions outlined in the May 16, 2014 Settlement Agreement.
- Consideration of the recommended order has been tentatively scheduled for the ACC's meeting scheduled for August 12 and 13, 2014.
- If the ACC approves the acquisition at the August meeting, Fortis expects the acquisition to close by the end of August 2014. This is one month sooner than our previously expected closing date if all went smoothly.

### Our take: positive

While we did not expect there to be any issues, we still view the ALJ's recommendation as a positive. Further, we also think the potential to close the transaction at the end of August is a positive for holders of the converts due to the ability to receive the make-whole payment in addition to receiving the Q4 dividend.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



## Fortis (FTS): Q2/14 results slightly below expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Friday, August 01 2014, 7:39 AM ET

### Details

- Q2/14 normalized EPS was \$0.32 compared to our estimate of \$0.34 and \$0.27 in Q2/13. In calculating the \$0.32/share figure, we have excluded the interest on the convertible debentures used to pre-finance the UNS acquisition (\$0.06/share) along with other smaller items such as FX translation on balance sheet items run through the income statement. The primary variance compared to our estimate was CH Energy as the rate freeze appears to be having a greater impact on earnings than we had forecast. All of the other segments were within \$2 million of our forecast.
- The company also announced that it will hold an Investor Day on October 1 in Toronto.
- Management continues to expect capital spending from 2014 to 2018 to be in excess of \$6.5 billion with a forecast for UNS capital spending of \$1.5 billion from 2015 through 2018.
- Progress on the Waneta Expansion continues to be on time and on budget with completion expected in the spring of 2015.
- The company does not hold a quarterly conference call.

### Our take: neutral

Overall, the results are modestly below our expectations, but we believe that investors will remain focused on the recent announcement that the UNS Energy acquisition is scheduled to go in front of the ACC in August and the approval process for the transaction appears to be in good shape.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here for disclosures for Fortis Inc/Canada, Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



August 4, 2014

## Fortis Inc.

### August in Arizona

**Our view:** Neutral – Although the results were slightly below our expectations, we believe that investors will remain focused on the recent announcement that the UNS Energy acquisition will likely go in front of the ACC in August, and the approval process for the transaction appears to be in good shape for a Q3/14 close.

#### Key points:

**UNS acquisition expected to close in late August.** In July, the Administrative Law Judge (ALJ) assigned by the Arizona Corporation Commission (ACC) recommended that the ACC approve Fortis's acquisition of UNS Energy per the conditions outlined in the May 16, 2014 Settlement Agreement. The approval of the UNS acquisition is tentatively scheduled for the August meetings (August 12–13), and if approved, Fortis expects to close the acquisition by the end of the month.

**No double dividend for convert holders?** While we have previously discussed the potential for convert holders to receive the "make whole" provision and potentially receive the Q4/14 dividend, we note that Fortis can set the final installment date between 15 and 90 days following the approval of the UNS transaction. As such, if Fortis receives ACC approval in August, it has the right to elect a final installment date for the converts after October 24, which is the tentative record date for the Q4/14 dividend payment.

**Q2/14 results slightly shy of expectations.** Normalized EPS in Q2/14 was \$0.32 compared to our estimate of \$0.34 and \$0.27 in Q2/13. The primary variance compared to our estimate was Central Hudson, as the rate freeze appears to be having a greater impact on earnings than we had forecast. All of the other segments were within \$2 million of our forecast.

**Tweaking estimates to reflect the quarter and UNS acquisition.** We have reduced our 2014 EPS estimate to \$1.79 (from \$1.83) to primarily reflect anticipated higher expenses that will temporarily not be recovered at Central Hudson from the two-year rate freeze (new rates expected for mid-2015). We also adjusted our 2014 EPS estimate to reflect the earlier-than-expected closing of the UNS acquisition, which has also put downward pressure on the estimate due to the seasonality of earnings. We remain comfortable with our 2015 EPS estimate of \$2.02.

**Valuation: Increasing price target to \$36.00/share (from \$35.00/share).** Our new price target is based on a 18.0x P/E multiple (previously 17.5x) applied to our 2015 EPS estimate. An 18.0x multiple is consistent with the regulated utility peer group and the increase in our valuation multiple is driven by higher valuations for the sector.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Sector Perform

TSX: FTS; CAD 33.09

**Price Target CAD 36.00 ↑ 35.00**

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
30.00 ↓ 9%	33.09	36.00 ↑ 9%	39.00 ↑ 18%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	0.0	Market Cap (MM):	0
Dividend:	0.00	Yield:	0.0%
Float (MM):	0.0		
Debt to Cap:	0%		

#### RBC Estimates

FY Dec	2012A	2013A	2014E	2015E
EPS, Adj Diluted	1.71	1.64	1.79	2.02
Prev.			1.83	
DPS	1.20	1.24	1.28	1.36
Div Yield	3.6%	3.7%	3.9%	4.1%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2013	0.66A	0.27A	0.24A	0.48A
2014	0.69A	0.32A	0.25E	0.55E
Prev.		0.34E		0.56E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

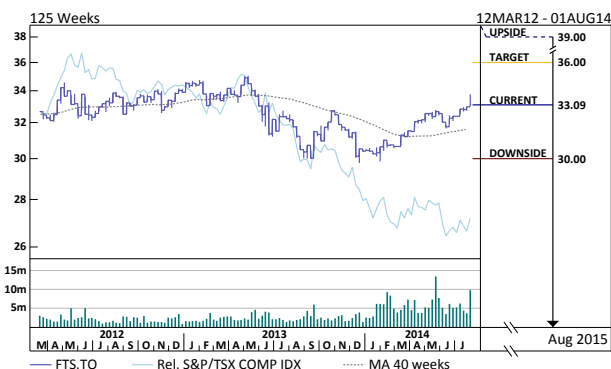
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 7.

adoyle@fortisinc.com angela.doyle 07/28/15 06:29:16 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/ base case

Our \$36.00 price target is based on a P/E of 18.0x applied to the forward EPS. An 18.0x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$39.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside scenario

For our downside scenario of \$30.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple in addition to the UNS acquisition not closing (i.e., foregone EPS accretion).

## Investment summary

We expect Fortis's shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares appear fairly valued.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued. Although we expect the company to continue its long-standing trend of regular annual dividend growth, modest EPS growth is likely to limit annual dividend growth in the mid-single digits. In general, we see the market gravitating to stocks with dividend growth (or at least underlying earnings/cash flow growth) closer to 10%.

**Good defensive investment although market sentiment has shifted away from ultra-defensiveness.** We believe Fortis's utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has a high percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.

**Potential catalysts:** Positive regulatory decision for capital tracker and a materially higher-than-expected increase in the annual dividend.

**Key risks:** the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Q2/14 results slightly shy of expectations

Normalized EPS in Q2/14 was \$0.32 compared to our estimate of \$0.34 and \$0.27 in Q2/13. The primary variance compared to our estimate was Central Hudson, as the rate freeze appears to be having a greater impact on earnings than we had forecast. All of the other segments were within \$2 million of our forecast.

A summary of the Q2/14 normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized earnings (in \$MM except per share figures)

	RBC CM			Comments
	Q2/14	Q2/14	Q2/13	
Newfoundland Power	\$11	\$11	\$11	
FortisOntario & Maritime Electric	5	5	5	
FortisBC Energy	12	12	6	
FortisAlberta	26	25	25	
FortisBC Electric	7	9	8	
Regulated Utilities - Canadian	61	62	55	
Central Hudson	7	11	0	Higher depreciation and expenses due to 2-year rate freeze
Regulated Utilities - Caribbean	8	7	6	
Non-Regulated Generation	6	4	3	Higher production in Belize, due to heavy rainfall
Non-Regulated (Non-Utility)	7	9	9	
Corporate	(21)	(20)	(20)	
<b>Normalized Earnings</b>	<b>\$68</b>	<b>\$72</b>	<b>\$53</b>	
<b>Normalized EPS</b>	<b>\$0.32</b>	<b>\$0.34</b>	<b>\$0.27</b>	
Average shares outstanding (MM)	215	215	193	
Retirement costs	3		0	
Foreign exchange translation	4		3	On the long-term Belize receivable
Transaction costs	1		(32)	Costs related to UNS and CH Energy transactions in 2014 and 2013, respectively
Convertible debt interest	13		0	To pre-finance the UNS acquisition
Income tax recoveries	0		30	Part IV income tax recoveries
	21		1	
<b>Reported Earnings</b>	<b>\$89</b>		<b>\$54</b>	

Source: Company reports; RBC Capital Markets estimates

## Thoughts coming out of the quarter

**UNS acquisition approval may occur later this month.** In December, Fortis announced the US\$4.3 billion acquisition of UNS in Arizona. In July, the Administrative Law Judge (ALJ) assigned by the Arizona Corporation Commission (ACC) recommended the approval by the ACC of Fortis's acquisition of UNS Energy per the conditions outlined in the May 16, 2014 Settlement Agreement. The approval of the UNS acquisition is expected to be on the agenda for the ACC's meeting scheduled for August 12 and 13, 2014. If the ACC approves the acquisition at the August meeting, Fortis expects the acquisition to close shortly thereafter. We note that the company has between 15 and 90 days after the ACC approval to set the final installment date for the convertible debentures, which could place the final installment date after the record date for the fourth quarter dividend (October 24).

**Central Hudson files general rate application.** In July, Central Hudson filed a general rate application seeking to increase electricity and natural gas delivery rates effective July 1,



2015. A delivery rate freeze was implemented for electricity and natural gas delivery rates through to June 30, 2015 as part of the regulatory approval of the acquisition of CH Energy by Fortis. Furthermore, Central Hudson committed to investing US\$215 million in capital expenditures during the two-year delivery rate freeze period. We note that in its general rate application, the company requested an allowed ROE of 9.0% with a 48% common equity component of capital structure. The current rate order includes an allowed ROE of 10.0% with a 48% common equity component of capital structure. Management expects a decision on the general rate application in H1/15. While the ROE will likely decline, we expect overall earnings to increase due to the new rates capturing returns on rate base growth to date that were not directly recoverable due to the rate freeze.

**2013, 2014, and 2015 capital tracker application filed.** In May 2014, FortisAlberta filed a combined 2013, 2014, and 2015 capital tracker application as required by the regulator. The application requested capital tracker revenue of approximately \$23 million for 2013, \$48 million for 2014, and \$69 million for 2015. A hearing related to the combined capital tracker application is scheduled for October 2014. It is important to note that FortisAlberta continues to recognize 60% of capital tracker revenue based on the interim rate order and any adjustment by the regulator to the interim decision will result in an adjustment to FortisAlberta's revenue. Management expects a decision on the capital tracker application in Q1/15.

**Waneta hydro project making good progress.** Construction continues on the \$900 million Waneta expansion project, which is 51% owned by Fortis. The project remains on schedule and on budget, with an expected commissioning in April or May 2015.

**Investor Day: October 1 in Toronto.** Fortis announced that it will hold an investor day on October 1, 2014 in Toronto, where it will provide an update on its operations, recent developments, and strategic outlook.

## Tweaking estimates for the quarter and timing of the UNS acquisition

We have reduced our 2014 EPS estimate to \$1.79 (from \$1.83) to primarily reflect temporarily unrecoverable costs at Central Hudson due to the two-year rate freeze and the fact that the company is not achieving its allowed ROE, partly because of the US\$215 million of capital expenditures it agreed to spend as part of the acquisition approval. Furthermore, we adjusted our 2014 EPS estimate to reflect the earlier-than-expected closing of the UNS acquisition, which has also put downward pressure on the estimate due to the seasonality of earnings.

Our financial forecast is set out in Exhibit 3.





Exhibit 3: Financial forecast (in \$MM except per share figures)

	2012	2013	Q1/14	Q2/14	Q3/14E	Q4/14E	2014E	2015E	Old	
									2014E	2015E
Newfoundland Power	\$35	\$35	\$10	\$11	\$6	\$9	\$36	\$37	\$36	\$37
Other Cdn (ME + FTS Ont)	24	22	7	5	7	4	23	24	23	24
FortisBC Energy	138	127	79	12	(12)	55	134	139	134	139
FortisAlberta	96	95	25	26	26	29	106	114	106	114
FortisBC Electric	50	50	18	7	12	16	53	56	53	56
Central Hudson		23	18	7	10	10	45	50	51	53
UNS Energy					6	14	20	135	0	135
Regulated Utilities - Caribbean	19	23	5	8	8	9	29	30	27	29
Non-Regulated Power Gen.	17	17	6	6	8	5	25	40	23	40
Non-Regulated (Non-Utility)	22	22	0	7	7	6	20	21	20	21
Corporate and other	(76)	(81)	(21)	(21)	(24)	(23)	(89)	(88)	(80)	(89)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$333</b>	<b>\$147</b>	<b>\$68</b>	<b>\$54</b>	<b>\$133</b>	<b>\$402</b>	<b>\$559</b>	<b>\$394</b>	<b>\$560</b>
Shares O/S (MM)	190	203	214	215	216	243	225	277	215	277
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$1.64</b>	<b>\$0.69</b>	<b>\$0.32</b>	<b>\$0.25</b>	<b>\$0.55</b>	<b>\$1.79</b>	<b>\$2.02</b>	<b>\$1.83</b>	<b>\$2.02</b>
Dividends Paid	\$1.20	\$1.24					\$1.28	\$1.36	\$1.28	\$1.36
Payout Ratio	70%	75%					71%	67%	70%	67%
Net Debt / Capital	56%	58%					58%	58%	58%	58%
FFO / Net Debt	14%	12%					12%	12%	12%	12%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$36.00 is based on a forward P/E of 18.0x our 2015E EPS. A 18.0x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta and B.C.), the U.S. (New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S. and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.



## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

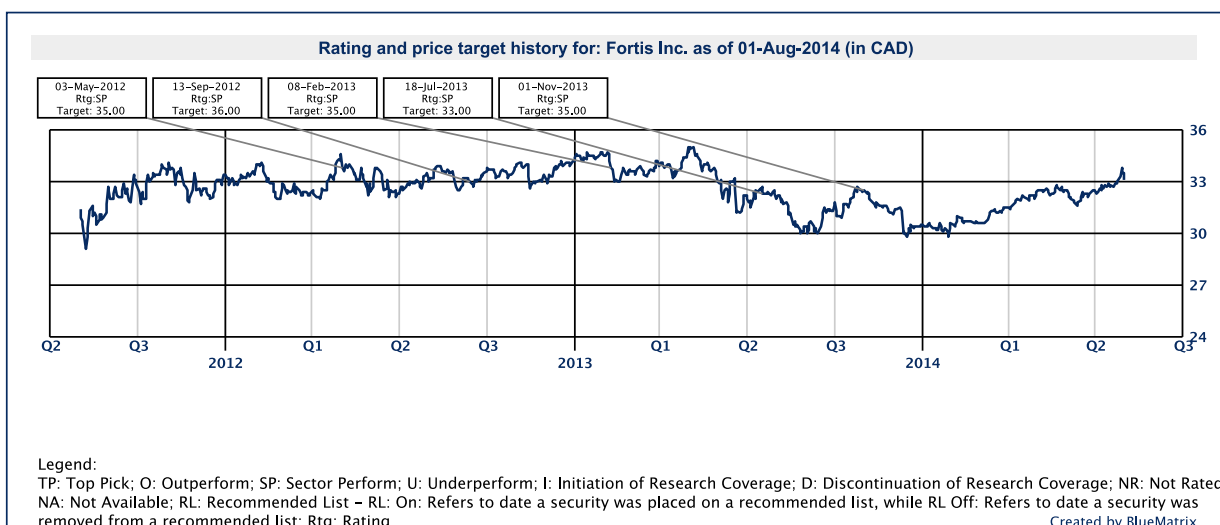
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Jun-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	845	53.24	299	35.38
HOLD [Sector Perform]	658	41.46	159	24.16
SELL [Underperform]	84	5.29	10	11.90



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List



and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty,



express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited and RBC Capital Markets (Hong Kong) Limited, licensed corporations under the Securities and Futures Ordinance or, by the Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited, RBC Capital Markets (Hong Kong) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved



## Fortis (FTS): UNS acquisition approved by the ACC

Sentiment Indicator : neutral

Posted by Robert Kwan on Tuesday, August 12 2014, 3:54 PM ET

### Details:

- Fortis announced the issuance of the final written approval by the Arizona Corporation Commission (ACC) for its acquisition of UNS Energy. ACC approval was the last remaining approval required for the transaction and as such, the completion of the transaction is expected to be soon.
- Fortis will issue shortly a final instalment notice, notifying holders of its 4% convertible unsecured subordinated debentures of the date on which payment of the final instalment is due, which date shall be not less than 15 days nor more than 90 days after the completion of the transaction. As previously noted in our *Research Comment* dated August 4, 2014, Fortis has the ability to set the final instalment date after October 24, which is the tentative record date for the Q4/14 dividend payment.

### Our take: neutral

Given that we believe the ACC approval was widely anticipated, we believe the announcement of the approval is not likely to materially impact Fortis' share price.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here](#) for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



## Fortis (FTS): Upcoming investor day likely to focus on rate base growth, particularly in the U.S. and from LNG

Sentiment Indicator : neutral

Posted by Robert Kwan on Wednesday, September 24 2014, 12:06 PM ET

### Details

- Fortis is holding an investor day in Toronto on Wednesday, October 1.
- As the company has not held investor days in the past, we expect the session to be a combination of: (1) articulating the company's strategy; (2) educating the investment community on the two recently-acquired U.S. utilities with the CEOs of both entities presenting at the investor day (i.e., Central Hudson and UNS); (3) highlighting the rate base growth potential for the company's utility businesses; and (4) highlighting the potential for LNG-driven growth in B.C. that could positively impact the FortisBC Energy business.
- With Fortis having been acquisitive, particularly recently in the U.S. (e.g., CH Energy, UNS Energy), we expect management to outline the M&A strategy going forward. However, we continue to believe that 2015 is more likely to be a year without material M&A where Fortis can demonstrate the earnings power of its existing businesses, particularly in the U.S.

### Event details

- The investor day will begin at 8:30 AM (ET) and run until approximately 12:30 PM on Wednesday, October 1.
- A live audio webcast will be available on Fortis' website ([www.fortisinc.com](http://www.fortisinc.com)).
- Senior executives presenting at the event will be:
  - Barry Perry, President and incoming CEO
  - Karl Smith, EVP and CFO
  - John Walker, EVP (Western Canadian Operations)
  - Earl Ludlow, EVP (Eastern Canadian and Caribbean Operations)
  - Steven Lant, President and CEO (CH Energy)
  - David Hutchens, President and CEO (UNS Energy)

### Our take: neutral

While we expect the session to be informative, particularly with respect to the U.S. businesses and potential LNG-related infrastructure investments, we do not expect any major announcements and as such, we do not expect the investor day to materially impact the share price.

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here for disclosures for Fortis Inc/Canada, Robert Kwan](#)



## Fortis Inc. (FTS): Announced the strategic review of Fortis Properties

Sentiment Indicator : neutral

Posted by Robert Kwan on Monday, September 29 2014, 11:34 AM ET

### Details:

- Fortis announced that the company will engage in a review of strategic options for its hotel and commercial real estate business, operating under its wholly owned subsidiary Fortis Properties.
- Fortis has engaged financial advisors and the process is expected to commence in the coming weeks and continue through the balance of 2014 and into 2015. The review of Fortis Properties will explore various strategic options for this non-utility business segment, which currently represents approximately 3% of the company's total assets. Management noted that strategic options may include, but are not limited to, a sale of all or a portion of the assets, a sale of shares of Fortis Properties or an initial public offering.
- Fortis Properties owns and operates twenty-three hotels in eight Canadian provinces, primarily in Atlantic Canada. Its major hotel brands include Delta, Sheraton, Hilton, Holiday Inn, Ramada and Best Western, and some of its prominent real estate holdings in Atlantic Canada include Cabot Place, Maritime Centre and the Blue Cross Centre.
- The company has stated that it does not currently intend to disclose further developments with respect to this process unless and until its Board of Directors approves a specific transaction or otherwise concludes the review of strategic options. However at Fortis Investor Day in Toronto on October 1, we expect questions to be asked about the rationale for the strategic review and how it ties into the company's overall outlook going forward.

### Our take: neutral

Given that Fortis Properties only represents approximately 3% of the company's total assets, we do not expect this announcement to have a material impact of the shares of Fortis.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)



October 1, 2014

## Fortis Inc.

### Investor Day: Rate base growth the name of the game

**Our view:** We see the Investor Day focusing the market on organic utility rate base growth opportunities rather than an M&A strategy. We see the organic utility growth strategy as being positively received in the market in addition to the upside optionality for LNG-related infrastructure. With that in mind, we have raised our price target to \$37.00 (up from \$36.00).

#### Key points:

**Rate base growth driven organically in the near-term.** The company highlighted that it is entering a period of significant organic growth, with the expected 4-year CAGR in rate base through 2018 expected to be 7% (and possibly as high as 8.5% if some LNG-related projects come through in B.C.). The company set out a 5-year capital expenditure program of \$9.3 billion, which could increase to \$10.3 billion, if the potential LNG-related infrastructure projects move forward.

#### Capital recycling through non-core assets sales should help fund growth.

On September 29, Fortis announced that it was undertaking a strategic review of Fortis Properties, which owns and operates various hotels and commercial real estate. The strategic options could include the sale of all or a portion of the assets, the sale of shares in the entire business, or an IPO. We believe that if a monetization occurs, the proceeds will be used to fund the company's \$9.3 billion 5-year capital plan. We believe that the recycling of capital from a non-core business into the core regulated utility business will be viewed favourably amongst investors.

#### M&A part of the longer-term strategy, but likely on hold for 2015.

As the company has previously stated, management expects to focus on integrating the two U.S. acquisitions and providing investors with a "clean" year to demonstrate its organic growth and earnings power of the regulated utility assets. However, we believe that showcasing 2015 earnings, and accretion from the U.S. acquisitions, will be a way of "earning the right" to do further M&A deals, which we believe will continue to be part of the company's longer-term growth strategy.

**\$1.1 billion in LNG-related potential growth.** Management sees the potential for an additional \$1.1 billion in utility rate base spending in B.C. related to liquefied natural gas. One of the projects would expand the existing Tilbury LNG facility (estimated to cost \$450 million) with the other project involving a gas pipeline connection to a proposed third-party liquefaction terminal (estimated to cost \$600 million).

**Increasing price target to \$37.00 (up from \$36.00).** We have increased our price target to \$37.00 to reflect the strong rate base growth and upside optionality from the potential LNG-related infrastructure investments. Our price target reflects a 17.5x multiple applied to our 2016E EPS, which is generally in line with what we use for other regulated utilities.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Sector Perform

TSX: FTS; CAD 34.57

Price Target CAD 37.00 ↑ 36.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
31.00 ↓ 7%	34.57	37.00 ↑ 11%	40.00 ↑ 19%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	215.4	Market Cap (MM):	7,446
Dividend:	1.28	Yield:	3.7%
Float (MM):	215.4	Avg. Daily Volume:	1,362,950
Debt to Cap:	56%		

### RBC Estimates

FY Dec	2013A	2014E	2015E	2016E
EPS, Adj Diluted	1.64	1.79	2.02	2.13
P/AEPS	21.1x	19.3x	17.1x	16.2x
DPS	1.24	1.28	1.36	1.41
Div Yield	3.6%	3.7%	3.9%	4.1%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2013	0.66A	0.27A	0.24A	0.48A
2014	0.69A	0.32A	0.25E	0.55E
DPS				
2013	0.31A	0.31A	0.31A	0.31A
2014	0.32A	0.32A	0.32E	0.32E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

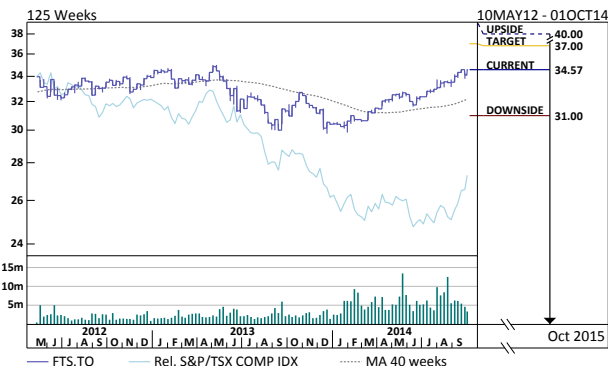
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 9.

adoyle@fortisinc.com angela.doyle 07/28/15 06:29:17 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/ base case

Our \$37.00 price target is based on a P/E of 17.5x applied to the forward EPS. An 17.5x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$40.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple.

### Downside scenario

For our downside scenario of \$31.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple in addition to the UNS acquisition not closing (i.e., foregone EPS accretion).

## Investment summary

We expect Fortis's shares to perform in line with other Energy Infrastructure companies in our coverage universe for the following reasons:

**Shares appear fairly valued.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued. Although we expect the company to continue its long-standing trend of regular annual dividend growth, modest EPS growth is likely to limit annual dividend growth in the mid-single digits. In general, we see the market gravitating to stocks with dividend growth (or at least underlying earnings/cash flow growth) closer to 10%.

**Good defensive investment although market sentiment has shifted away from ultra-defensiveness.** We believe Fortis's utility assets provide a good combination of equity market, credit market, and economic defensiveness. The company has a high percentage of earnings derived from Canadian regulated utility assets, which should provide strong returns in uncertain markets. However, we note that investor preferences have largely shifted away from the ultra-defensive regulated utility names toward stocks with higher growth, albeit with moderately higher risk profiles.

**Potential catalysts:** Positive regulatory decision for capital tracker and a materially higher-than-expected increase in the annual dividend.

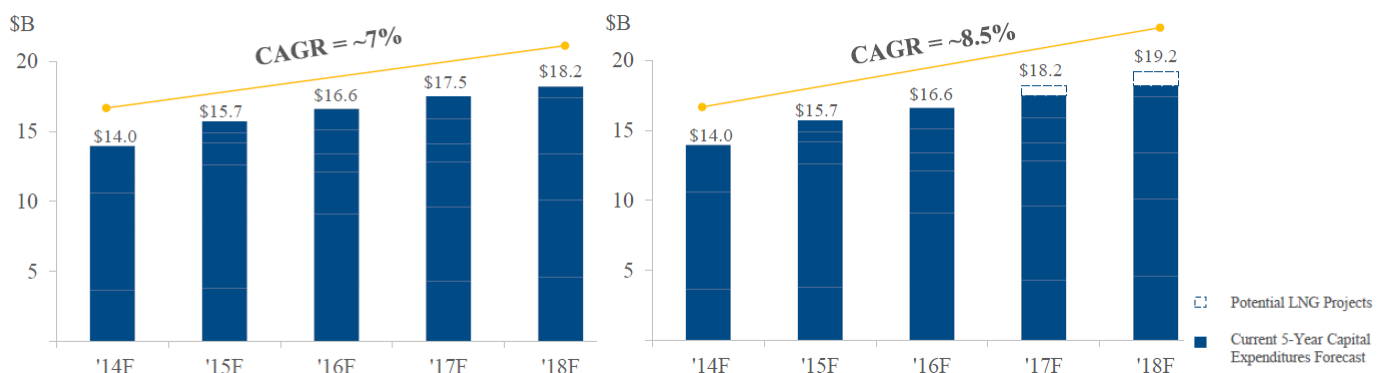
**Key risks:** the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.

## Organic growth the key driver over the next five years

Fortis held its first investor day in Toronto that highlighted how the company is entering a period of significant organic growth, with the expected 4-year CAGR in rate base through 2018 to be 7% (and possibly as high as 8.5% if some LNG-related projects come through in B.C.). The session served to provide an update on recent developments in the Canadian regulated utility business along with showcasing the more recently acquired U.S. regulated utility businesses (UNS in Arizona and Central Hudson in New York). Further, the investor day also gave incoming CEO, Barry Perry, an opportunity to articulate his strategic view for the company, including the M&A strategy. Our five key takeaways from the day were as follows:

- 1. Expected robust 5-year rate base growth.** The company set out a 5-year capital expenditure program of \$9.3 billion, which indicates an annual average spend of \$1.8 billion. The annual average capital spend could increase to \$2.0 billion, if the potential LNG-related infrastructure projects move forward. The 5-year capital expenditure program would translate to a 4-year rate base CAGR of 7% (8.5% with the potential LNG projects). Exhibit 2 summarizes management's expected 5-year rate base growth.

Exhibit 2: 5-year consolidated rate base growth with and without the potential LNG projects (in \$ billions)



Source: Company reports

- 2. Sale of Fortis Properties would help recycle capital into the 5-year regulated utility capital expenditure program.** On September 29, Fortis announced that it was undertaking a strategic review of Fortis Properties, which owns and operates 23 hotels and 2.8 million square feet of commercial real estate. The strategic options could include the sale of all or a portion of the assets, the sale of shares in the entire business, or an IPO. We believe that the proceeds, if any, will be used to fund the company's \$9.3 billion 5-year capital plan and represent an efficient recycling of capital out of non-core assets and into the core regulated utility business.
- 3. M&A activity not expected in 2015.** As the company has previously stated, management expects to focus on integrating the two U.S. acquisitions and providing investors with a "clean" year to demonstrate the organic growth and the earnings power of the regulated utility assets. However, we believe that showcasing 2015 earnings, and accretion from the U.S. acquisitions, would be a way of "earning the right" to do further M&A deals, which we believe will continue to form part of the longer-term growth strategy.
- 4. Focused on maintaining the A credit rating.** Management reiterated that Fortis' capital structure target is 55% debt, 35% equity and 10% preferred equity. Currently

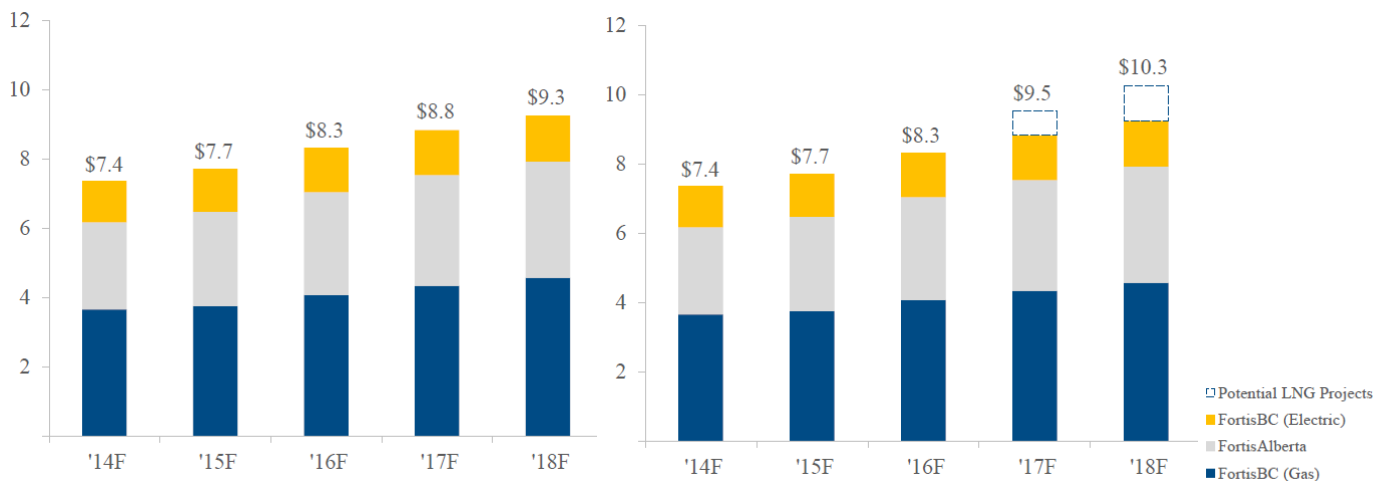
the credit ratings for the various utilities range between BBB (positive outlook) and A, but management is committed to maintaining an “A” credit rating at the Fortis Inc. level.

- LNG-related growth provides upside optionality; utility rate base projects would underpin common equity financing.** Management sees the potential for an additional \$1.1 billion in utility rate base spending in B.C. related to liquefied natural gas. One of the projects would expand the existing Tilbury LNG facility with the other project involving a gas pipeline connection to a proposed third-party liquefaction terminal. We believe that if both LNG projects move forward, the company will likely have to issue common equity.

## Western Canada: Robust growth with potential LNG projects

Management highlighted that Fortis expects to see robust growth in Western Canada and has a 5-year capital expenditure plan of approximately \$4.5 billion, of which FortisAlberta and FortisBC Energy (gas utility) would make up a large portion of the spending. In addition to the \$4.5 billion capital expenditure plan, management sees the potential for an additional \$1.1 billion of capital expenditures for potential LNG-related projects. As shown in Exhibit 3, management estimates the rate base for Western Canada to grow to approximately \$9.3 billion by 2018 (\$10.3 billion including the potential LNG projects).

Exhibit 3: 5-year rate base growth with and without the potential LNG projects (in \$ billions)



Source: Company reports

**FortisAlberta decision on capital tracker expected in Q1/15.** FortisAlberta filed a combined 2013, 2014, and 2015 capital tracker application and is expecting a decision from the Alberta Utilities Commission (AUC) in Q1/15. The AUC has approved an interim rate to recover 60% of revenues subject to the capital tracker. Based on the current capital expenditure plan, the potential revenue shortfall in 2013 and 2014 if 100% of the capital tracker is not approved is \$8.6 million and \$18.9 million, respectively.

**\$450 million potential Tilbury LNG expansion.** Construction has started on the \$400 million Phase I expansion at Tilbury, which includes a one million gigajoule (GJ) storage tank and up to 36,000 GJ/day of liquefaction capacity. In addition, management highlighted the potential for an additional expansion at the Tilbury LNG terminal, which would add 140,000 GJ/day of liquefaction capacity, for an estimated cost of \$450 million. The second phase of the



expansion is not currently included in the capital expenditure forecast, however, the project has a conditional contract with Hawaiian Electric.

**\$600 million Woodfibre LNG pipeline expansion.** Management discussed Fortis' opportunity to expand compression and pipeline capacity from Eagle Mountain to the Woodfibre LNG site near Squamish in B.C. that is being proposed by a third party. The Woodfibre LNG facility is expected to be operational by Q1/17, subject to various approvals. The pipeline expansion design and permitting is currently underway, and should cost approximately \$600 million (not in management's utility rate base forecast).

**\$900 million Waneta expansion project continues to be on time and budget.** Management stated that the \$900 million hydro project continues to progress well and is expected to contribute to earnings beginning in Q2/15, with the first unit scheduled for water-up in Q4/14. Fortis has a 51% interest in the project, which is supported by a 40-year PPA with BC Hydro and FortisBC Electric.

### UNS Energy: The newest addition to the portfolio

Fortis recently received approval from the Arizona Corporation Commission (ACC) to acquire UNS Energy for total consideration of approximately US\$4.3 billion. UNS Energy owns regulated gas and electric assets in Arizona, with a rate base of roughly US\$3.0 billion. For additional details on the background of the UNS Energy acquisition, please refer to our *Research Comment* dated January 24, 2014 ([please click here for the report](#)).

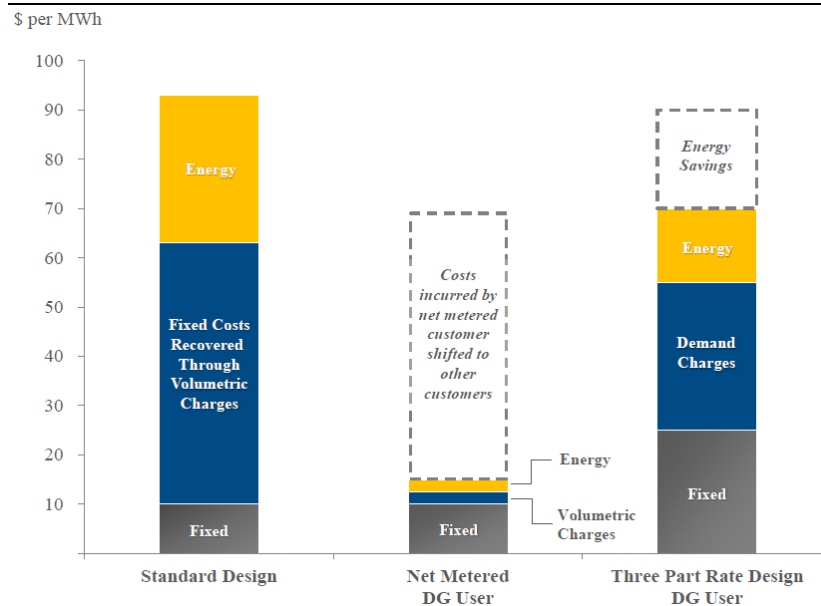
**Constructive regulatory environment supports increased equity capitalization.** In addition to the \$2 billion 5-year capital expenditure plan, the company expects the equity thickness to gradually increase to 49% by 2018 (up from 41% in 2014). Management stated that the increased equity capitalization plan was proposed by the parties to the merger settlement and a 49% equity thickness is in line with many of the utilities in the state.

**UNS Energy is focused on coal reduction.** As part of the U.S. Environmental Protection Agency's (EPA) proposed clean power plan, a nationwide 30% reduction in CO<sub>2</sub> emissions from existing power plants from 2005 levels is expected by 2030. Goals were made state-by-state, with Arizona's reduction goal being a 52% reduction from 2012 levels. We note that progress on the reduction goals will be measured beginning in 2020. UNS Energy's coal reduction strategy includes, i) the shutdown of San Juan Unit 2 by 2018, as part of the New Mexico Regional Haze Settlement, ii) the use of natural gas only at the dual-fuel Sundt Unit 4 by 2017, as part of the Arizona Regional Haze Settlement and iii) the acquisition of an additional interest in Springerville Unit 1, bringing its total interest to 49.5%. Further the company has lined up replacement capacity from the acquisition of Gila River unit 3, which is expected to close in December 2014.

**Distributed generation rate design in progress.** Currently, fixed costs are largely recovered through volumetric charges. However, with distributed generation being adopted by some customers (e.g., customers building roof-top solar), UNS Energy is unable to collect its fixed costs from these customers through the volumetric charges, as customers significantly reduce consumption because less energy is being sourced from the grid. The company is currently working through the rate design to take distributed generation into consideration. Exhibit 4 illustrates the current rate design and the company's three part rate design for distributed generation users, which would ultimately result in a larger fixed charge to be connected to the grid with a comparatively smaller volumetric charge.



Exhibit 4: Proposed rate design for distributed generation



Source: Company reports

## Central Hudson: Rate freeze almost over and growth expected

**2015 rate application filed.** As part of the CH Energy acquisition, Central Hudson agreed to freeze customer rates for a 2-year period. In July 2014, the company filed for new rates, which are expected to become effective July 1, 2015 (end of the rate freeze). The filing includes an incremental revenue request of US\$46 million, an ROE of 9.0% and a 48% equity thickness while management is hoping to receive a multi-year settlement. We note that the company is expecting to mitigate 60% of the calculated revenue requirement, and as a result customer bills are only expected to increase by US\$5/month and US\$1/month for electric and gas customers, respectively.

**Additional transmission opportunities not included in forecast.** In addition to Central Hudson's US\$0.7 billion 5-year capital expenditure program, management sees opportunities for US\$250-US\$500 million of transmission growth including a \$50 million potential investment in electric transmission in New York and additional gas transmission to bring Marcellus gas into the region. In particular, the location of Central Hudson's service territory is uniquely positioned in the north to south electric transmission corridor to connect supply in northern New York to load pockets in the southern part of the state.

**Reforming the energy vision in New York.** Management noted that a generic proceeding to redefine distribution utilities' roles and align utilities' investments with earnings has been scheduled. The focus will be to increase customer knowledge, system-wide efficiencies, resource diversity and reliability along with reducing CO<sub>2</sub> emissions.

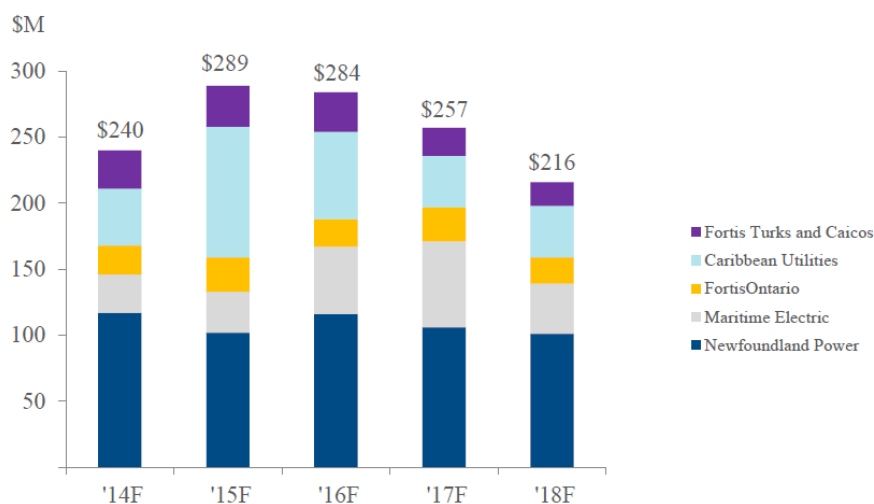
## Eastern Canada and Caribbean: Modest rate base growth

The Eastern Canadian and Caribbean segment is comprised of five regulated electric utilities and Fortis expects to spend approximately \$1.3 billion over the next five years, which would increase the combined rate base to \$2.7 billion (\$2.2 billion in 2014). The top priority for Eastern Canada is managing expected customer rate pressure, while pursuing additional generation will be the top priority for the Caribbean. Exhibit 5 breaks out the company's



expected capital plan by utility, with the majority of spending expected to be at Newfoundland Power.

Exhibit 5: \$1.3 billion 5-year capital expenditure plan



Source: Company reports

Exhibit 6: Financial forecast (in \$MM except per share figures)

	2013	Q1/14	Q2/14	Q3/14E	Q4/14E	2014E	2015E	2016E
Newfoundland Power	\$35	\$10	\$11	\$6	\$9	\$36	\$37	\$38
Other Cdn (ME + FTS Ont)	22	7	5	7	4	23	24	24
FortisBC Energy	127	79	12	(12)	55	134	139	147
FortisAlberta	95	25	26	26	29	106	114	121
FortisBC Electric	50	18	7	12	16	53	56	60
Central Hudson	23	18	7	10	10	45	50	56
UNS Energy				6	14	20	135	152
Regulated Utilities - Caribbean	23	5	8	8	9	29	30	31
Non-Regulated Power Gen.	17	6	6	8	5	25	40	40
Non-Regulated (Non-Utility)	22	0	7	7	6	20	21	22
Corporate and other	(81)	(21)	(21)	(24)	(23)	(89)	(88)	(92)
<b>Normalized earnings</b>	<b>\$333</b>	<b>\$147</b>	<b>\$68</b>	<b>\$54</b>	<b>\$133</b>	<b>\$402</b>	<b>\$559</b>	<b>\$599</b>
Shares O/S (MM)	203	214	215	216	243	225	277	281
<b>Normalized EPS (Basic)</b>	<b>\$1.64</b>	<b>\$0.69</b>	<b>\$0.32</b>	<b>\$0.25</b>	<b>\$0.55</b>	<b>\$1.79</b>	<b>\$2.02</b>	<b>\$2.13</b>
Dividends Paid	\$1.24					\$1.28	\$1.36	\$1.41
Payout Ratio	75%					71%	67%	66%
Net Debt / Capital	58%					58%	59%	59%
FFO / Net Debt	12%					12%	12%	12%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$37.00 is based on a forward P/E of 17.5x our 2016E EPS. A 17.5x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta and B.C.), the U.S. (New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S. and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan;Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and



Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

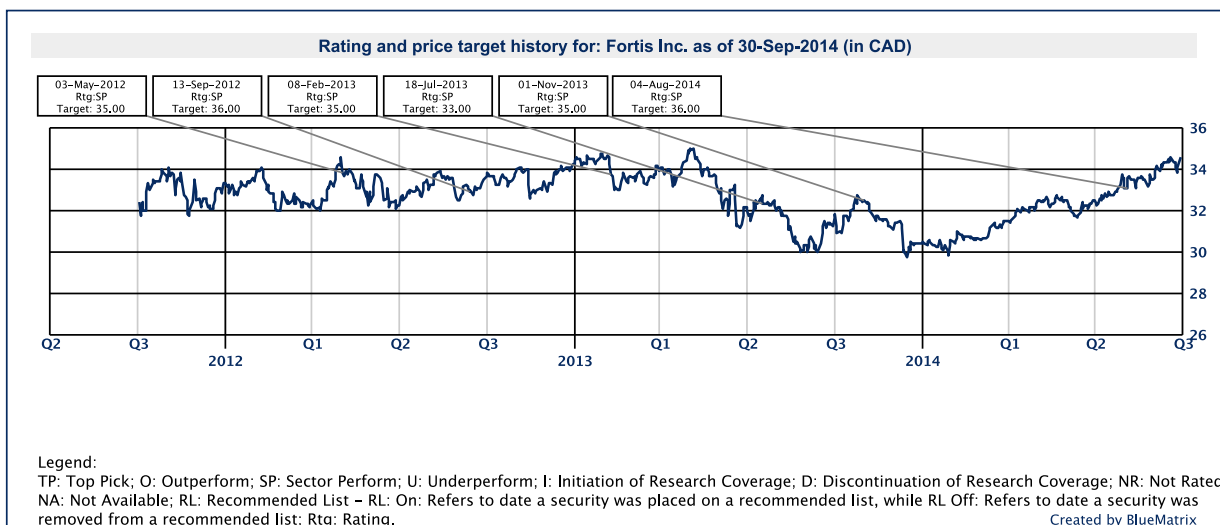
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Sep-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	858	52.35	308	35.90
HOLD [Sector Perform]	683	41.67	151	22.11
SELL [Underperform]	98	5.98	8	8.16



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap



(RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney



Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the Hong Kong Monetary Authority and the SFC under the laws of Hong Kong, which differ from Australian laws.

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved





October 27, 2014

## Fortis Inc.

### Utilities lead an inflection point for EPS growth; upgrading to Outperform

**Our view:** We are upgrading Fortis shares to Outperform (from Sector Perform) and increasing our price target to \$40.00 (from \$37.00). We believe the shares are poised to benefit from an inflection point in EPS and dividend growth due to a combination of core utility rate base investment (especially Western Canada), the accretive UNS acquisition in Arizona, and regulated allowed ROEs that have stopped declining.

#### Key points:

**Core regulated utility growth is the 2015 strategy.** Currently, the North American regulated utility businesses represent approximately 85% of our forecast earnings. Management has emphasized that its focus is on core utility growth over the next several years. Specifically, we believe that core regulated utility growth will be the dominant theme in 2015, as the company is looking to showcase the earnings from its two recent U.S. acquisitions. Therefore, we believe that M&A activities will be put on the back burner for at least 2015.

**Rate base growth driven organically in the near term.** During the company's investor day earlier this month, management highlighted that the company is entering a period of significant organic growth, with the expected 4-year CAGR in rate base through 2018 expected to be 7% (and possibly as high as 8.5% if some LNG-related projects come through in B.C.). The company set out a 5-year capital expenditure program of \$9.3 billion, which could increase to \$10.3 billion if the potential LNG-related infrastructure projects move forward.

**A focus on organic growth over M&A activity should be well received by the market.** A year without M&A would provide a full year of "clean" results, such that the earnings power of the company can be showcased after its two recent U.S. acquisitions. We are positive on this strategy as it reduces the risk of a capital overhang that is typically associated with M&A activity. Furthermore, we believe that the company is able to fund its current 5-year rate base capital plan (excluding LNG-related activities) without issuing common equity.

**Valuation: increasing price target to \$40.00 (from \$37.00); conversion of debentures could provide a nice entry point.** Our \$40.00 price target is based on 18.5x (previously 17.5x) our 2016 EPS. The increase in our P/E multiple brings the valuation in line with the 5-year and 10-year averages. With the conversion of the debentures used to finance the UNS acquisition, we believe that any softness in the share price would represent an attractive entry point.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

### Outperform (prev: Sector Perform)

TSX: FTS; CAD 35.06

**Price Target CAD 40.00 ↑ 37.00**

#### WHAT'S INSIDE

<input checked="" type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
33.00 ↓ 2%	35.06	40.00 ↑ 18%	46.00 ↑ 35%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	215.4	Market Cap (MM):	7,552
Dividend:	1.28	Yield:	3.7%
Float (MM):	215.4	Avg. Daily Volume:	1,342,748
Debt to Cap:	56%		

#### RBC Estimates

FY Dec	2013A	2014E	2015E	2016E
EPS, Adj Diluted	1.64	1.79	2.02	2.13
P/AEPS	21.4x	19.6x	17.4x	16.5x
DPS	1.24	1.28	1.36	1.41
Div Yield	3.5%	3.7%	3.9%	4.0%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2013	0.66A	0.27A	0.24A	0.48A
2014	0.69A	0.32A	0.25E	0.55E
DPS				
2013	0.31A	0.31A	0.31A	0.31A
2014	0.32A	0.32A	0.32E	0.32E

All values in CAD unless otherwise noted.

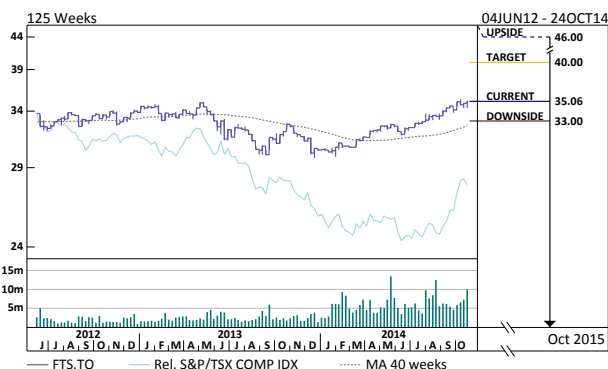
Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/ base case

Our \$40.00 price target is based on a P/E of 18.5x applied to the forward EPS. An 18.5x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$46.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending comes to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the expected 4-year CAGR in rate base through 2018 expected to be 7%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis' 4-year CAGR in rate base through 2018 expected to be as high as 8.5%.

**Potential catalysts:** Positive regulatory decision for capital tracker; a materially higher-than-expected increase in the annual dividend; and support for LNG related projects.

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.

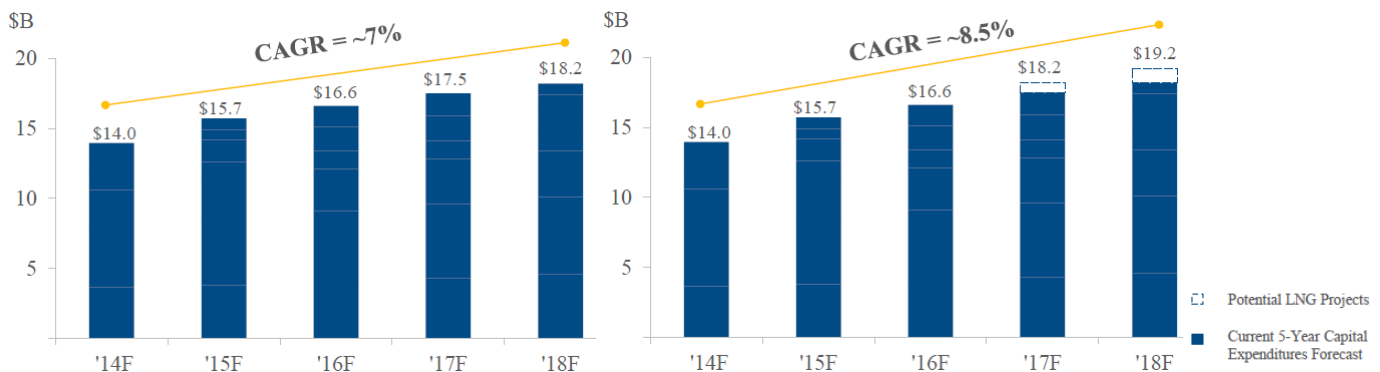
## Organic growth is the key driver over the next five years

We upgrade Fortis shares to Outperform (up from Sector Perform), as the company is entering a period of significant organic growth, with the expected 4-year CAGR in rate base through 2018 expected to be 7% (and possibly as high as 8.5% if some LNG-related projects come through in B.C.). Furthermore, as highlighted in our *Industry Comment* also published today, we believe that the valuation gap between the regulated utilities and the broader Canadian Energy Infrastructure group will narrow, as volatile markets focus investors' attention on the utility names.

### Robust organic 5-year rate base growth expected

During the company's investor day earlier this month (please refer to our [Research Comment](#), dated October 1, 2014), management set out a 5-year capital expenditure program of \$9.3 billion, which indicates an annual average spend of \$1.8 billion. The annual average capital spend could increase to roughly \$2 billion if the potential LNG-related infrastructure projects move forward. The 5-year capital expenditure program would translate to a 4-year rate base CAGR of 7% (8.5% with the potential LNG projects).

Exhibit 2: Five-year consolidated rate base growth with and without the potential LNG projects (in \$ billions)



Source: Company reports

### No capital overhang with M&A activity expected to move to the back burner

We are positive on management's strategy to focus on integrating the two U.S. acquisitions and providing investors with a "clean" year to demonstrate the organic growth and the earnings power of the regulated utility assets. Although we believe that M&A will continue to form part of Fortis' longer-term growth strategy, focusing on organic growth in the coming year will reduce the risk of a capital overhang, as we believe the company will be able to fund its current rate base growth (excluding LNG-related activity) without the need to issue common equity.

### LNG-related growth provides upside optionality

Management sees the potential for an additional \$1.1 billion in utility rate base spending in B.C. related to liquefied natural gas. One of the projects would expand the existing Tilbury LNG facility, with the other project involving a gas pipeline connection to a proposed third-party liquefaction terminal. We believe that if both LNG projects move forward, the company may have to issue common equity.



Exhibit 3: Financial forecast (in \$MM except per share figures)

	2012	2013	Q1/14	Q2/14	Q3/14E	Q4/14E	2014E	2015E	2016E
Newfoundland Power	\$35	\$35	\$10	\$11	\$6	\$9	\$36	\$37	\$38
Other Cdn (ME + FTS Ont)	24	22	7	5	7	4	23	24	24
FortisBC Energy	138	127	79	12	(12)	55	134	139	147
FortisAlberta	96	95	25	26	26	29	106	114	121
FortisBC Electric	50	50	18	7	12	16	53	56	60
Central Hudson		23	18	7	10	10	45	50	56
UNS Energy					6	14	20	135	152
Regulated Utilities - Caribbean	19	23	5	8	8	9	29	30	31
Non-Regulated Power Gen.	17	17	6	6	8	5	25	40	40
Non-Regulated (Non-Utility)	22	22	0	7	7	6	20	21	22
Corporate and other	(76)	(81)	(21)	(21)	(24)	(23)	(89)	(88)	(92)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$333</b>	<b>\$147</b>	<b>\$68</b>	<b>\$54</b>	<b>\$133</b>	<b>\$402</b>	<b>\$559</b>	<b>\$599</b>
Shares O/S (MM)	190	203	214	215	216	243	225	277	281
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$1.64</b>	<b>\$0.69</b>	<b>\$0.32</b>	<b>\$0.25</b>	<b>\$0.55</b>	<b>\$1.79</b>	<b>\$2.02</b>	<b>\$2.13</b>
Dividends Paid	\$1.20	\$1.24					\$1.28	\$1.36	\$1.41
Payout Ratio	70%	75%					71%	67%	66%
Net Debt / Capital	56%	58%					58%	59%	59%
FFO / Net Debt	14%	12%					12%	12%	12%

Source: Company reports; RBC Capital Markets estimates



## **Valuation**

Our price target of \$40.00 is based on a forward P/E of 18.5x our 2016E EPS. An 18.5x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan;Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.



## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

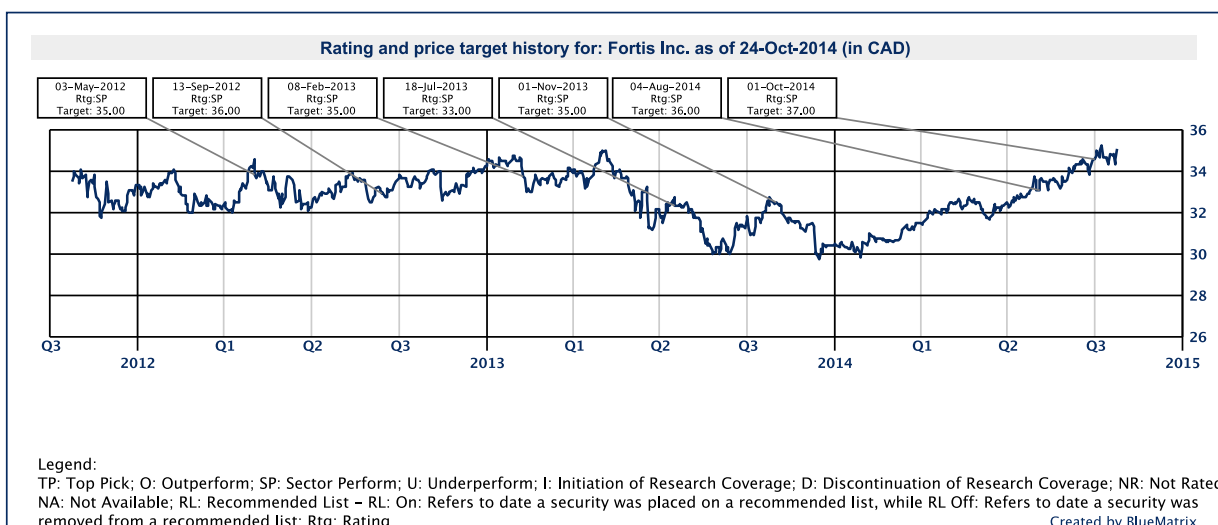
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Sep-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	858	52.35	308	35.90
HOLD [Sector Perform]	683	41.67	151	22.11
SELL [Underperform]	98	5.98	8	8.16



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10),





and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney



Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the Hong Kong Monetary Authority and the SFC under the laws of Hong Kong, which differ from Australian laws.

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved



## Fortis (FTS): Messy transition quarter due to the close of the UNS acquisition

Sentiment Indicator : neutral

Posted by Robert Kwan on Friday, November 07 2014, 7:27 AM ET

### Details

- Q3/14 normalized EPS (company-calculated) was \$0.33 compared to our estimate of \$0.25 and \$0.24 in Q3/13. The reported EPS of \$0.06 was adjusted for costs due to the closing of the UNS transaction. Nevertheless, the higher-than-expected results for the quarter are almost entirely due to the timing/seasonality of UNS' earnings. Absent of UNS, the remaining results appear to be modestly short of expectations.
- Canadian regulated utility earnings were \$36 million compared to our estimate of \$40 million with the shortfall almost entirely being attributable to FortisBC Electric, which we believe is mostly due to the timing of the booking of earnings.
- The other major variance for the quarter was Fortis Generation (non-regulated), which posted earnings of \$4 million compared to our estimate of \$8 million and \$8 million a year-ago. Lower hydro production in Belize was cited as a key driver behind the lower results.
- Management continues to expect capital spending from 2014 to 2018 to exceed \$9 billion. Gross consolidated capex for 2014 is expected to be roughly \$1.8 billion with the increase from the \$1.4 billion figure in the Q2/14 disclosure primarily representing spending at UNS now that the acquisition has closed.

Conference call: today 10:00 AM (ET)

1-877-223-4471

### Our take: neutral

With the quarterly results representing a transition quarter related to the closing of the UNS transaction, we believe that the market should look past the quarter and focus on 2015 being an inflection point for earnings and dividend growth with a full-year of UNS' results and a lack of noise related to the financing of UNS (i.e., convertible debentures) and costs related to the acquisition of UNS that were booked in Q3/14.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Currency	Price	Price Date
FORTIS INC	Toronto SE	FTS	Outperform	Not Assigned	CAD	37.17	11/3/2014 4:19:22 PM EST

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

Click here for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)



November 10, 2014

## Fortis Inc.

### Looking past the messy quarter to a bright future

**Our view:** While the solid headline adjusted EPS figure helps our positive call, we think that investors should look through the transition quarter due to the closing of the UNS acquisition toward a bright 2015, where the story should be core utility growth free of M&A noise. After four years of \$0.04/share dividend increases (3% CAGR), we expect more meaningful dividend growth to unfold for 2015.

#### Key points:

**Q3/14 results ahead of our expectations although the results were messy.** Adjusted EPS was \$0.35, which compared to our estimate of \$0.25 and \$0.24 in Q3/13. During the quarter, Fortis closed the acquisition of UNS, and we note that our estimate was structurally low due to the timing of the booking of UNS earnings in addition to the seasonality of the UNS earnings. Trying to sift through the UNS "noise", the quarter appeared to be slightly short of expectations.

**More meaningful dividend growth is on the horizon.** After four years of raising the dividend by \$0.04/share annually (about a 3% CAGR), we expect Fortis to announce a 6% increase in roughly a month's time (mid-December is typically when Fortis raises the annual dividend). We believe a larger increase than the last four years would be a sign of management's confidence in the growth profile for the company. We note that based on our earnings forecast, our 6% dividend increase could prove to be a bit conservative if Fortis decides to pay out 70% of EPS.

**Modest changes to our forecast.** Our new 2014 and 2015 EPS estimates are \$1.87 and \$2.00 (from \$1.79 and \$2.02), respectively. The change in 2014 primarily reflects the Q3/14 results and a higher expected recovery of capital tracker revenues for FortisAlberta, while the slight decline in 2015 is driven by modestly higher Corporate costs (net of a re-allocation between UNS and Corporate in our segment forecast). We remain comfortable with our 2016 EPS estimate of \$2.13 and have left it unchanged.

**A solid defensive stock with an attractive regulated utility growth story and an inflection point for dividend growth.** Following our upgrade of the shares to Outperform on October 27, our positive thesis remains intact post Q3/14 results. We continue to like Fortis's regulated utility focus with above-average growth (7% forecast rate base CAGR) that we see as driving an inflection point for dividend growth.

**Valuation.** Our \$40.00 price target is based on a P/E of 18.5x applied to the forward EPS. An 18.5x multiple is consistent with the regulated utility peer group.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

## Outperform

TSX: FTS; CAD 37.74

### Price Target CAD 40.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
33.00 ↓ 9%	37.74	40.00 ↑ 9%	46.00 ↑ 25%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	274.7	Market Cap (MM):	10,367
Dividend:	1.28	Yield:	3.4%
Float (MM):	274.7	Avg. Daily Volume:	1,866,470
Debt to Cap:	56%		

#### RBC Estimates

FY Dec	2013A	2014E	2015E	2016E
EPS, Adj Diluted	1.64	1.87	2.00	2.13
Prev.		1.79	2.02	
P/AEPS	23.0x	20.2x	18.9x	17.7x
DPS	1.24	1.28	1.36	1.41
Div Yield	3.3%	3.4%	3.6%	3.7%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2013	0.66A	0.27A	0.24A	0.48A
2014	0.69A	0.32A	0.35A	0.51E
Prev.			0.25E	0.55E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

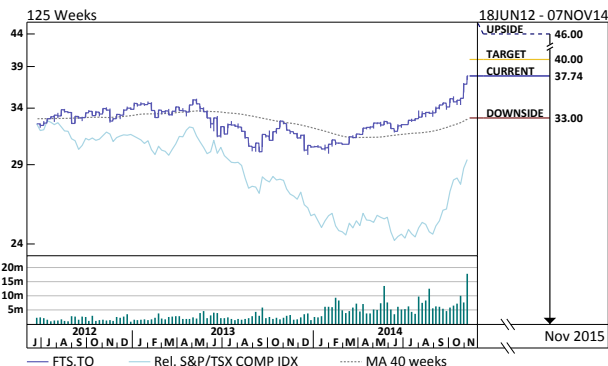
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

adoyle@fortisinc.com angela.doyle 07/28/15 06:29:29 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$40.00 price target is based on a P/E of 18.5x applied to the forward EPS. An 18.5x multiple is consistent with the regulated utility peer group.

### Upside scenario

For our upside scenario of \$46.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending comes to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 100 basis point increase in interest rates, which we believe could translate into an almost 3x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the expected 4-year CAGR in rate base through 2018 expected to be 7%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis' 4-year CAGR in rate base through 2018 expected to be as high as 8.5%.

**Potential catalysts:** Positive regulatory decision for capital tracker; a materially higher-than-expected increase in the annual dividend; and support for LNG related projects.

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## A messy quarter with the UNS acquisition

Normalized EPS for Q3/14 was \$0.35 compared to our estimate of \$0.25 and \$0.24 in Q3/13. Although the results were ahead of our expectations, the results were impacted by the timing and seasonality of the UNS acquisition closing. During the quarter, Fortis closed the acquisition of UNS, and we note that our estimate was structurally low due to the timing of the booking of UNS earnings in addition to the seasonality of the UNS earnings. Trying to sift through the UNS “noise”, the quarter appeared to be slightly short of expectations. Furthermore, we note that FortisBC Electric and Non-regulated generation results were both shy of our expectations. However, we do not see the quarterly results as having a material impact on our outlook for the company.

A summary of the Q3/14 normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized earnings (in \$MM except per share figures)

	RBC CM			Comments
	Q3/14	Q3/14	Q3/13	
Eastern Canada Utilities	\$13	\$14	\$15	
FortisBC Energy	(13)	(12)	(14)	
FortisAlberta	27	26	26	
FortisBC Electric	9	12	11	
Regulated Utilities - Canadian	36	40	38	
Central Hudson	8	10	12	
UNS Energy	37	6	-	Timing of the acquisition and seasonality
Regulated Utilities - Caribbean	8	8	6	
Non-Regulated Generation	4	8	8	Lower-than-expected generation in Belize
Non-Regulated (Non-Utility)	9	7	6	
Corporate	(26)	(24)	(19)	
<b>Normalized Earnings</b>	<b>\$76</b>	<b>\$54</b>	<b>\$51</b>	
<b>Normalized EPS</b>	<b>\$0.35</b>	<b>\$0.25</b>	<b>\$0.24</b>	
Average shares outstanding (MM)	216	216	212	
Retirement costs	(8)		-	
Foreign exchange translation	5		(2)	
Transaction costs	(35)		-	
Convertible debt interest	(23)		-	
Share base compensation	(1)		-	
Flooding costs in Alberta	-		(1)	
	(62)		(3)	
<b>Reported Earnings</b>	<b>\$14</b>		<b>\$48</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights during the quarter

For commentary on the recent investor day, [please click here](#).

**UNS acquisition completed.** During the quarter, Fortis completed the US\$4.3 billion acquisition of UNS in Arizona. The company financed a portion of the acquisition with the sale of \$1.8 billion of convertible debentures, with the first installment proceeds of \$600 million received in January. Proceeds from the final installment of approximately \$1.2 billion were received on October 28. Furthermore, in September, Fortis issued \$600 million in preferred shares to finance the “equity” component of the UNS acquisition.





**FortisAlberta capital tracker application decision expected in Q1/15.** In May 2014, FortisAlberta filed a combined 2013, 2014, and 2015 capital tracker application as required by the Alberta Utilities Commission. A hearing related to the combined capital tracker application was held in October 2014, and management expects a decision on the capital tracker application in Q1/15. We note that FortisAlberta continues to recognize capital tracker revenue based on the interim rate of 60% and any adjustment by the regulator to the interim decision will result in an adjustment to FortisAlberta's revenues/earnings at the time of the decision. We note that Fortis has filed for approval to include 90% of the capital tracker revenues as part of its 2015 rate application, and based on prior AUC approvals for other utilities, we believe it is likely that Fortis will receive approval to include at least 90% of capital tracker revenue in customer rates.

**Waneta hydro project making good progress.** Construction continues on the \$900 million Waneta expansion project, which is 51%-owned by Fortis. The project remains on schedule and on budget, with an expected commissioning in the spring 2015.

**Commenced construction on the Tilbury LNG facility.** Fortis began construction on the Tilbury liquified natural gas facility in October. The expansion, which includes a second LNG tank and a new liquefier, is expected to cost \$400 million and will be included in the company's regulated rate base. The expansion is expected to be in service in H2/16.

## Tweaking estimates for the quarter and corporate costs

We have revised our 2014 and 2015 EPS estimates to \$1.87 and \$2.00 (from \$1.79 and \$2.02), respectively. The change in 2014 primarily reflects the Q3/14 results and a higher expected recovery of capital tracker revenues for FortisAlberta (assumes a rate application decision received prior to reporting Q4/14 results), while the slight decline in 2015 is driven by modestly higher Corporate costs (higher costs net of a re-allocation between UNS and Corporate in our segment forecast). We remain comfortable with our 2016 EPS estimate of \$2.13 and it remains unchanged.

Exhibit 3: Financial forecast (in \$MM except per share figures)

	2012	2013	Q1/14	Q2/14	Q3/14	Q4/14E	2014E	2015E	2016E	Old		
										2014E	2015E	2016E
Eastern Canadian	\$59	\$57	\$17	\$16	\$13	\$14	\$60	\$61	\$62	\$60	\$61	\$62
FortisBC Energy	138	127	79	12	(13)	56	134	139	147	134	139	147
FortisAlberta	96	95	25	26	27	32	110	119	126	106	114	121
FortisBC Electric	50	50	18	7	9	16	50	53	56	53	56	60
Central Hudson		23	18	7	8	9	42	47	56	45	50	56
UNS Energy					37	12	49	149	168	20	135	152
Regulated Utilities - Caribbean	19	23	5	8	8	9	30	31	32	29	30	31
Non-Regulated Power Gen.	17	17	6	6	4	5	21	40	41	25	40	40
Non-Regulated (Non-Utility)	22	22	0	7	9	5	21	22	23	20	21	22
Corporate and other	(76)	(81)	(21)	(21)	(26)	(26)	(94)	(108)	(111)	(89)	(88)	(92)
<b>Normalized earnings</b>	<b>\$325</b>	<b>\$333</b>	<b>\$147</b>	<b>\$68</b>	<b>\$76</b>	<b>\$131</b>	<b>\$422</b>	<b>\$553</b>	<b>\$599</b>	<b>\$402</b>	<b>\$559</b>	<b>\$599</b>
Shares O/S (MM)	190	203	214	215	216	258	225	277	281	225	277	281
<b>Normalized EPS (Basic)</b>	<b>\$1.71</b>	<b>\$1.64</b>	<b>\$0.69</b>	<b>\$0.32</b>	<b>\$0.35</b>	<b>\$0.51</b>	<b>\$1.87</b>	<b>\$2.00</b>	<b>\$2.13</b>	<b>\$1.79</b>	<b>\$2.02</b>	<b>\$2.13</b>
Dividends Paid	\$1.20	\$1.24					\$1.28	\$1.36	\$1.41	\$1.28	\$1.36	\$1.41
Payout Ratio	70%	75%					68%	68%	66%	71%	67%	66%
Net Debt / Capital	56%	58%					53%	54%	54%	58%	58%	59%
FFO / Net Debt	14%	12%					11%	14%	14%	12%	12%	12%

Source: Company reports; RBC Capital Markets estimates





## **Valuation**

Our price target of \$40.00 is based on a forward P/E of 18.5x our 2016E EPS. An 18.5x multiple is consistent with the regulated utility peer group.

## **Price target impediments**

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## **Company description**

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan;Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Fortis Inc. in the next three months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with investment banking services.

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.



## Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

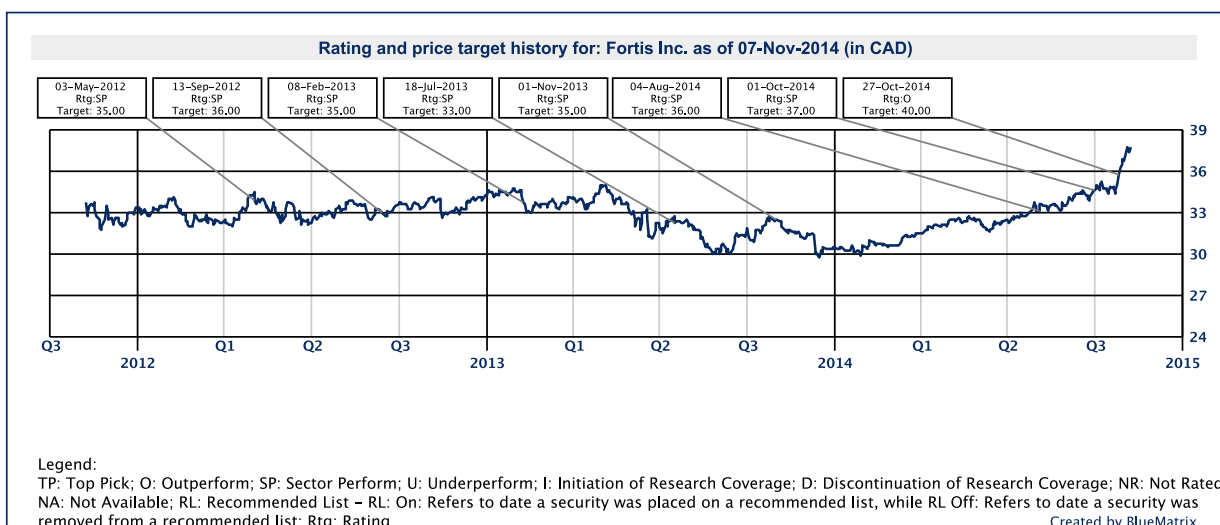
## Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Sep-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	858	52.35	308	35.90
HOLD [Sector Perform]	683	41.67	151	22.11
SELL [Underperform]	98	5.98	8	8.16



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10),



and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney

November 10, 2014

Robert Kwan (604) 257-7611; [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com) 8



Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

#### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

#### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

#### **To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

#### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

#### **To Hong Kong Residents:**

RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the Hong Kong Monetary Authority and the SFC under the laws of Hong Kong, which differ from Australian laws.

#### **To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, an offshore bank regulated by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch.

#### **To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

**\* Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.**

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved



## Fortis (FTS): Dividend increase and timing in line with expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Wednesday, December 17 2014, 12:07 PM ET

### Details

- Fortis announced an \$0.08/share (+6.25%) increase in the dividend to a new annualized rate of \$1.36/share (previously, \$1.28/share). The quarterly dividend will be payable on March 1, 2015 to shareholders of record at the close of business on February 17, 2015.
- The new dividend matched our forecast and the timing is in line with when Fortis has historically announced dividend increases for the upcoming year.
- The stepped up dividend growth is a function of core growth in the underlying utility business coupled with the expected accretion from the recently-closed UNS regulated utility acquisition in Arizona. Fortis has a long track record of annual dividend increases that now totals 42 consecutive years.

### Our take : neutral

While a good development on an absolute basis, we believe the timing and the magnitude of the dividend increase was anticipated by the market. As such, we do not expect this announcement to materially impact the share price.

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here](#) for disclosures for [Fortis Inc/Canada](#), [Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



## Fortis (FTS): Q4/14 results modestly below expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Thursday, February 19 2015, 6:59 AM ET

### Details

- Q4/14 EPS (company-calculated) was \$0.44, compared to our estimate of \$0.51 and \$0.48 in Q4/13. Consensus for the quarter was \$0.49.
- Based on our preliminary review, it appears that the shortfall was due to a combination of the capital tracker recovery decision not having been received in Alberta (i.e., the positive impact not being booked in Q4/14 results per our estimate) along with modestly lower-than-expected results for FortisBC Energy, FortisBC Electric, Central Hudson and the utilities in the Caribbean. Of note, Central Hudson's results were impacted by storm and other non-recurring costs in Q4/14.
- Management expects capital spending to approach \$9 billion from 2015 to 2019, in line with previous guidance of capex in excess of \$9 billion from 2014 to 2018. Gross consolidated capex for 2015 is expected to exceed \$2 billion, with the increase from 2014 primarily representing a full year of spending at UNS, which was acquired in Q3/14.
- On the strategic review of the Properties business, management stated that it expects to make a decision on the future of the business in Q2/15.
- The construction of the Waneta hydro projects remains on-time and on-budget with an expected in-service date in the spring of 2015.

### Conference call: today at 10:00 AM (ET)

1-877-223-4471

### Our take: neutral

We believe that the market will look past the quarter and focus on 2015 being an inflection point for earnings and dividend growth, with a full year of UNS' results and a lack of noise in the numbers relating to M&A activity (i.e., UNS costs and a partial year in 2014).

Robert Kwan | | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here for disclosures for Melissa Oliphant, Fortis Inc/Canada, Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.





February 20, 2015

## Fortis Inc.

### Onwards to what we see as a solid 2015

**Our view:** While Q4/14 earnings fell modestly short of our expectations, we maintain our positive outlook for the shares. We are looking forward to a bright 2015, where the core utility organic growth story should be free of M&A noise, showcasing core earnings and accretion from the U.S. acquisitions.

#### Key points:

**Q4/14 results modestly below our forecast, but mostly due to timing related to a regulatory decision.** Normalized EPS was \$0.45, below our estimate of \$0.51 and \$0.48 in Q4/13. The shortfall was due to a combination of the capital tracker recovery decision for 2014 not having been received in Alberta (i.e., the positive impact not being booked in Q4/14 results per our estimate) and modestly lower-than-expected results for FortisBC Energy, FortisBC Electric, Central Hudson, and the utilities in the Caribbean. Of note, Central Hudson's results were impacted by storm and other non-recurring costs in Q4/14. Please see Exhibit 2 on page 3 for additional details.

**FX is a nice tailwind.** The two major assets with U.S. dollar exposure are UNS, the regulated utility in Arizona, and Central Hudson, the regulated utility in New York state. On the conference call, management noted that a \$0.05 change in the exchange rate translates to a roughly \$0.04/share EPS impact.

**Modest increase to our EPS estimates.** Our new 2015 and 2016 EPS estimates are \$2.06 and \$2.22 (up from \$2.00 and \$2.13), respectively. The higher forecast primarily relates to a combination of slightly higher-than-expected rate base growth and a weaker Canadian dollar (i.e., positive for translation of UNS and Central Hudson earnings).

**A solid defensive stock with an attractive regulated utility growth story.** Following our upgrade of the shares to Outperform in October 2014, our positive thesis remains intact post the Q4/14 results. We continue to like Fortis's regulated utility focus with above-average growth (6.5% forecast rate base CAGR) and further upside growth optionality, mostly via projects in the B.C. natural gas utility.

**Valuation: increasing price target to \$44.00 (from \$40.00).** Our new price target is driven by a combination of the increase in our 2016 EPS estimate and a higher P/E valuation of 20x (up from 18.5x). The new P/E valuation is in line with what we use for similar regulated utility stocks and is supported by the historically low 10-year bond yields.

RBC Dominion Securities Inc.

**Robert Kwan, CFA** (Analyst)

(604) 257-7611

robert.kwan@rbccm.com

**Melissa Oliphant** (Associate)

604 665 5534

melissa.oliphant@rbccm.com

**Kelsey Roste** (Associate)

(604) 257-7383

kelsey.roste@rbccm.com

## Outperform

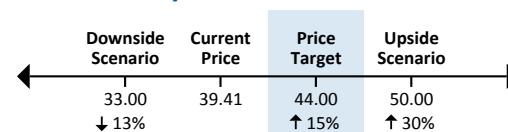
TSX: FTS; CAD 39.41

**Price Target CAD 44.00 ↑ 40.00**

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	276.4	Market Cap (MM):	10,893
Dividend:	1.28	Yield:	3.2%
Float (MM):	276.4	Avg. Daily Volume:	1,251,052
Debt to Cap:	57%		

#### RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
EPS, Adj Diluted	1.64	1.80	2.06	2.22
Prev.		1.87	2.00	2.13
P/AEPS	24.0x	21.9x	19.1x	17.8x
DPS	1.24	1.28	1.36	1.44
Prev.				1.41
Div Yield	3.1%	3.2%	3.5%	3.7%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2014	0.69A	0.32A	0.35A	0.45A
Prev.				0.51E
2015	0.61E	0.43E	0.49E	0.53E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

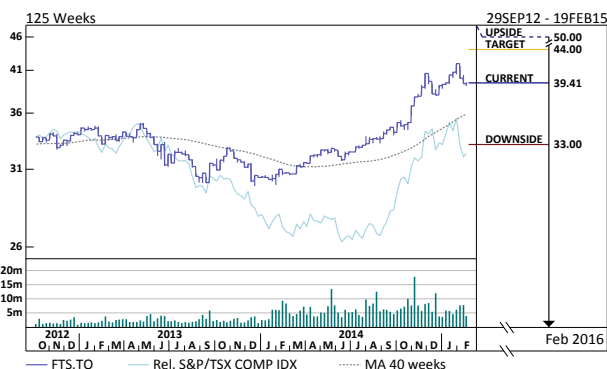
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 7.

adoyle@fortisinc.com angela doyle 07/28/15 06:29:34 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

### Upside scenario

For our upside scenario of \$50.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending comes to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 200 basis point increase in interest rates, which we believe could translate into an almost 5x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition, and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the expected 5-year CAGR in rate base through 2019 expected to be 6.5%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis' 5-year CAGR in rate base through 2019 expected to be as high as 7.5%.

**Potential catalysts:** Positive regulatory decision for capital tracker, and support for LNG related projects.

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Q4/14 results modestly below our forecast mostly due to regulatory timing

Normalized EPS was \$0.45, which was below our estimate of \$0.51 and \$0.48 in Q4/13. The shortfall was due to a combination of the capital tracker recovery decision for 2014 not having been received in Alberta (i.e., the positive impact not being booked in Q4/14 results per our estimate) and modestly lower-than-expected results for FortisBC Energy, FortisBC Electric, Central Hudson, and the utilities in the Caribbean. Of note, Central Hudson's results were impacted by storm and other non-recurring costs in Q4/14.

A summary of the Q4/14 normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized earnings (in \$MM except per share figures)

	RBC CM					Comments
	Q4/14	Q4/14	Q4/13	2014	2013	
Eastern Canada Utilities	\$14	\$14	\$13	\$60	\$57	
FortisBC Energy	49	56	50	127	127	
FortisAlberta	25	32	18	103	95	2014 capital tracker decision not yet received
FortisBC Electric	12	16	13	46	50	
Regulated Utilities - Canadian	100	118	94	336	329	
Central Hudson	4	9	11	37	23	Storm costs and unusual items
UNS Energy	23	12	0	60	0	Stronger-than-expected seasonality
Regulated Utilities - Caribbean	6	9	8	27	23	
Non-Regulated Generation	4	5	4	20	17	
Non-Regulated (Non-Utility)	7	5	7	23	22	
Corporate	(29)	(26)	(22)	(97)	(81)	Normalized for UNS transaction costs and FX gains
<b>Normalized Earnings</b>	<b>\$115</b>	<b>\$131</b>	<b>\$102</b>	<b>\$406</b>	<b>\$333</b>	
<b>Normalized EPS</b>	<b>\$0.45</b>	<b>\$0.51</b>	<b>\$0.48</b>	<b>\$1.80</b>	<b>\$1.64</b>	
Average shares outstanding (MM)	258	258	213	226	203	

Source: Company reports; RBC Capital Markets estimates

## Major regulatory and other items of note

- **Fortis Properties strategic review expected to wrap up in Q2/15.** Fortis's strategic review for its real estate business continues and management stated that it expects to complete the evaluation in Q2/15. Management noted that if a decision is made to dispose of the segment, the proceeds would be applied to the permanent financing for the UNS acquisition.
- **Central Hudson rate settlement appears to be well supported and consistent with prior guidance.** Central Hudson reached a settlement agreement for a three-year period beginning July 1, 2015, reflecting a 9% ROE and a 48% common equity component. The settlement agreement appears to be well supported by intervenors including regulatory commission staff. While the stated ROE is set to decline from the current 10% level, Central Hudson's earnings are expected to increase due to a combination of: previous additions to rate base that are not currently being recovered due to a rate freeze associated with Fortis's acquisition of Central Hudson; and the tailwind of translating the U.S. dollar earnings into Canadian dollars.



- **FortisAlberta set for two decisions in Q1/15.** The Alberta Utilities Commission (AUC) is expected to make a decision as part of its Generic Cost of Capital (GCOC) proceeding to set the ROE and capital structures for utilities in Alberta for 2013, 2014, and possibly 2015. The AUC is expected to also consider whether to re-introduce an ROE automatic adjustment formula going forward. With the allowed ROE already fairly low at 8.75%, we see limited downside from current levels, particularly compared to ROEs that are set by other provincial regulators. FortisAlberta is also expecting a decision from the AUC with respect to its capital tracker application to recover additional revenues for 2013 and 2014. Based on previous AUC decisions for other utilities in the province, we expect FortisAlberta to receive approval to increase the recovery to 90% of capital tracker revenues (up from 60% per the interim rates).
- **Projects in B.C. making headway.** The \$900 million Waneta hydro expansion remains on-time and on-budget, with an expected commissioning this spring. On the LNG side, the \$400 million Phase 1A of the Tilbury project has commenced and Fortis has approval to proceed with the \$450 million expansion of Tilbury Phase 1B although it is waiting for Hawaiian Electric to receive regulatory approval for the 15-year conditional LNG supply contract.

### Modestly increasing estimates

Our new 2015 and 2016 EPS estimates are \$2.06 and \$2.22 (up from \$2.00 and \$2.13), respectively. The higher forecast primarily relates to a combination of slightly higher-than-expected rate base growth and a weaker Canadian dollar (i.e., positive for translation of UNS and Central Hudson earnings). Corporate costs have also been increased, with the 2015 segment forecast consistent with Fortis's guidance of \$125–130 million of Corporate costs for the year.

We note that FortisAlberta is expected to receive a decision in Q1/15 from the Alberta Utilities Commission (AUC) related to the recovery of revenues related to the capital tracker for 2013 and 2014. The application seeks to collect 90% of the revenues (up from 60% in interim rates), and based on previous AUC decisions for other utilities in the province, we expect Fortis's application to be approved. If this is the case, Fortis is likely to book the related earnings (we estimate about \$0.05/share) in Q1/15, but this will all relate to prior periods. While the decision is important, we have not reflected this in our forecast for "normalized" EPS in 2015 as shown below in Exhibit 3.



## Exhibit 3: Financial forecast (in \$MM except per share figures)

	2013	2014	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E	<i>Old</i>	
									2015E	2016E
Eastern Canadian	\$57	\$60	\$16	\$17	\$14	\$15	\$62	\$63	\$61	\$62
FortisBC Energy	127	127	83	13	(13)	53	136	145	139	147
FortisAlberta	95	103	30	31	32	30	122	130	119	126
FortisBC Electric	50	46	18	8	10	13	49	53	53	56
Central Hudson	23	37	15	7	12	20	54	62	47	56
UNS Energy		60	29	49	78	26	183	207	149	168
Regulated Utilities - Caribbean	23	27	6	9	9	7	32	34	31	32
Non-Regulated Power Gen.	17	20	5	9	17	10	41	43	40	41
Non-Regulated (Non-Utility)	22	23	0	7	9	7	23	25	22	23
Corporate and other	(81)	(97)	(32)	(32)	(32)	(32)	(128)	(131)	(108)	(111)
<b>Normalized earnings</b>	<b>\$333</b>	<b>\$406</b>	<b>\$169</b>	<b>\$118</b>	<b>\$137</b>	<b>\$148</b>	<b>\$573</b>	<b>\$629</b>	<b>\$553</b>	<b>\$600</b>
Shares O/S (MM)	203	226	276	278	279	281	278	283	277	281
<b>Normalized EPS (Basic)</b>	<b>\$1.64</b>	<b>\$1.80</b>	<b>\$0.61</b>	<b>\$0.43</b>	<b>\$0.49</b>	<b>\$0.53</b>	<b>\$2.06</b>	<b>\$2.22</b>	<b>\$2.00</b>	<b>\$2.13</b>
Dividends Paid	\$1.24	\$1.28					\$1.36	\$1.44	\$1.36	\$1.41
Payout Ratio	75%	71%					66%	65%	68%	66%
Net Debt / Capital	58%	58%					59%	59%	54%	54%
FFO / Net Debt	12%	9%					12%	12%	14%	14%

Source: Company reports; RBC Capital Markets estimates



### Valuation

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

### Price target impediments

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company description

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan;Melissa Oliphant;Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

The author is employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Rating



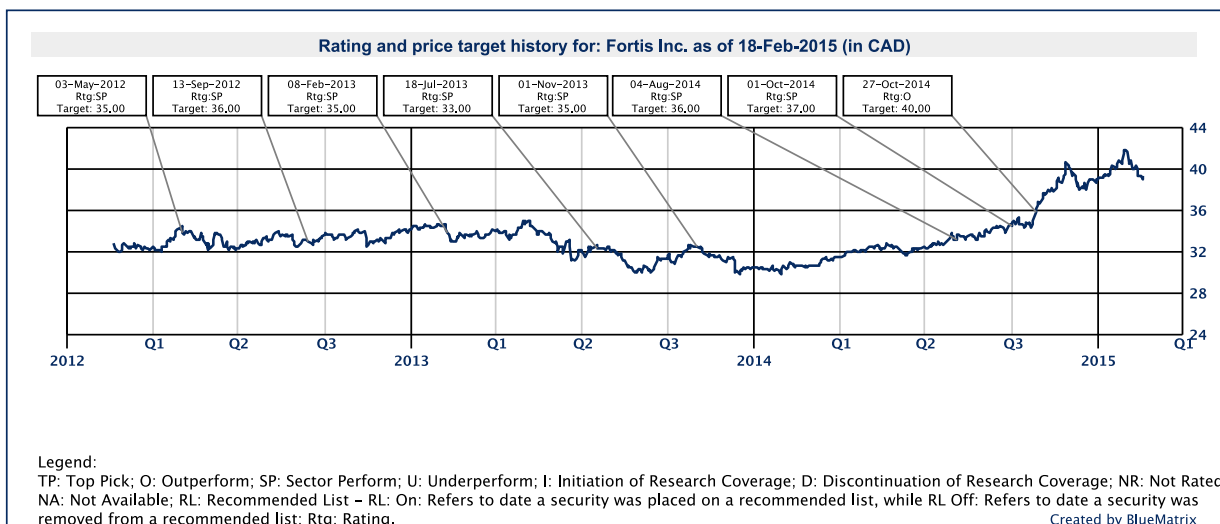


As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 31-Dec-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	897	52.92	290	32.33
HOLD [Sector Perform]	686	40.47	137	19.97
SELL [Underperform]	112	6.61	6	5.36



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.



## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is



not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2015 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2015 - Member CIPF

Copyright © RBC Europe Limited 2015

Copyright © Royal Bank of Canada 2015

All rights reserved



April 2, 2015

## Fortis Inc.

### Laying out the story south of the border

**Our view:** While the basic premise of the Investor Day in New York was to convey the story to U.S. investors, we still came away from the event with a number of interesting slides and updates. We believe that Fortis has a good story to tell involving below average risk utility growth and an ability to manage regulatory processes better than many utilities in North America.

#### Key points:

**Reiterating the core utility growth story.** Fortis continues to expect the roughly \$9 billion capital plan from 2015-2019 to deliver average rate base growth (including Waneta) of 6.5% on a compound annual basis with the potential for the growth rate to rise to 7.5% CAGR if the two LNG-related projects in B.C. move forward.

**Solid history of earning its allowed ROEs (and then some).** Fortis provided a history for each of its utilities comparing the allowed ROE to the achieved ROE. As shown in the exhibit, Fortis has consistently earned its allowed ROE while delivering upside in a number of years. The charts for each of Fortis' utilities is shown in Exhibit 3 beginning on page 4 of this note.

**No update on the Properties strategic alternatives process.** While the company specifically addressed the review, it continues to target completing the review process in Q2/15. Proceeds, if any, will be used to repay debt and bring the capital structure back in line with the long-term target of 55% debt (currently 57%).

**Alberta GCOC impact in line with our initial thoughts.** Although the Alberta Utilities Commission reduced the allowed ROE to 8.3% (down from 8.75%) while also reducing the equity component to 40% (down from 41%), Fortis does not see a material impact on the business under the current PBR structure. As we initially expected, the lower cost of capital parameters will negatively impact the capital tracker portion of revenues, but the base business which comprises roughly 75% of revenue is not expected to be directly impacted.

**Valuation.** Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

RBC Dominion Securities Inc.

**Robert Kwan, CFA** (Analyst)  
(604) 257-7611  
robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
(604) 257-7383  
kelsey.roste@rbccm.com

Sector: Utilities/Energy Infrastructure

## Outperform

TSX: FTS; CAD 38.37

Price Target CAD 44.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
33.00 ↓ 11%	38.37	44.00 ↑ 18%	50.00 ↑ 34%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	276.4	Market Cap (MM):	10,605
Dividend:	1.28	Yield:	3.3%
Float (MM):	276.4	Avg. Daily Volume:	1,248,338
Debt to Cap:	57%		

#### RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
EPS, Adj Diluted	1.64	1.80	2.06	2.22
P/AEPS	23.4x	21.3x	18.6x	17.3x
DPS	1.24	1.28	1.36	1.44
Div Yield	3.2%	3.3%	3.5%	3.8%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2014	0.69A	0.32A	0.35A	0.45A
2015	0.61E	0.43E	0.49E	0.53E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

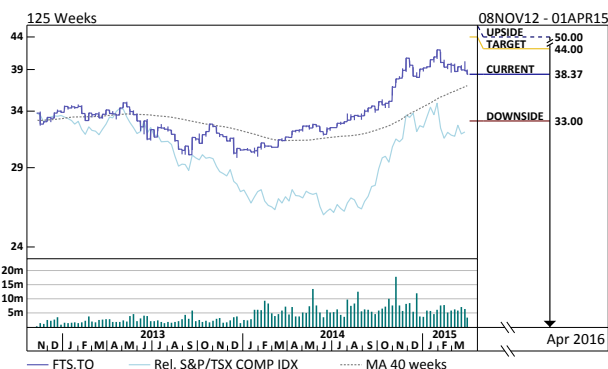
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 8.

adoyle@fortisinc.com angela.doyle 07/28/15 06:29:36 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

### Upside scenario

For our upside scenario of \$50.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending comes to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 200 basis point increase in interest rates, which we believe could translate into an almost 5x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition, and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the expected 5-year CAGR in rate base through 2019 expected to be 6.5%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis' 5-year CAGR in rate base through 2019 expected to be as high as 7.5%.

**Potential catalysts:** Positive regulatory decision for capital tracker, and support for LNG related projects.

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Things we found interesting from the U.S. Investor Day

Fortis held its first U.S. Investor Day in New York, which allowed the company to get the story out to the U.S. investor base, particularly given the significant expansion in recent years into the U.S. via the acquisitions of Central Hudson and UNS. While premium valuations for Canadian utility stocks generally have been an impediment to greater U.S. (and international) investor interest, we believe that Fortis has a good story to tell involving below average risk utility growth and an ability to manage regulatory processes better than many utilities in North America.

The following are some of the key items from the Investor Day:

- **Fortis remains upbeat on the core utility growth story with LNG upside (Exhibit 2).** Fortis reiterated its expectation for a 6.5% CAGR for rate base through 2019 while also highlighting the potential for the growth rate to rise to a 7.5% CAGR if both LNG related projects in B.C. move forward. The company also provided capital spending by project and by year as shown in Exhibit 2 and noted that most of the discrete projects are of relatively small size (i.e., no one project would materially impact the growth rate) with the vast majority of the spending being normal utility capex that was described by management as being “a low risk capital program with a high degree of execution probability.”
- **Solid history of earning the allowed ROE and then some (Exhibit 3).** Fortis provided a history for each of its utilities comparing the allowed ROE to the achieved ROE. As shown in the exhibit, Fortis has consistently earned its allowed ROE while delivering upside in a number of years.
- **Decision on a U.S. listing could come by year-end.** Given the audience, there was a focus on the U.S. and specifically with respect to a U.S. listing, Fortis anticipates making a decision on whether to list on the NYSE by the end of 2015.
- **No decision for Properties yet.** Fortis continues to evaluate the strategic alternatives for its real estate division with the company continuing to guide to a Q2/15 decision. Any proceeds would likely be used to repay debt and bring the capital structure back to 55% debt (down from 57% currently).
- **Acquisitions still part of the mix.** Although we expect 2015 to be a year where Fortis focuses on demonstrating the earnings power of the business and the organic growth profile (i.e., no major acquisitions), we continue to expect utility M&A to be part of the strategy over the longer-term. With little in Canada left to acquire, the focus continues to be on the U.S. with management noting that while it does not drive the strategic plan, it is not unreasonable that the mix between Canada and the U.S. could trend to 50/50 over time.



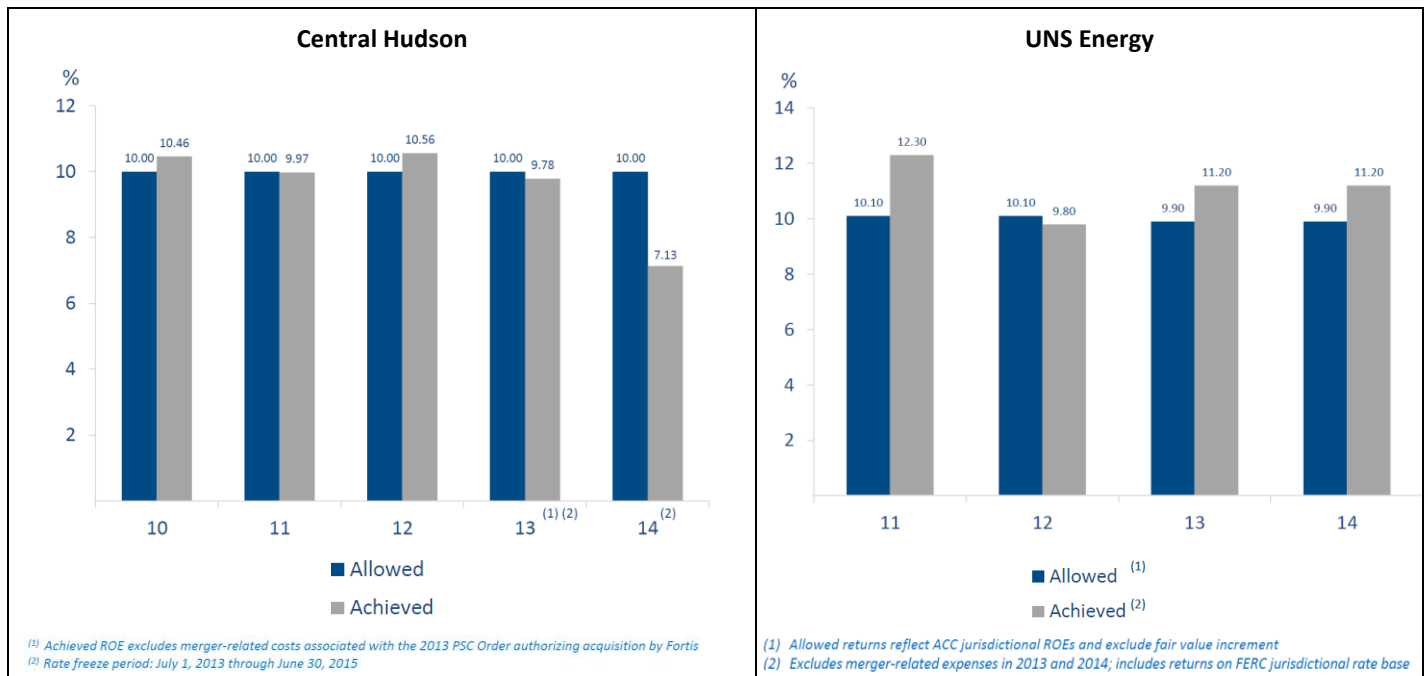


Exhibit 2: Visible growth driven by modest sized initiatives with “other capital projects” mostly being normal utility spending



Source: Company reports

Exhibit 3: Fortis’s utilities have consistently earned their allowed ROE with upside in most years

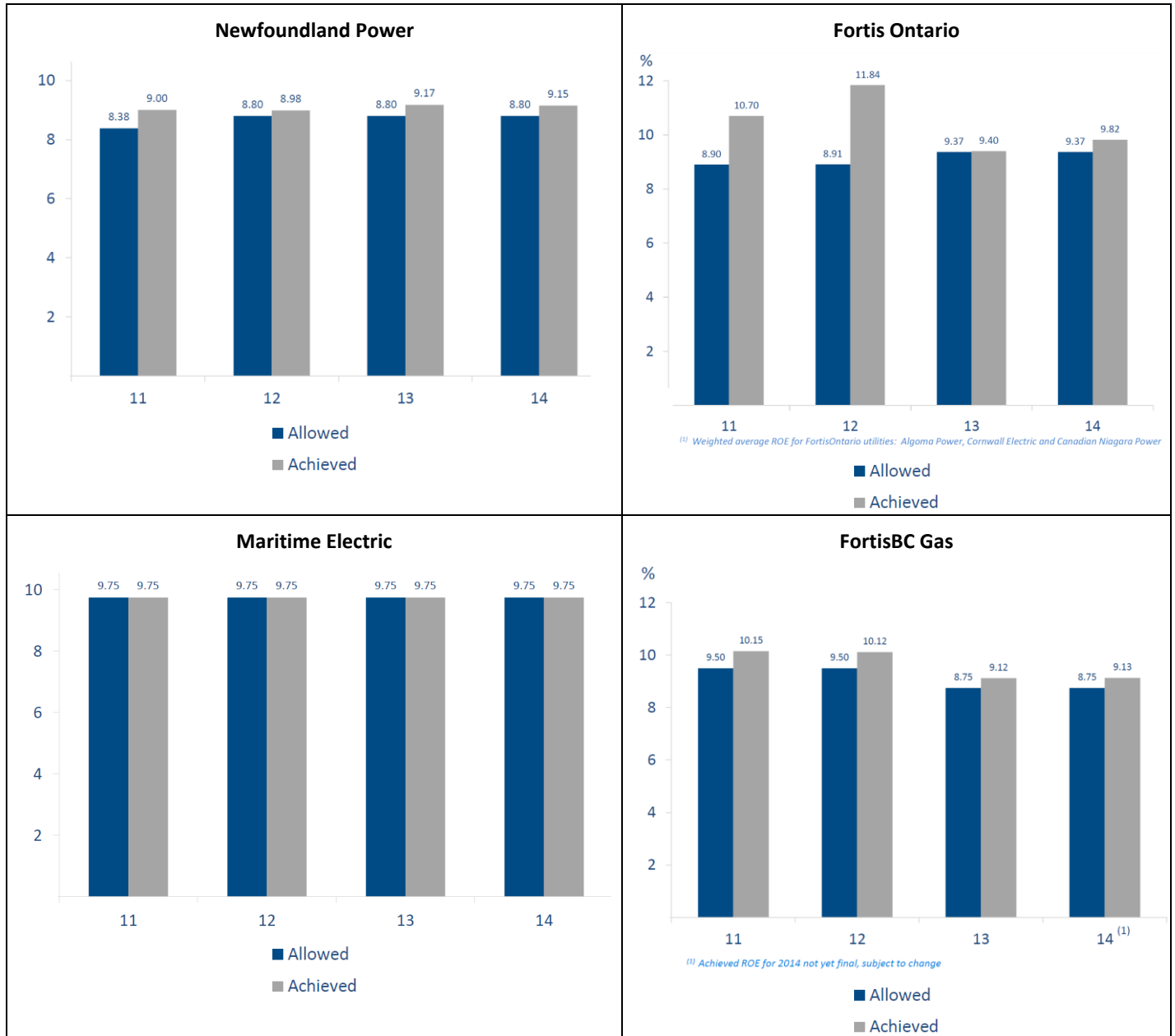


...continued on next page





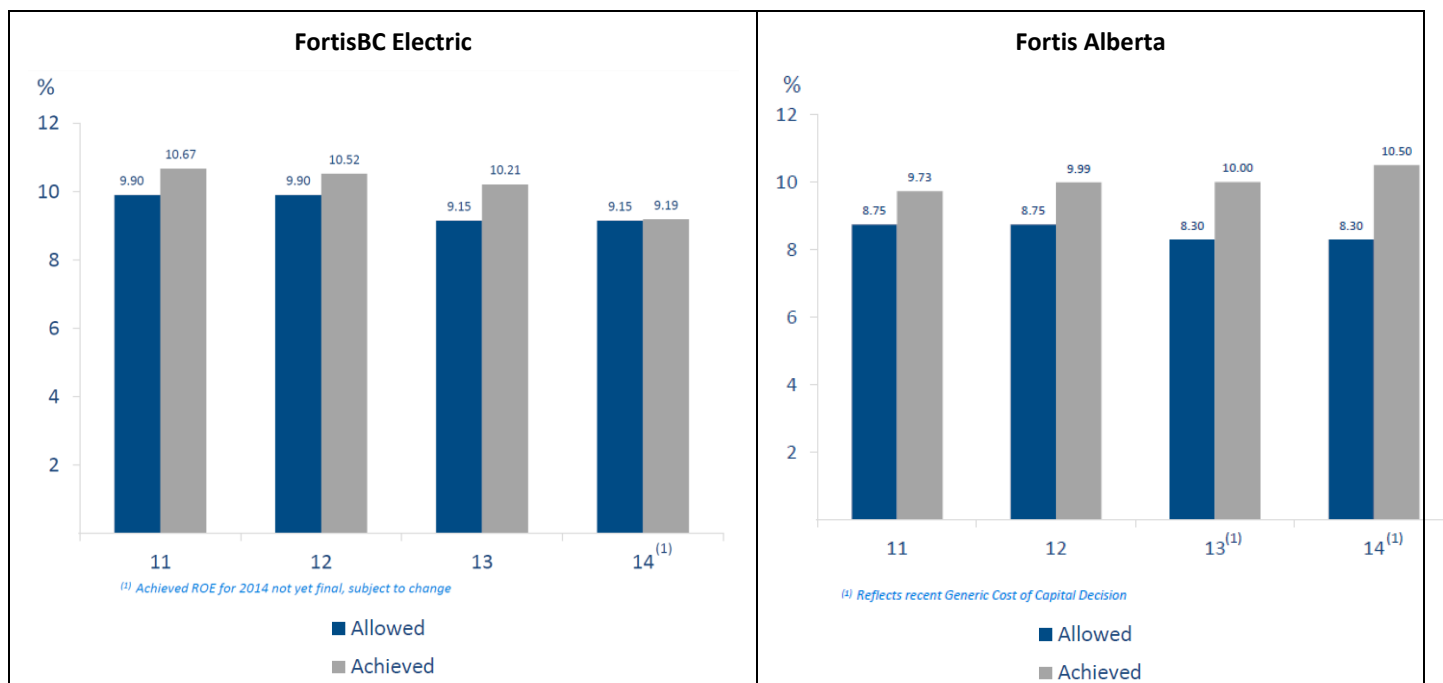
Exhibit 3: Fortis's utilities have consistently earned their allowed ROE with upside in most years (cont'd)



...continued on next page



Exhibit 3: Fortis's utilities have consistently earned their allowed ROE with upside in most years (cont'd)



Source: Company reports

Exhibit 4: Financial forecast (in \$MM except per share figures)

	2013	2014	Q1/15E	Q2/15E	Q3/15E	Q4/15E	2015E	2016E
Eastern Canadian	\$57	\$60	\$16	\$17	\$14	\$15	\$62	\$63
FortisBC Energy	127	127	83	13	(13)	53	136	145
FortisAlberta	95	103	30	31	32	30	122	130
FortisBC Electric	50	46	18	8	10	13	49	53
Central Hudson	23	37	15	7	12	20	54	62
UNS Energy		60	29	49	78	26	183	207
Regulated Utilities - Caribbean	23	27	6	9	9	7	32	34
Non-Regulated Power Gen.	17	20	5	9	17	10	41	43
Non-Regulated (Non-Utility)	22	23	0	7	9	7	23	25
Corporate and other	(81)	(97)	(32)	(32)	(32)	(32)	(128)	(131)
<b>Normalized earnings</b>	<b>\$333</b>	<b>\$406</b>	<b>\$169</b>	<b>\$118</b>	<b>\$137</b>	<b>\$148</b>	<b>\$573</b>	<b>\$629</b>
Shares O/S (MM)	203	226	276	278	279	281	278	283
<b>Normalized EPS (Basic)</b>	<b>\$1.64</b>	<b>\$1.80</b>	<b>\$0.61</b>	<b>\$0.43</b>	<b>\$0.49</b>	<b>\$0.53</b>	<b>\$2.06</b>	<b>\$2.22</b>
Dividends Paid	\$1.24	\$1.28					\$1.36	\$1.44
Payout Ratio	75%	71%					66%	65%
Net Debt / Capital	58%	58%					59%	59%
FFO / Net Debt	12%	9%					12%	12%

Source: Company reports; RBC Capital Markets estimates



### Valuation

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

### Price target impediments

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company description

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan;Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

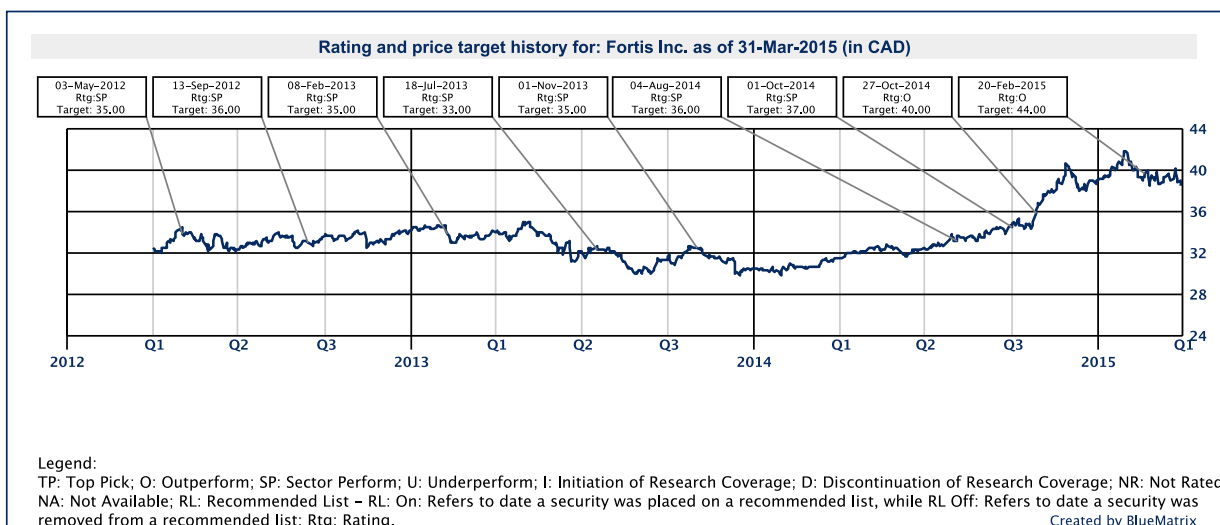
#### Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Mar-2015				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	909	52.33	280	30.80
HOLD [Sector Perform]	713	41.05	125	17.53
SELL [Underperform]	115	6.62	5	4.35



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to



<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.



Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2015 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2015 - Member CIPF  
Copyright © RBC Europe Limited 2015  
Copyright © Royal Bank of Canada 2015  
All rights reserved





## Fortis (FTS): Q1/15 results slightly ahead of expectations

Sentiment Indicator : neutral

Posted by Robert Kwan on Tuesday, May 05 2015, 6:58 AM ET

### Details

- Q1/15 normalized EPS (company-calculated) was \$0.65, compared to our estimate of \$0.61 and \$0.68 in Q1/14. Consensus for the quarter was \$0.62 (7 estimates between \$0.57 and \$0.66). During the quarter, Fortis normalized for the positive net effect of regulatory decisions related to prior periods in Alberta (\$10 million) and the impact of FX rates on balance sheet translation (\$9 million).
- Based on our preliminary review, earnings from the Utilities in Canada were ahead of our expectations (all segments ahead; most by 5-10%). The two U.S. utilities in aggregate posted earnings that were in line with our expectations (\$42 million vs. our estimate of \$44 million; Central Hudson ahead of expectations and UNS below expectations). All of the other segments were within +/- \$2 million of our estimate.
- Management expects capital spending to approach \$9 billion from 2015 to 2019, which is in line with previous guidance.
- The Waneta hydro expansion was completed on April 1, 2015, ahead of schedule and on budget (\$900 million). Fortis holds a 51% interest in the facility.
- In March 2015, Fortis agreed to sell its non-regulated power generation assets in upstate New York and Ontario.
- No update on the strategic review process for the Properties business was provided. The company expects to make an announcement with respect to the review by the end of Q2/15.

**Conference call: today at 10:00 AM (ET)**

1-877-223-4471

### Our take: neutral

With the Q1/15 results being generally close to our forecast and consensus, we do not expect the results to materially impact the share price.

**Robert Kwan** | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here for disclosures for Fortis Inc/Canada, Robert Kwan](#)



May 5, 2015

## Fortis Inc.

### Solid quarter, positive outlook remains intact

**Our view:** Despite the 'beat' being mostly due to seasonality, the Q1/15 results represent a good start to the year. We maintain our positive outlook for the shares, as we believe the company will continue to showcase its core organic utility growth in 2015.

#### Key points:

**Q1/15 results modestly ahead of expectations, mostly due to timing.** Normalized EPS was \$0.65 compared to our estimate of \$0.61 and \$0.68 in Q1/14. The modestly higher-than-forecast earnings were mainly due to Canadian Regulated Utilities (largely due to the seasonality/timing of recognition of costs and deferral accounts). In aggregate, the two U.S. utilities posted earnings that were in line with our expectations, although Central Hudson was ahead of expectations (including the booking of incentives), while UNS was below expectations (mostly attributable to seasonality). All of the other segments were within +/- \$2 million of our estimate.

**Sale of non-core assets should modestly reduce leverage.** Fortis entered into an agreement to sell its non-regulated power generation assets in upstate New York and Ontario, with both asset sales expected to close in 2015. While there was no update on the strategic review process for Properties, the company continues to expect to make an announcement with respect to the review by the end of Q2/15. We believe the proceeds from both the small power assets sale and the potential divestiture of Properties will be used to repay debt, which would help bring the capital structure back in line with the long-term target of 55% debt (currently 57%).

**2013-2014 capital program approved under PBR.** The Alberta Utilities Commission issued a decision that FortisAlberta's capital tracker programs in 2013-2015 met the required criteria as set out in the original PBR decision, and as such, the company's capital programs were approved as filed and approximately \$10 million was recognized in Q1/15 that related to 2013 and 2014 capital expenditures. The approved capital program was incorporated into FortisAlberta's capital tracker compliance filing, and a decision on the capital tracker compliance filing is expected in H2/15.

**Estimates Unchanged.** Although we made minor changes within the business segments to reflect the Q1/15 results and the sale of the small power facilities, we remain comfortable with our 2015 and 2016 EPS estimates of \$2.06 and \$2.22, respectively.

**Valuation.** Our \$44.00 price target (unchanged) is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group.

RBC Dominion Securities Inc.  
**Robert Kwan, CFA** (Analyst)  
 (604) 257-7611  
 robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
 (604) 257-7383  
 kelsey.roste@rbccm.com

**Sector: Utilities/Energy Infrastructure**

### Outperform

TSX: FTS; CAD 38.89

**Price Target CAD 44.00**

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
33.00 ↓ 12%	38.89	44.00 ↑ 16%	50.00 ↑ 32%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	277.5	Market Cap (MM):	10,792
Dividend:	1.28	Yield:	3.3%
Float (MM):	277.5	Avg. Daily Volume:	913,956
Debt to Cap:	57%		

#### RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
EPS, Adj Diluted	1.64	1.80	2.06	2.22
P/AEPS	23.7x	21.6x	18.9x	17.5x
DPS	1.24	1.28	1.36	1.44
Div Yield	3.2%	3.3%	3.5%	3.7%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2014	0.68A	0.32A	0.35A	0.45A
Prev.	0.69A			
2015	0.65A	0.42E	0.54E	0.45E
Prev.	0.61E	0.43E	0.49E	0.53E

All values in CAD unless otherwise noted.

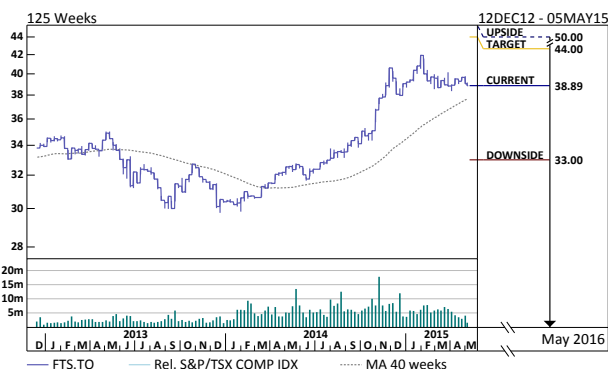
Priced as of prior trading day's market close, EST (unless otherwise noted).

**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 7.**



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

### Upside scenario

For our upside scenario of \$50.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending comes to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 200 basis point increase in interest rates, which we believe could translate into an almost 5x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition, and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the expected 5-year CAGR in rate base through 2019 expected to be 6.5%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis' 5-year CAGR in rate base through 2019 could be as high as 7.5%.

**Potential catalysts:** Positive regulatory decision for capital tracker, and support for LNG related projects.

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Q1/15 results modestly higher-than-forecast

Fortis' Q1/15 normalized EPS was \$0.65, compared to our estimate of \$0.61 and \$0.68 in Q1/14. Consensus for the quarter was \$0.62 (seven estimates in the range of \$0.57 and \$0.66). The modestly higher-than-forecast earnings were mainly due to Canadian Regulated Utilities (largely due to the seasonality/timing of recognition of costs and deferral accounts). In aggregate the two U.S. utilities posted earnings that were in line with our expectations, although Central Hudson was ahead of expectations (energy efficiency incentives booked), while UNS was below expectations (mostly attributable to seasonality). All of the other segments were within +/- \$2 million of our estimate.

A summary of the Q1/15 normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized earnings (in \$MM except per share figures)

	RBC CM			Comments
	Q1/15	Q1/15	Q1/14	
Eastern Canada Utilities	\$19	\$16	\$17	Lower-than-expected costs
FortisBC Energy	88	83	79	Higher seasonality due to the amalgamation
FortisAlberta	31	30	25	
FortisBC Electric	23	18	18	Timing of the recognition of costs
Regulated Utilities - Canadian	161	147	139	
Central Hudson	22	15	18	Energy efficiency incentives; new gas contract
UNS Energy	20	29	0	Greater-than-expected seasonality
Regulated Utilities - Caribbean	5	6	5	
Non-Regulated Generation	3	5	6	Reduced production in Belize, due to lower rainfall
Non-Regulated (Non-Utility)	(2)	0	0	Costs related to strategic review
Corporate	(30)	(32)	(22)	
<b>Normalized Earnings</b>	<b>\$179</b>	<b>\$169</b>	<b>\$146</b>	
<b>Normalized EPS</b>	<b>\$0.65</b>	<b>\$0.61</b>	<b>\$0.68</b>	
Average shares outstanding (MM)	277	276	214	
Capital tracker true-up	10		0	
Foreign exchange translation	9		4	
Sale of Griffith	0		5	
Convertible debt interest	0		(11)	
Transaction costs	0		(1)	
	19		(3)	
<b>Reported Earnings</b>	<b>\$198</b>		<b>\$198</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights from the quarter

**Fortis Properties' strategic review expected to wrap up in Q2/15.** Fortis' strategic review for its real estate business continues and management stated that it expects to complete the evaluation in Q2/15. Management noted that if a decision were made to dispose of the segment, the proceeds would be applied to the permanent financing for the UNS acquisition.



**Sale of small power assets in New York and Ontario.** In March 2015, Fortis entered into an agreement to sell its non-regulated generation assets in upstate New York and Ontario. The sale of the generation assets in upstate New York and Ontario is expected to close in Q2/15 and H2/15, respectively.

**Waneta expansion completed.** Subsequent to the quarter, Fortis completed the construction of the \$900 million, 335 MW Waneta expansion. The project was completed ahead of schedule and on-budget. Fortis has a 51% controlling interest in the project. Lastly, the facility will operate under its 40-year power purchase agreement with B.C. Hydro.

## Major regulatory and other items of note

**Central Hudson filed a Joint Settlement Proposal in February.** Central Hudson reached a settlement agreement for a three-year period beginning July 1, 2015 reflecting a 9% ROE and a 48% common equity component. The Joint Settlement Proposal (JRP) was filed in February and is expected to go in front of the regulator in June. The JRP includes the continuation of certain mechanisms in place such as revenue decoupling. While the stated ROE is set to decline from the current 10% level, Central Hudson's earnings should increase partly due to previous additions to rate base that are not currently being recovered due to a rate freeze associated with Fortis' acquisition of Central Hudson.

**Negative GCOC not expected to have a material impact.** Subsequent to the quarter, the Alberta Utilities Commission (AUC) issued its Generic Cost of Capital (GCOC) decision, whereby the allowed ROE was reduced to 8.3% (down from 8.75%), effective for 2013-2015. As part of the GCOC decision, the equity thickness of FortisAlberta was reduced by 1%. The AUC also decided not to return to an automatic ROE adjustment formula going forward. It is important to note that for utilities under the PBR mechanisms (e.g., FortisAlberta), the revised allowed ROE and capital structure only applies to the portion of the revenue associated with the capital tracker amounts. Alberta has commenced a process to determine the generic cost of capital for 2016.

**Positive PBR decision received.** In March, the AUC also issued a decision that FortisAlberta's capital tracker programs in 2013-2015 met the required criteria as set out in the original PBR decision, and as such, the company's capital programs were approved as filed and approximately \$10 million was recognized in Q1/15 that related to 2013 and 2014 capital expenditures. FortisAlberta completed its capital tracker compliance filing, requesting that the adjustments to the capital tracker revenue be considered in the 2016 annual rates application. A decision on the capital tracker compliance filing is expected in H2/15.

**Newfoundland Power filed an application to defer its GRA.** During the quarter, Newfoundland Power filed an application with the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) to defer the filing of its next general rate application (GRA) to on or before June 1, 2016 (current GRA required by June 1, 2015) and to request a 2016 cost recovery deferral of \$4 million. The application is currently under review by the PUB.

## Estimates unchanged

Although we made minor changes within the business segments to reflect the Q1/15 results, and the sale of the small power facilities, we remain comfortable with our 2015 and 2016 EPS estimates of \$2.06 and \$2.22, respectively.



Exhibit 3: Financial forecast (in \$MM except per share figures)

	2013	2014	Q1/15	Q2/15E	Q3/15E	Q4/15E	2015E	2016E
Eastern Canadian	\$57	\$60	\$19	\$17	\$14	\$12	\$62	\$63
FortisBC Energy	127	127	88	13	(13)	48	136	145
FortisAlberta	95	103	31	31	32	28	122	130
FortisBC Electric	50	46	23	8	10	8	49	53
Central Hudson	23	37	22	9	12	11	54	62
UNS Energy		60	20	46	91	26	183	207
Regulated Utilities - Caribbean	23	27	5	9	9	8	32	34
Non-Regulated Power Gen.	17	20	3	9	17	9	38	41
Non-Regulated (Non-Utility)	22	23	(2)	7	9	9	23	25
Corporate and other	(81)	(98)	(30)	(32)	(31)	(32)	(125)	(130)
<b>Normalized earnings</b>	<b>\$333</b>	<b>\$405</b>	<b>\$179</b>	<b>\$117</b>	<b>\$150</b>	<b>\$127</b>	<b>\$573</b>	<b>\$628</b>
Shares O/S (MM)	203	226	277	278	279	281	278	283
<b>Normalized EPS (Basic)</b>	<b>\$1.64</b>	<b>\$1.80</b>	<b>\$0.65</b>	<b>\$0.42</b>	<b>\$0.54</b>	<b>\$0.45</b>	<b>\$2.06</b>	<b>\$2.22</b>
Dividends Paid	\$1.24	\$1.28					\$1.36	\$1.44
Payout Ratio	75%	71%					66%	65%
Net Debt / Capital	58%	58%					59%	59%
FFO / Net Debt	12%	9%					12%	12%

Source: Company reports; RBC Capital Markets estimates



## Valuation

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the past 10 years.

## Price target impediments

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

## Company description

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).





## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan;Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Rating

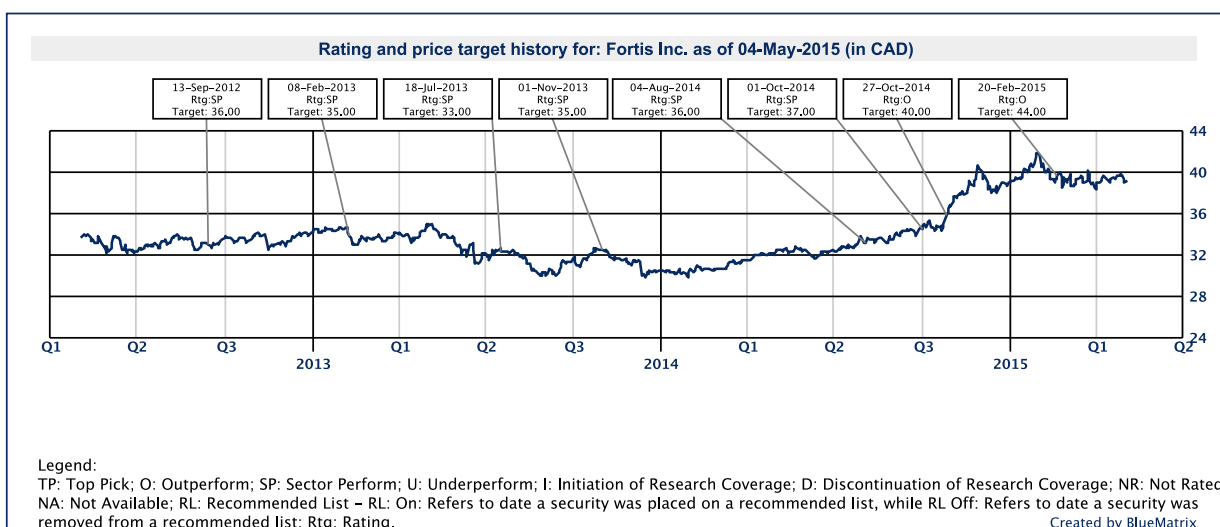
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Mar-2015				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	909	52.33	280	30.80
HOLD [Sector Perform]	713	41.05	125	17.53
SELL [Underperform]	115	6.62	5	4.35



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to



<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.



Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2015 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2015 - Member CIPF  
Copyright © RBC Europe Limited 2015  
Copyright © Royal Bank of Canada 2015  
All rights reserved



May 22, 2015

## Fortis Inc.

### Sale of Commercial Real Estate Portfolio for \$430 million

**Our view:** Neutral – With the release of its Q1/15 results, management stated that the strategic review of its real estate business was expected to be wrapped up in Q2, and we therefore believe that a sale was largely expected by the market.

#### Key points:

**Strategic review results in the sale of the commercial real estate portfolio.** Fortis announced the sale of its commercial real estate portfolio for total proceeds of \$430 million. The sale was a result of a strategic review process for Fortis's real estate business segment. Subject to customary closing conditions, management expects the transaction to close in late Q2/15 or early Q3/15.

**The transaction appears to be roughly neutral to our EPS estimate.** Based on the 2014 annual disclosures, Properties' net operating income was \$55 million, of which 42% was attributable to the commercial real estate portfolio. After taking into consideration the proportionate income taxes, we estimate that the sale would result in a reduction of approximately \$17 million in earnings. Roughly offsetting the divested earnings is expected interest savings based on the purchase price of \$430 million and the assumed repayment of debt.

**The hotel business continues to be evaluated.** Management noted that the strategic review for the hotel business is still ongoing. We expect that the company may also sell its hotel business portfolio, as it has been messaging that its focus is on the core utility business. However, management did not provide an updated time line for that strategic review to be completed.

**Estimates unchanged.** Given that we expect the sale to be roughly neutral to earnings, we remain comfortable with our 2015 and 2016 EPS estimates of \$2.06 and \$2.22, respectively.

**Valuation.** Our \$44.00 price target (unchanged) is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

RBC Dominion Securities Inc.

**Robert Kwan, CFA** (Analyst)  
(604) 257-7611  
robert.kwan@rbccm.com

**Kelsey Roste** (Associate)  
(604) 257-7383  
kelsey.roste@rbccm.com

Sector: Utilities/Energy Infrastructure

## Outperform

TSX: FTS; CAD 38.45

Price Target CAD 44.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
33.00 ↓ 11%	38.45	44.00 ↑ 18%	50.00 ↑ 33%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	277.5	Market Cap (MM):	10,670
Dividend:	1.28	Yield:	3.3%
Float (MM):	277.5	Avg. Daily Volume:	815,145
Debt to Cap:	57%		

#### RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
EPS, Adj Diluted	1.64	1.80	2.06	2.22
P/AEPS	23.4x	21.4x	18.7x	17.3x
DPS	1.24	1.28	1.36	1.44
Div Yield	3.2%	3.3%	3.5%	3.7%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2014	0.68A	0.32A	0.35A	0.45A
2015	0.65A	0.42E	0.54E	0.45E

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

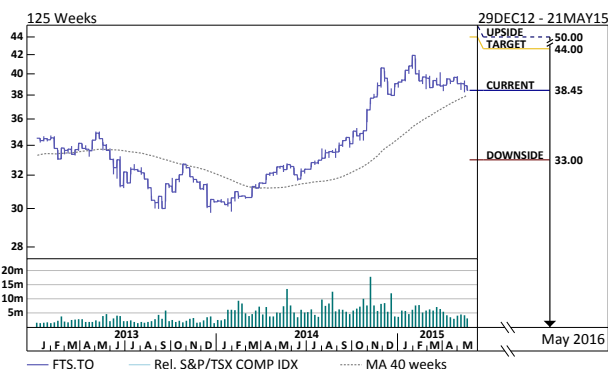
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

adoyle@fortisinc.com angela doyle 07/28/15 06:29:41 PM Fortis, Inc.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

### Upside scenario

For our upside scenario of \$50.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending comes to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 200 basis point increase in interest rates, which we believe could translate into an almost 5x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition, and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the expected 5-year CAGR in rate base through 2019 expected to be 6.5%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis' 5-year CAGR in rate base through 2019 could be as high as 7.5%.

**Potential catalysts:** LNG related projects proceeding

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



### Valuation

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

### Price target impediments

Rejection of the UNS deal, the risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company description

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).





## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Kelsey Roste (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Rating

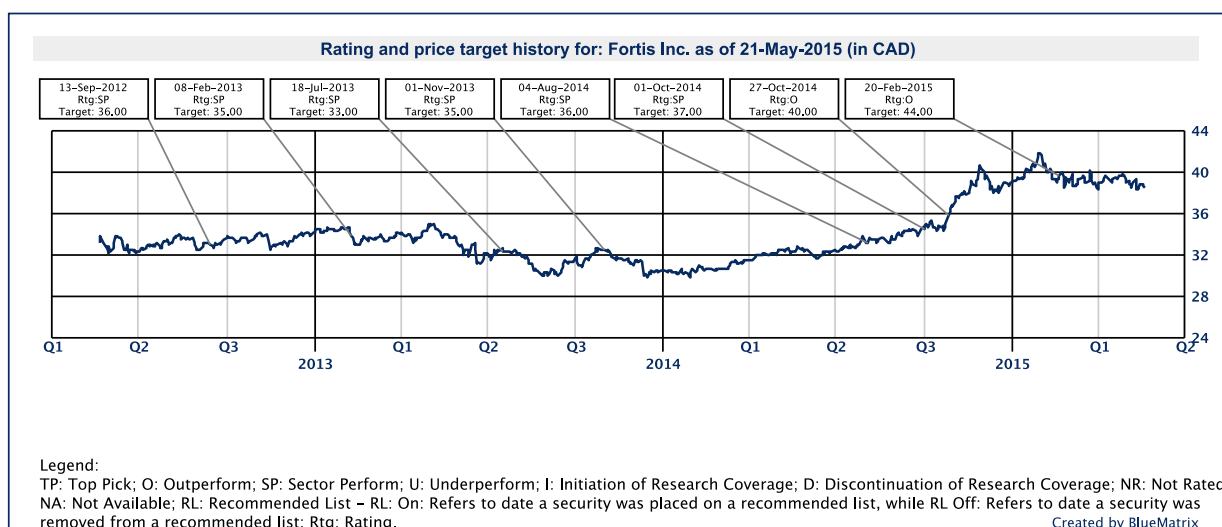
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Mar-2015				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	909	52.33	280	30.80
HOLD [Sector Perform]	713	41.05	125	17.53
SELL [Underperform]	115	6.62	5	4.35



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to



<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.



Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2015 - Member SIPC  
Copyright © RBC Dominion Securities Inc. 2015 - Member CIPF  
Copyright © RBC Europe Limited 2015  
Copyright © Royal Bank of Canada 2015  
All rights reserved



June 18, 2015

## Fortis Inc.

### Notes from the road; Central Hudson rate plan approved

**Our view:** We recently hosted meetings with Karl Smith (CFO), which reinforced our confidence in the organic utility rate base growth story with LNG-related upside, paired with an enhanced story around capital efficiency. We continue to favourably view Fortis's shares as a way to participate in what we consider to be attractive dividend growth driven by below average risk regulated utility rate base growth.

#### Key points:

**Organic rate base growth remains the key driver through 2019.** Fortis expects to spend \$9 billion between 2015 and 2019 in its regulated utility operations, which is expected to drive a 6.5% rate base CAGR. The components of the growth capex program are all relatively small projects, with the largest being Tilbury Phase 1A (\$328 million), which is already under construction and expected to be in service by the end of 2016.

#### LNG-related upside could drive rate base growth up to a 7.5% CAGR.

Tilbury Phase 1B (roughly \$450 million) to primarily serve Hawaiian Electric (conditional contract) and a pipeline (approximately \$600 million) to serve the proposed Woodfibre LNG terminal being pushed forward by a third-party would be additions to FortisBC Energy's regulated rate base.

**On track to exit the Properties business.** With the previously announced sale of the commercial real estate business being on track to close within the next several weeks, Fortis also appears to be poised to announce the divestiture of the hospitality portfolio in the relatively near term. A sale of the commercial and lodging real estate assets would mark the company's exit from the Properties segment and would result in almost all of the company's earnings being derived from regulated utilities and/or long-term contracts with utilities.

**We like the positive evolution of the capital efficiency story.** We like the decision to sell the real estate assets and use the proceeds to improve the credit metrics (repay UNS acquisition debt) rather than issuing more equity (common or preferred). Going forward, the company does not see a need for any common equity (outside of the DRIP) to finance the \$9 billion capex program.

**As expected, the Central Hudson 3-year rate settlement was approved by the regulator.** The New York State Public Service Commission approved the 3-year rate plan that includes US\$490 million of capital investments over the term, with a revenue requirement that also allows for the recovery of previously spent capital during the previous rate freeze following Fortis's acquisition. The equity thickness remains at 48% and the ROE declines to 9% (from 10%) per the settlement. Fortis can earn up to a 9.5% ROE and then share earnings with customers above that level based on specified thresholds. The rate order can be found [by clicking here](#).

RBC Dominion Securities Inc.  
Robert Kwan, CFA (Analyst)  
(604) 257-7611  
robert.kwan@rbccm.com

Sector: Utilities/Energy Infrastructure

### Outperform

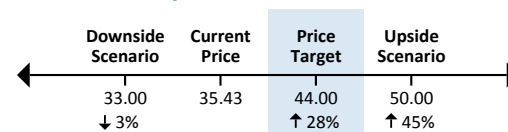
TSX: FTS; CAD 35.43

Price Target CAD 44.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	277.5	Market Cap (MM):	9,832
Dividend:	1.28	Yield:	3.6%
Float (MM):	277.5	Avg. Daily Volume:	903,621
Debt to Cap:	57%		

#### RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
EPS, Adj Diluted	1.64	1.80	2.06	2.22
P/AEPS	21.6x	19.7x	17.2x	16.0x
DPS	1.24	1.28	1.36	1.44
Div Yield	3.5%	3.6%	3.8%	4.1%
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2014	0.68A	0.32A	0.35A	0.45A
2015	0.65A	0.42E	0.54E	0.45E

All values in CAD unless otherwise noted.

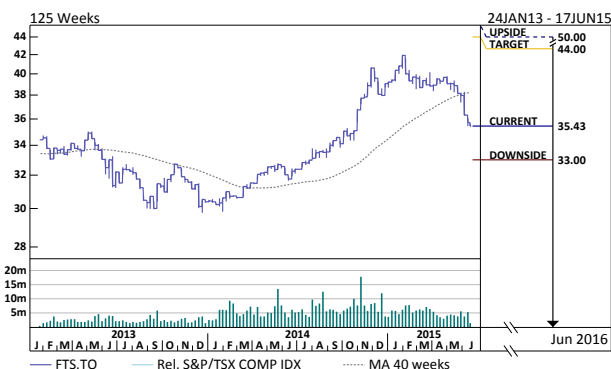
Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 7.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

### Upside scenario

For our upside scenario of \$50.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending coming to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 200 basis point increase in interest rates, which we believe could translate into an almost 5x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow, resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition, and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the 5-year CAGR in rate base through 2019 expected to be 6.5%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis's 5-year CAGR in rate base through 2019 could be as high as 7.5%.

**Potential catalysts:** LNG related projects proceeding

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.





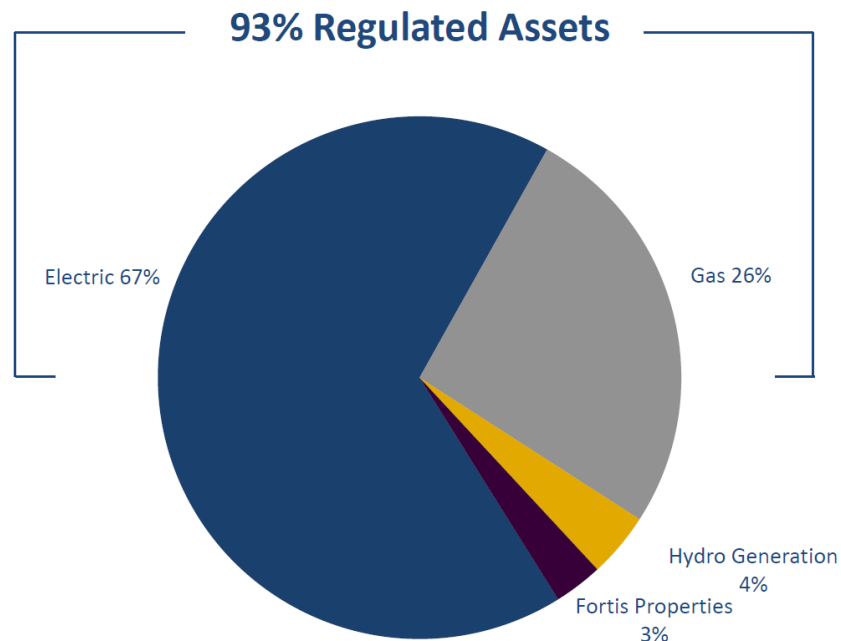
## Key messages

**Almost all of the assets are regulated (following the properties sale).** As shown in Exhibit 2, following the sale of the Properties division, almost all of the company's assets are regulated utilities.

**Geographic diversity reduces the risk of negative regulatory decisions.** As shown in Exhibit 3, no more than one-third of Fortis's assets are in any single jurisdiction, with the three largest segments being Arizona (31% of assets), B.C. (30%), and Alberta (14%). We see the geographic mix as diversifying against the risk of a negative decision from any one specific regulator.

**Solid rate base growth from regulated assets.** As shown in Exhibit 4, Fortis expects rate base to grow at a 6.5% CAGR through 2019, with the potential for a lift to a 7.5% CAGR if the Tilbury 1B project and the pipeline to serve Woodfibre LNG come to fruition.

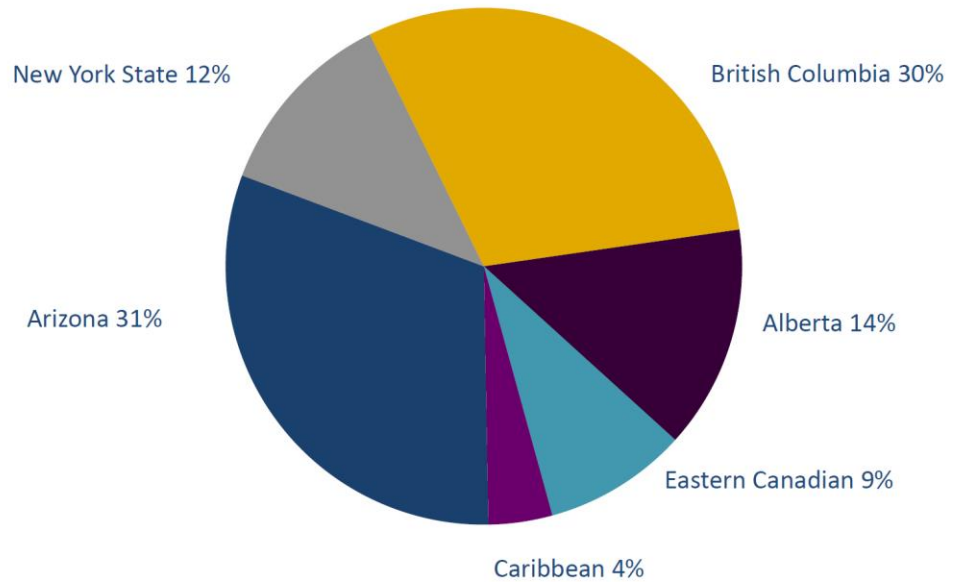
Exhibit 2: Almost all of the assets are regulated (data as at March 31, 2015)



Source: Company reports

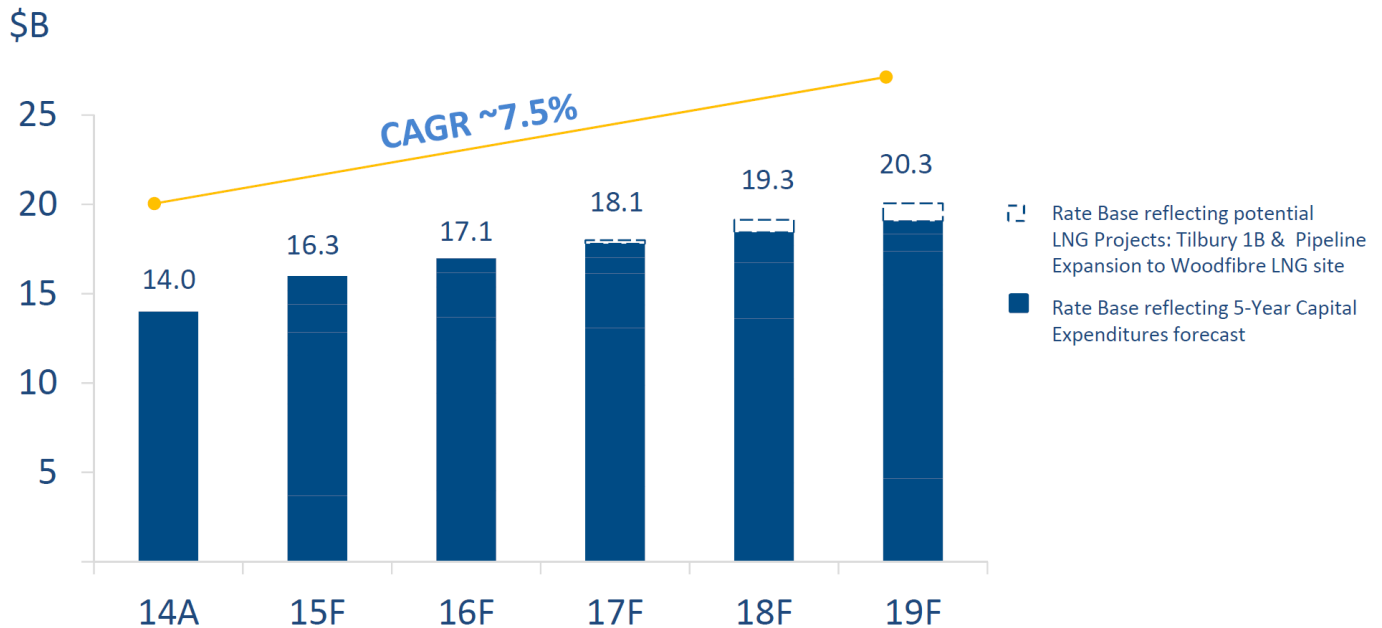


Exhibit 3: The geographic mix of assets is well-diversified (data as at March 31, 2015)



Source: Company reports

Exhibit 4: Attractive rate base growth forecast at a 6.5% CAGR for the base business with upside to a 7.5% CAGR with the LNG-related projects



(1) Rate base reflects midyear amounts and includes Waneta Expansion

(2) US Utilities CAPEX converted at a USD/CAD exchange rate of 1.27

Source: Company reports



Exhibit 5: Model summary (in \$MM except per share figures)

	2013	2014	Q1/15	Q2/15E	Q3/15E	Q4/15E	2015E	2016E
Eastern Canadian	\$57	\$60	\$19	\$17	\$14	\$12	\$62	\$63
FortisBC Energy	127	127	88	13	(13)	48	136	145
FortisAlberta	95	103	31	31	32	28	122	130
FortisBC Electric	50	46	23	8	10	8	49	53
Central Hudson	23	37	22	9	12	11	54	62
UNS Energy		60	20	46	91	26	183	207
Regulated Utilities - Caribbean	23	27	5	9	9	8	32	34
Non-Regulated Power Gen.	17	20	3	9	17	9	38	41
Non-Regulated (Non-Utility)	22	23	(2)	7	9	9	23	25
Corporate and other	(81)	(98)	(30)	(32)	(31)	(32)	(125)	(130)
<b>Normalized earnings</b>	<b>\$333</b>	<b>\$405</b>	<b>\$179</b>	<b>\$117</b>	<b>\$150</b>	<b>\$127</b>	<b>\$573</b>	<b>\$628</b>
Shares O/S (MM)	203	226	277	278	279	281	278	283
<b>Normalized EPS (Basic)</b>	<b>\$1.64</b>	<b>\$1.80</b>	<b>\$0.65</b>	<b>\$0.42</b>	<b>\$0.54</b>	<b>\$0.45</b>	<b>\$2.06</b>	<b>\$2.22</b>
Dividends Paid	\$1.24	\$1.28					\$1.36	\$1.44
Payout Ratio	75%	71%					66%	65%
Net Debt / Capital	58%	58%					59%	59%
FFO / Net Debt	12%	9%					12%	12%

Source: Company reports; RBC Capital Markets estimates



### Valuation

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

### Price target impediments

Punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company description

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).



## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan (i) is not registered/qualified as a research analyst with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Rating

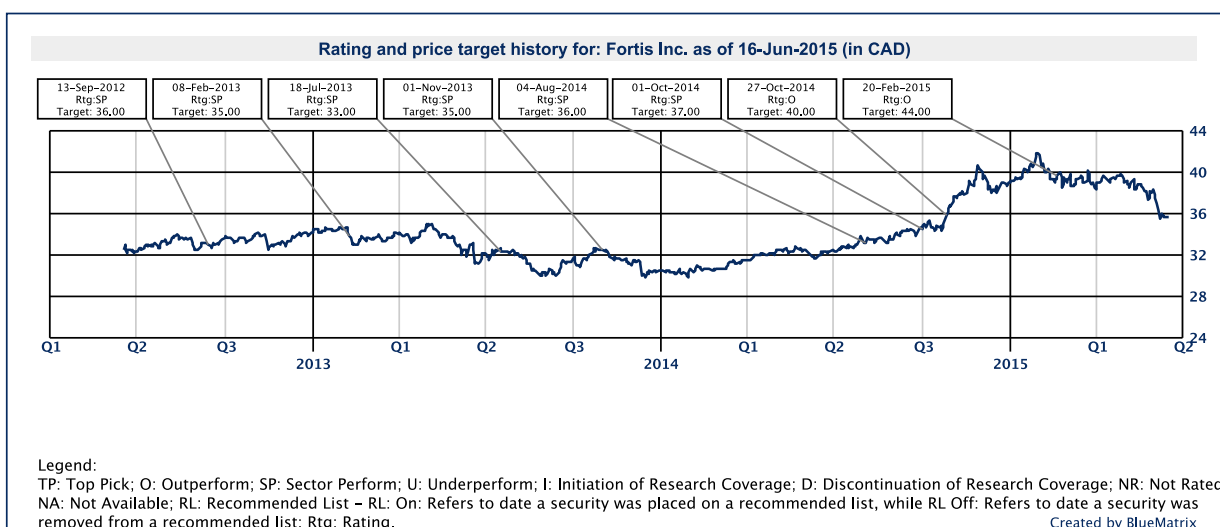
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Mar-2015				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	909	52.33	280	30.80
HOLD [Sector Perform]	713	41.05	125	17.53
SELL [Underperform]	115	6.62	5	4.35



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to



<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.



Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2015 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2015 - Member CIPF

Copyright © RBC Europe Limited 2015

Copyright © Royal Bank of Canada 2015

All rights reserved





## Fortis (FTS): Sale of hotel assets marks the exit from real estate

Sentiment Indicator : neutral

Posted by Robert Kwan on Monday, July 06 2015, 5:26 PM ET

### Details

- Following the previous completion of the sale of the commercial real estate business, Fortis announced a deal to sell its hotel assets to a group of private investors for \$365 million.
- The sale is consistent with Fortis' previously-announced plan to reduce its real estate exposure. The implied valuation versus our estimated earnings is relatively close to the current trading multiple.
- The transaction is expected to close in the fall of 2015. Following the close of the sale, virtually all of Fortis' earnings will come from regulated utility assets and assets with long-term contracts.

### Our take: neutral

We view the transaction as neutral to Fortis' share price as the sale was directionally expected and the transaction is relatively small. Further, the sale appears to be done at an estimated valuation that is consistent with the current consolidated valuation, although we see an added benefit being the streamlining of the story to one of predominantly North American regulated utility assets.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Currency	Price	Price Date
Fortis Inc.	Toronto SE	FTS	Outperform	Not Assigned	CAD	35.66	7/6/2015 5:13:42 PM EST

Robert Kwan | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

[Click here for disclosures for Fortis Inc/Canada, Robert Kwan](#)

All rights reserved. This material may not be published, broadcast, rewritten or redistributed in any form. Please [click here](#) for legal restrictions and terms of use applicable to this site. Use of this site signifies your agreement to the terms of use.



August 3, 2015

## Fortis Inc.

### Steady results is the name of the (utility) game

**Our view:** As a predominantly regulated utility business, we expect Fortis to deliver steady earnings, which is what happened in Q2/15. With a forecast for a roughly 6.5% utility rate base CAGR through 2019 with the potential for growth to bump up to a 7.5% CAGR if two LNG-related projects move ahead in B.C., we continue to favour Fortis' low-risk utility offering.

#### Key points:

**Q2/15 results slightly ahead of our forecast.** Fortis' Q2/15 normalized EPS was \$0.44 compared to our estimate of \$0.42 and \$0.32 a year-ago. For the quarter, better-than-expected results at UNS and Waneta (seasonality likely a driver for both) were the primary differences between actual results and our forecast.

**Low-risk utility offering that marries a roughly 3.5% dividend yield with mid to high single digit expected dividend growth.** Following the pending sale of the hotel assets, virtually all of Fortis' businesses will be regulated utilities or long-term contracted infrastructure assets (e.g., Waneta hydro). We see the low-risk utility businesses as underpinning the dividend with annual growth roughly in line with the 6.5% CAGR for rate base growth through 2019.

**Major 5-year capital program reiterated.** The company plans to invest over \$9 billion from 2015 to 2019 on a variety of capital projects and expects these investments to increase the rate base by approximately 40% from \$14 billion in 2014 to approximately \$19.5 billion in 2019 and produce a five-year CAGR of 6.5%. Additionally, if the Tilbury 1B project and Woodfibre LNG pipeline expansion come to fruition, the company has stated that the five-year CAGR in rate base could further increase to 7.5%.

**Estimates remain unchanged.** Although we made minor changes within the business segments to reflect the Q2/15 results, and the sale of the properties division, we remain comfortable with our 2015 and 2016 EPS estimates of \$2.06 and \$2.22, respectively.

**New EPA rules on carbon dioxide - UNS is evaluating the impact, but to us, it appears to be directionally more realistic.** The Environmental Protection Agency (EPA) released new rules to limit carbon dioxide emissions from power plants. UNS (via Tucson Electric Power) issued a press release stating that it reviewing the new rules. However, the company noted that, "It appears from [its] initial analysis that the EPA has responded constructively to the coordinated outreach..." from Arizona stakeholders. We note that the initial targets appeared to be set on a top down basis without a bottom up analysis on physical energy flows.

RBC Dominion Securities Inc.

**Robert Kwan, CFA** (Analyst)  
(604) 257-7611  
robert.kwan@rbccm.com

**Tim Tong** (Associate)  
(604) 257-7064  
tim.tong@rbccm.com

Sector: Utilities/Energy Infrastructure

### Outperform

TSX: FTS; CAD 37.45

Price Target CAD 44.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
33.00 ↓ 8%	37.45	44.00 ↑ 21%	50.00 ↑ 37%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	278.7	Market Cap (MM):	10,437
Dividend:	1.28	Yield:	3.4%
Float (MM):	278.7	Avg. Daily Volume:	1,024,529
Debt to Cap:	55%		

#### RBC Estimates

FY Dec	2013A	2014A	2015E	2016E
EPS, Adj Diluted	1.64	1.80	2.06	2.22
P/AEPS	22.8x	20.8x	18.2x	16.9x
DPS	1.24	1.28	1.36	1.44
Div Yield	3.3%	3.4%	3.6%	3.8%

EPS, Adj Diluted	Q1	Q2	Q3	Q4
2014	0.68A	0.32A	0.35A	0.45A
2015	0.65A	0.44A	0.53E	0.44E
Prev.		0.42E	0.54E	0.45E

All values in CAD unless otherwise noted.

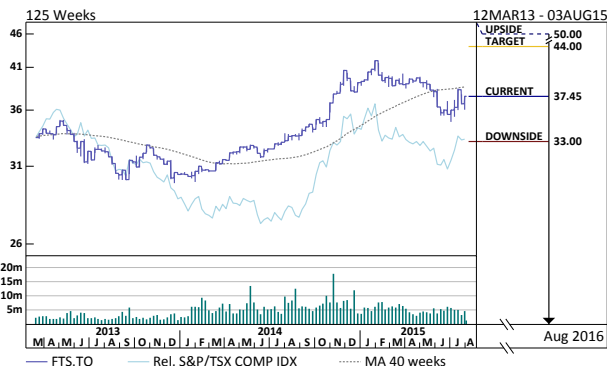
Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 7.



## Target/Upside/Downside Scenarios

Exhibit 1: Fortis Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

### Upside scenario

For our upside scenario of \$50.00, we assume that P/E valuations fully reflect the level of long-term interest rates, which we see as providing roughly 1.5x upside in the P/E multiple. Furthermore, our upside scenario includes the LNG-related rate base spending coming to fruition.

### Downside scenario

For our downside scenario of \$33.00, we assume a 200 basis point increase in interest rates, which we believe could translate into an almost 5x downside in the P/E multiple.

## Investment summary

We expect Fortis's shares to outperform other Energy Infrastructure companies in our coverage universe for the following reasons:

**Good defensive investment.** Against the backdrop of oil price weakness and general market volatility, we believe that the historically wide valuation discount will begin to narrow, resulting in better-expected relative performance for the Regulated Utility stocks. With more than 90% of 2015 earnings expected to come from regulated and/or long-term contracted utility infrastructure, we believe that the stock is at an inflection point for EPS and dividend growth given the combination of continued above average rate base growth in its Western Canadian utilities, the accretive UNS acquisition, and a stabilization for regulated ROEs.

**Entering a period of significant rate base growth.** The company is entering a period of significant organic growth, with the 5-year CAGR in rate base through 2019 expected to be 6.5%. We like that the expected rate base is driven by organic growth and any M&A activities in the future would result in additional upside.

**Additional upside from LNG optionality.** We like the upside optionality from the potential LNG-related infrastructure projects that could unfold over the course of the coming year. If the LNG projects come to fruition, Fortis's 5-year CAGR in rate base through 2019 could be as high as 7.5%.

**Potential catalysts:** LNG related projects proceeding

**Key risks:** The risk of punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors.



## Q2/15 results modestly higher-than-forecast

Fortis' Q2/15 normalized EPS was \$0.44, which compares to our estimate of \$0.42 and \$0.32 in Q2/14. The modestly higher-than-forecast earnings were mainly due to better-than-expected results at UNS and Waneta (seasonality likely a driver for both). This was partially offset by a timing difference in deferral accounts for FortisBC Energy as well as higher-than-expected corporate expenses (mostly due to likely non-recurring items).

A summary of the Q2/15 normalized earnings is detailed in Exhibit 2.

Exhibit 2: Normalized earnings (in \$MM except per share figures)

	RBC CM			Comments
	Q2/15	Q2/15E	Q2/14	
Eastern Canadian	\$15	\$17	\$16	
FortisBC Energy	7	13	12	Timing of deferral accounts that we expect to largely reverse
FortisAlberta	32	31	26	
FortisBC Electric	11	8	7	
Regulated Utilities - Canadian	65	68	61	
Central Hudson	10	9	7	
UNS Energy	52	46	0	Greater-than-expected seasonality
Regulated Utilities - Caribbean	9	9	8	
Non-Regulated Power Gen.	18	10	6	Greater-than-expected seasonality for Waneta
Non-Utility (Non-Regulated)	8	7	7	
Corporate and Other	(39)	(32)	(21)	Included \$3mm in donations and \$2mm in retirement costs
<b>Normalized earnings</b>	<b>\$123</b>	<b>\$117</b>	<b>\$68</b>	
Shares O/S (MM)	278	278	215	
<b>Normalized EPS (Basic)</b>	<b>\$0.44</b>	<b>\$0.42</b>	<b>\$0.32</b>	

Source: Company reports; RBC Capital Markets estimates

## Highlights from the quarter

**Sale of commercial real estate and hotel assets to focus on the core utility business.** In June 2015, Fortis completed the sale of its commercial real estate assets for gross proceeds of \$430 million. The company also signed an agreement with a private investor group for the sale of its hotel assets for \$365 million in July 2015. These sales were a result of a strategic review for Fortis' real estate and hotel business portfolios and the company has decided to focus on its core utility business. The hotel transaction is expected to be completed in the fall of 2015. Following the close of the hotel transaction, virtually all of the company's assets will be comprised of regulated utilities and long-term contracted energy infrastructure.

**Sale of small power assets in New York and Ontario complete.** During the quarter, the company completed the sale of its non-regulated generation assets in upstate New York (gross proceeds of US\$63 million) and Ontario (gross proceeds of \$16 million).

**Waneta expansion completed.** In April 2015, Fortis completed the construction of the \$900 million, 335 MW Waneta expansion. The project was completed ahead of schedule, on-budget, and contributed \$12 million in Q2/15. Fortis has a 51% controlling interest in the project. Lastly, the facility will operate under its 40-year power purchase agreement with BC Hydro that is expected to generate \$20-25 million of annual earnings.

**Major 5-year capital program remains on track to generate attractive low-risk organic utility growth.** The company plans to invest over \$9 billion from 2015 to 2019 on a variety of capital projects. The company expects this investment in energy infrastructure to increase



mid-year rate base by approximately 40% from \$14 billion in 2014 to approximately \$19.5 billion in 2019 and produce a five-year compound annual growth rate (CAGR) of approximately 6.5%. Additionally, if the Tilbury 1B LNG storage project and Woodfibre LNG pipeline expansion come to fruition, the company has stated that the five-year CAGR in rate base could further increase to 7.5%.

## Major regulatory and other items of note

**Central Hudson rate plan approved.** The New York State Public Service Commission approved the 3-year rate plan in June 2015 that includes US\$490 million of capital investments over the term of the agreement, with a revenue requirement that also allows for the recovery of already spent capital during the previous rate freeze following Fortis' acquisition of Central Hudson. The equity thickness remains at 48% and the ROE declines to 9% (from 10%) per the settlement. Fortis can earn up to a 9.5% ROE and then share earnings with customers above that level based on specified thresholds.

**GCOC proceedings for 2016/2017 have been initiated in Alberta.** In April 2015, the AUC initiated a GCOC Proceeding to set the allowed ROE and capital structure for 2016 and 2017. The AUC will hold a pre-hearing conference in Q3/15 to establish scope and process matters. With the current PBR term expiring in 2017, the AUC has also initiated a generic proceeding to establish parameters for the next generation of PBR plans. Further information from the AUC with respect to this proceeding is expected in H2/15.

**Capital tracker application filed for 2016/2017.** In May 2015, FortisAlberta filed an application with the AUC seeking capital tracker revenue for 2016 and 2017, as well as a true-up to the 2014 capital tracker revenue for actual capital expenditures. As part of this application, the company provided additional information on the capital tracker components that were not fully approved in the capital tracker decision that occurred earlier in March, seeking approval of the related capital expenditures incurred in 2013 and 2014, and forecast for 2015. A hearing related to this proceeding is scheduled for October 2015, with a decision from the regulator expected in Q1/16.

**Newfoundland Power application to defer GRA filing denied.** In April 2015, Newfoundland Power filed an application with the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) to defer the filing of its next general rate application to on or before June 1, 2016 and to request a 2016 cost recovery deferral of \$4 million. In July 2015, the PUB issued an order denying the company's application. As a result, Newfoundland Power will file its general rate application with the PUB on or before October 16, 2015 to establish customer rates for 2016.

**TEP to file a general rate application to set 2017 rates.** In June 2015, Tucson Electric Power (TEP), UNS Energy's largest utility, announced its plan to file a general rate application requesting new retail rates to be effective January 1, 2017, using June 30, 2015 as a historical test year. Since its last approved rate order in 2013, which used a 2011 historical test year, TEP's total rate base has increased by approximately US\$0.8 billion. The application is expected to be submitted before the end of the year. Since the rate plan has not yet been filed, management understandably did not want to discuss the specific aspects of what could be in the filing. However, we would expect TEP to seek a higher equity component, which would come closer to harmonizing TEP with other utilities in the state (including those owned by UNS Energy).



## Estimates unchanged

Although we have made minor changes within the business segments to reflect the Q2/15 results, the sale of the properties division and the sale of the smaller Ontario and New York power generation assets, we remain comfortable with our 2015 and 2016 EPS estimates of \$2.06 and \$2.22, respectively.

Exhibit 3: Financial forecast (in \$MM except per share figures)

	2013	2014	Q1/15	Q2/15	Q3/15E	Q4/15E	2015E	2016E
Eastern Canadian	\$57	\$60	\$19	\$15	\$13	\$16	\$62	\$65
FortisBC Energy	127	127	88	7	(10)	51	135	143
FortisAlberta	95	103	31	32	34	27	123	131
FortisBC Electric	50	46	23	11	10	3	48	49
Central Hudson	23	37	22	10	15	11	58	68
UNS Energy	0	60	20	52	91	26	189	212
Regulated Utilities - Caribbean	23	27	5	9	10	8	33	36
Non-Regulated Power Gen.	17	20	3	18	11	11	44	46
Non-Utility (Non-Regulated)	22	23	(2)	8	5	0	11	0
Corporate and other	(81)	(97)	(30)	(39)	(30)	(29)	(128)	(121)
<b>Normalized earnings</b>	<b>\$333</b>	<b>\$406</b>	<b>\$179</b>	<b>\$123</b>	<b>\$148</b>	<b>\$125</b>	<b>\$575</b>	<b>\$629</b>
Shares O/S (MM)	203	226	277	278	279	280	278	283
<b>Normalized EPS (Basic)</b>	<b>\$1.64</b>	<b>\$1.80</b>	<b>\$0.65</b>	<b>\$0.44</b>	<b>\$0.53</b>	<b>\$0.44</b>	<b>\$2.06</b>	<b>\$2.22</b>
Dividends Paid	\$1.24	\$1.28					\$1.36	\$1.44
Payout Ratio	75%	71%					66%	65%
Net Debt / Capital	58%	59%					55%	56%
FFO / Net Debt	12%	9%					13%	14%

Source: Company reports; RBC Capital Markets estimates



### Valuation

Our \$44.00 price target is based on a P/E of 20x applied to the forward EPS. A 20x multiple is consistent with the regulated utility peer group. A 20x P/E would be at the high end, but not a record high, for valuation, and we see this multiple well supported by historically low 10-year bond yields and a growth outlook that is generally stronger than most periods over the last 10 years.

### Price target impediments

Punitive regulatory or government decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

### Company description

Fortis Inc. is a utility holding company with regulated utilities in Canada (Newfoundland & Labrador, PEI, Ontario, Alberta, and B.C.), the U.S. (Arizona and New York) and the Caribbean (Cayman Islands and Turks & Caicos). The company also has non-regulated operations in power (Canada, U.S., and Belize) and real estate (commercial and hospitality in Canada).





## Required disclosures

### Non-U.S. analyst disclosure

Robert Kwan and Tim Tong (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Fortis Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Fortis Inc..

RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Rating

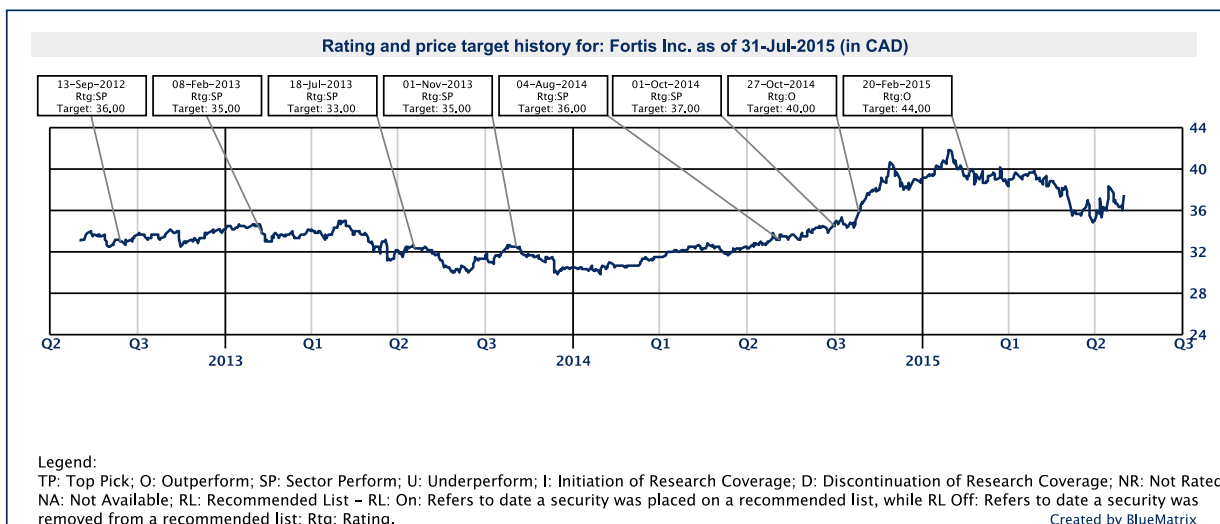


As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Jun-2015				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	935	53.15	293	31.34
HOLD [Sector Perform]	707	40.19	124	17.54
SELL [Underperform]	117	6.65	6	5.13



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.



## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is



not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2015 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2015 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2015

Copyright © Royal Bank of Canada 2015

All rights reserved



## Fortis (FTS): Annualized dividend increased by 10.3%; targeting 6% annual dividend growth through 2020

Sentiment Indicator : **positive**

Posted by Kwan, Robert on Tuesday, September 29, 2015, 21:24 PM ET

### Details

- 1 Fortis increased its fourth quarter 2015 dividend to \$0.375 per share from \$0.34 per share, representing a 10.3% increase in the quarterly dividend that is equivalent to an annualized dividend of \$1.50 (modestly higher than our forecast of \$1.44).
- 1 The company is targeting an annual dividend per share growth of approximately 6% through 2020, based on a 2016 dividend of \$1.50.
- 1 Management stated that the dividend guidance takes into account various factors including the expectation of reasonable outcomes for regulatory proceedings and the successful execution of the company's 5-year capital plan. The company also remains optimistic in securing additional opportunities, particularly in natural gas-related infrastructure.

### Our take: slightly positive

The modestly higher-than-expected dividend for 2016 should be a slight positive for the stock, particularly in the current weak stock market environment. Overall, the multi-year 6% dividend growth rate is in line with our previous expectations.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Fortis Inc.	Toronto SE	FTS.TO	Outperform	Not Assigned	44	Canadian Dollar	36.3	29 Sep 2015 20:10:02 ET

RBC Dominion Securities Inc.

Kwan, Robert | (604) 257-7611 | [robert.kwan@rbccm.com](mailto:robert.kwan@rbccm.com)

RBC Dominion Securities Inc.

Tong, Tim | (604) 257-7064 | [tim.tong@rbccm.com](mailto:tim.tong@rbccm.com)

Click here for conflict of interest and other disclosures relating to [Fortis Inc.](#), [Robert Kwan](#), [Tim Tong](#) These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to [rbcsight@rbccm.com](mailto:rbcsight@rbccm.com)

**Fortis Inc.****(FTS-T C\$33.81)**

Sam Kanes, CA, CFA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[sam\\_kanes@scotiacapital.com](mailto:sam_kanes@scotiacapital.com)

David Forster, CA - 416-863-7846  
(Scotia Capital Inc. - Canada)  
[david\\_forster@scotiacapital.com](mailto:david_forster@scotiacapital.com)

<b>Rating:</b> 3-Sector Underperform	<b>Target</b>	1-Yr: C\$34.50	<b>ROR</b>	1-Yr: 5.5%	<b>Est. NTM Div.</b>	C\$1.16
<b>Risk Ranking:</b> Low		2-Yr: C\$36.00		2-Yr: 13.3%	<b>Div. (Current)</b>	C\$1.16
<b>Valuation:</b> 10.25x EV/EBITDA on 2012E EBITDA						
<b>Key Risks to Target:</b> Interest rates, growth						<b>Yield</b> 3.4%

**Q4/10 Recurring EPS Mildly Misses****Event**

- Fortis reported Q4/10 EPS of \$0.49 that looked recurring, missing our estimate at \$0.55 and the Street at \$0.51 (\$0.47-\$0.55). Fortis also increased its dividend 3.6% to \$1.16 annualized, slightly behind our \$1.18 estimate.

**Implications**

- Q4/10 EPS mild miss was due to (1) poor Belize Electricity results due to regulatory challenges (\$1.5M in 2010 vs. \$10M expected) and related legal fees, (2) lower-than-average temperatures at FTS's Caribbean operations, and (3) higher-than-expected Q4 O&M costs.
- FTS' 2011E-2015E capital budget is unchanged at \$5.5B. FTS has guided to 6%/year organic EPS/dividend growth, not updated in its release. Most 2011 regulatory allowed ROE levels remain flat with 2010.
- We cut 2011E/2012E EPS by \$0.04/\$0.05 for lower Belize earnings and flatter Real Estate. FTS' guided 6%/year EPS accretion implies 2011/2012 EPS of \$1.74/\$1.84 based on \$1.64 recurring 2010 EPS vs. our estimate, now at \$1.76/\$1.85. Our one-year FTS target has dropped \$0.50/share to \$33.50; our recommendation has also been lowered to 3-Sector Underperform.

**Recommendation**

- We cut FTS to 3-SU from 2-SP. Our current rank energy utilities order is ATCO, Emera, Canadian Utilities, and then Fortis.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	\$0.54 A	\$0.31 A	\$0.21 A	\$0.48 A	\$1.54	18.62
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.62	\$0.32	\$0.25	\$0.57	\$1.76	19.21
2012E					\$1.85	18.28
(FY-Dec.)	2008A	2009A	2010A	2011E	2012E	
Adj Earnings/Share	\$1.56	\$1.54	\$1.65	\$1.76	\$1.85	
Cash Flow/Share	\$3.90	\$3.77	\$4.08	\$4.38	\$4.70	
Price/Earnings	15.8	18.6	20.6	19.2	18.3	
Revenues	\$3,903	\$3,637	\$3,664	\$4,050	\$4,275	
EBITDA	\$1,048	\$1,064	\$1,150	\$1,203	\$1,275	
Current Ratio	0.7	0.7	0.8	0.8	0.8	
EBITDA/Int. Exp	2.9	3.0	3.3	3.4	3.5	
IBES Estimates	BVPS11E	N/A				
CFPS 2011E: \$4.47	ROE11E	N/A				
CFPS 2012E: N/A						



Source: Global Insight, Inc.

<b>Capitalization</b>	
Shares O/S (M)	173.6
Total Value (\$M)	5,869
Float O/S (M)	171.7
Float Value (\$M)	5,805
TSX Weight	0.37%
Next Reporting Date	Feb-11

**Pertinent Revisions**

	New	Old
<b>Rating:</b>	3-SU	2-SP
<b>Target:</b>		
1-Yr	\$34.50	\$35.00
2-Yr	\$36.00	\$36.50
<b>EPS11E</b>	\$1.76	\$1.80
<b>EPS12E</b>	\$1.85	\$1.90

[Fixed Income Research Link](#)[SC Online Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect


For Reg AC Certification and important disclosures see Appendix A of this report. Analysts employed by non-U.S. affiliates are not registered/qualified as research analysts with FINRA in the U.S.



## Q4/10 EPS – 2011E/2012E EPS Forecasts – Stock & Sector Valuation

- **Fortis reported Q4/10 EPS** of \$0.49 that appears to be recurring, moderately missing our estimate at \$0.55 and mildly missing the Street at \$0.51 (\$0.47-\$0.55). Fortis also increased its dividend per share 3.6% to \$1.16 annualized, slightly behind our \$1.18 estimate. The Q4/10 EPS miss vs. our expectations was due to (1) poorer-than-expected performance at Belize Electricity due to regulatory challenges (contributed only \$1.5M in 2010 vs. \$10M expected) and associated legal fees, (2) lower-than-average temperatures at FTS's Caribbean operations, (3) higher-than-expected O&M costs due to a heavier allocation in Q4 vs. other quarters, and (4) a 170 bp decrease in occupancy rate at FTS' Real Estate division. See Exhibit 1 for Fortis' EPS contribution by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment

		EPS Contribution			
		Q4/10	(%)	Q4/09	(%)
	Regulated Gas				
	Terasen Gas	\$ 0.26	53%	\$ 0.28	59%
	FortisAlberta	\$ 0.10	20%	\$ 0.09	19%
	FortisBC	\$ 0.06	12%	\$ 0.05	10%
	Regulated Electric				
	Newfoundland Power	\$ 0.05	11%	\$ 0.05	10%
	Other Canadian *	\$ 0.03	6%	\$ 0.04	9%
	Caribbean **	\$ 0.03	6%	\$ 0.04	9%
	Non-Regulated Operations				
	Fortis Hydroelectric Generation	\$ 0.03	6%	\$ 0.01	2%
	Fortis Properties	\$ 0.04	8%	\$ 0.03	6%
	Fortis Corporate	\$ (0.10)	-21%	\$ (0.11)	-23%
<b>EPS</b>		<b>\$0.49</b>		<b>\$0.48</b>	

Source: Company reports; Scotia Capital estimates.

- **2011E/2012E EPS forecasts lower:** Belize Electricity continues to underperform vs. FTS' expectations, contributing only \$1.5M in 2010 vs. \$10M expected (underperformance on a per share basis = \$0.04). FTS stated the poor financial performance was due to "regulatory challenges [that] continue to impede the utility's ability to earn a fair and reasonable return." We cut \$0.04/\$0.05 per share from 2011E/2012E for lower-than-expected Belize earnings as well as some other minor adjustments. FTS' guided 6%/year EPS accretion would imply 2011/2012 EPS of \$1.74/\$1.84 using 2010 recurring EPS of \$1.64 (reported = \$1.65) as the base year, vs. our estimate, now at \$1.76 and \$1.85. Our one-year FTS target has dropped \$0.50/share to \$33.50.
- **Sector valuation:** We cut our energy utilities recommendation from market weight in mid-December 2010 to underweight in late January 2011. This cut was due to better-than-expected U.S. and Canadian economic data and 2011-2012 GDP and interest rate forecasts. Long 10-year government bond interest rates have already backed up 80 and 130 basis points in Canada and the U.S., respectively, from their October 2010 bottoms. Our economists now forecast 4% 10-year Canada rates by Q4/12. We use 3.6% forecast 10-year Canada rates to help set our Q1/11 one-year out stock price targets.
- **FTS acquisition targets unchanged:** Last year, PPL won over a consortium that included Fortis' bid to buy E.ON's U.S. regulated utility assets for US\$6.7B. **Fortis' CEO previously**



guided to looking at \$3B-\$4B regulated utility acquisitions, likely in the U.S. In its Q4/10 release, FTS stated it **continues to pursue acquisitions** of regulated electric and natural gas utilities in the United States and Canada. We respect FTS' track record for making value added acquisitions but **do not put any premium in our FTS P/E multiple or earnings** until we see what transpires, if anything.

Exhibit 2 - Nature of FTS' Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%)					
		2006	2007	2008	2009 (1)	2010	2011
		ROE					
<u>Terasen Gas Companies</u>							
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps	8.38 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75	9.75
Fortis Ontario	40	9	9	9	8.01	8.01	8.01
		ROA					
Belize Electricity	N/A	10-15	10-15	10	10	?	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75	?
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5	?

(1) Pre-July 2009 / Effective July 1, 2009

(2) 2011 on an interim basis

Source: Company reports.

## Segmented Q4/10 Results

- **Q4/10 Terasen Gas:** Reported earnings of \$45M in Q4/10 were down 6% YOY due to: (1) higher operating expenses as 2010 expenses were more heavily weighted in Q4/10 and (2) increased amortization rates as a result of higher capital investment and higher rates resulting from a recent regulator-approved study. These increased costs were partially offset by higher delivery rates, a \$5M after-tax provision take in Q4/09, and lower finance charges due to lower borrowings. Net customer additions were 9,400 in 2010 vs. 8,200 in 2009. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2011 ROE is 9.5% on a deemed equity of 40%, **flat YOY**. TGVI's allowed ROE for 2011 is 10% on a deemed equity of 40% (see Exhibit 2), also **flat YOY**.
- **Q4/10 FortisAlberta:** Reported earnings were up \$2M YOY to \$17M due to AUC's previous approval (November 2009) of a material increase to FortisAlberta's ROE to 9% from 8.61% and allowed equity thickness to 41% from 37% for 2009/2010/2011. **Power deliveries rose 3% YOY**, due to increased oil and gas activities driving an increased customer base and higher deliveries.
- **Q4/10 FortisBC:** Reported Q4/10 net earnings of \$10M were up \$2M from Q4/09 due to a 6% increase in customer electricity rates effective January 1, 2010, partially offset by a 1.4% drop in electricity sales. In December 2009, the BCUC awarded an additional 103 bp to FortisBC's allowed 2010 ROE, to 9.9%, on an unchanged equity thickness of 41%, **both unchanged for 2011**.
- **Q4/10 Newfoundland Power:** Earnings were **up \$1M YOY to \$9M largely** due to 1% higher YOY electricity sales and a slightly higher 2010 allowed ROE of 9%, up 31 bp from

8.69% in 2009 and 8.95% in 2008. **Nfld Power's 2011 ROE is set at only 8.38% for 2011 by way of automatic adjustment formula.**

- **Q4/10 Other Canadian Electric Utilities:** Maritime Electric and FortisOntario are in this "other" category. Earnings were down \$2M YOY to \$5M but **up \$3M YOY on a recurring basis**. Increased YOY recurring earnings were driven by a \$0.8M earnings contribution from Algoma Power (\$nil in Q4/09) and lower finance charges on lower borrowing at a lower average rate. Partially offsetting were 0.7% lower electricity sales due to warmer temperatures. Maritime Electric's 2010 and 2011 ROE is 9.75% on deemed equity of 40%. FortisOntario's 2010 and 2011 ROE is at only 8.01%. The OEB approved Algoma Power's 2011 ROE at 9.85% on 40% deemed equity.
- **Q4/10 Regulated Utilities – Caribbean:** This group owns 59.5% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos. **Q4/10 earnings fell \$2M YOY to \$5M on a 7% sales decrease YOY to 270 GWh** mainly due to lower average temperatures, \$0.5M unfavourable foreign exchange, a depreciation change in Q4/09, and increased legal fees relating to continuing regulatory challenges. See EPS forecast section above for our 2011E/2012E EPS implications.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a Belize government cut to 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL eventually got 10% but the Government denied \$12.6M of retroactive diesel costs incurred for Belize power production net to FTS shareholders. The appeal hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined. In June 2010, the Supreme Court of Belize issued an order prohibiting the PUC from carrying out any rate-setting review proceedings or changing any rates for Belize Electricity until further order of the Supreme Court. The case was heard in October 2010 and closing arguments completed December 2010. A court decision is expected in Q1/11.
- **Q4/10 Fortis Non-Regulated Generation:** YOY earnings were **up \$3M YOY to \$5M** in Q4/10 due to higher hydro production in and higher prices per MWh in Upper New York State and Ontario.
- **Q4/10 Fortis Properties:** Earnings were up \$2M YOY due to lower effective taxes and rent/RevPAR increases that for now more than offset a 170 bp dip in occupancy rates and increased finance charges.
- **Corporate and other:** Overall net corporate and other expenses were down **\$1M YOY** to \$18M due to higher preferred share dividends that were more than offset by lower finance charges on higher-interest-paying debt that was retired. In April 2010, Terasen redeemed its 8% \$125M Capital Securities.
- **Unchanged strong capital expenditures:** Utility capital expenditures will be **\$1.2B** in 2011, mostly in B.C. and Alberta. FTS expects 2010-2014 capital expenditures to total \$5.5B, unchanged post the Waneta Dam announcement. **Some of the larger projects include:**
  - **\$900M** 335 MW Waneta Expansion hydro facility in B.C., of which FTS owns 51%, partnering with Columbia Power Corporation & Columbia Basin Trust (CBC/CBT, 100% owned by the B.C. government). Although non-regulated, the risk of this hydro project is reduced through fixed energy and capacity entitlements. 101 MW of the capacity will be sold to BC Hydro under a long-term PPA with the remaining 234 MW sold to FortisBC. Construction began in fall 2010 and is expected to come into service in 2015.
  - **\$210M** (was \$200M) liquefied natural gas facility on Vancouver Island, expected to be completed in Q2/11 and in service by late 2011.
  - **\$126M** (was \$141M) installation of automated meters at FortisAlberta, expected to be completed by the end of Mar. 2011.
  - **\$106M** (was \$139M) Okanagan Transmission Reinforcement Project at FortisBC, completion expected mid-2011
  - **\$110M** Customer Care Enhancement Project at Terasen Gas, expected to be completed in early 2012 (FTS has previously stated Jan. 2012).

- **Financial:** FTS' capital structure at Dec. 31/10 is 58.4% debt, 9.0% preferred equity, and 32.6% common equity, **in line with FTS' targets** and relatively unchanged from Q3/10. In May 2010, S&P confirmed FTS with an A- credit rating with a stable outlook. In June 2010, DBRS confirmed FTS with a BBB (high) but changed the trend to positive from stable citing broad diversification of FTS' asset base. In October 2010, DBRS raised FTS' credit rating to A- Stable. FTS stated it focuses on EPS as its final measure of financial performance.

[SC Online Analyst Link](#)

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
ATCO Ltd.	ACO.X	S
Emera Incorporated	EMA	D23, G, I, S, U
Fortis Inc.	FTS	G, I, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. The Supervisory Analyst, who reviews the report prior to publication, has a dual reporting line to the Head of Equity Research and the Head of Scotia Capital Compliance. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- D23** Sylvia Chrominska, Group Head of Global Human Resources and Communications for The Bank of Nova Scotia, is on the Board of Directors of Emera Inc.
- G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	11-Feb-08	\$51.25	* 2-Sector Perform	*\$58.00
	24-Feb-08	\$49.70	2-Sector Perform	*\$54.00
2	29-Mar-08	\$46.03	2-Sector Perform	*\$56.00
3	1-May-08	\$48.30	2-Sector Perform	*\$57.50
	21-May-08	\$51.70	2-Sector Perform	*\$60.00
4	8-Jun-08	\$54.01	Obscured	Obscured
	9-Jun-08	\$53.26	* 2-Sector Perform	*\$60.00
5	17-Jul-08	\$49.51	2-Sector Perform	*\$57.00
6	17-Sep-08	\$43.13	2-Sector Perform	*\$55.00
7	8-Oct-08	\$34.00	2-Sector Perform	*\$48.00
8	15-Nov-08	\$40.42	2-Sector Perform	*\$49.00
9	7-Dec-08	\$35.25	Obscured	Obscured
	8-Dec-08	\$34.27	* 2-Sector Perform	*\$49.00
10	18-Sep-09	\$41.86	2-Sector Perform	*\$48.50
11	3-Nov-09	\$43.00	2-Sector Perform	*\$49.50
12	15-Dec-09	\$45.74	2-Sector Perform	*\$54.00
13	19-Feb-10	\$48.23	2-Sector Perform	*\$55.00
14	22-Jul-10	\$49.99	* 1-Sector Outperform	\$55.00
15	2-Sep-10	\$52.35	1-Sector Outperform	*\$62.00
16	6-Nov-10	\$56.00	1-Sector Outperform	*\$66.50
17	4-Dec-10	\$57.38	1-Sector Outperform	*\$68.50
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Emera Incorporated				
#	Date	Closing Price	Rating	Target-1YR
1	11-Feb-08	\$22.00	* 2-Sector Perform	*\$23.00
2	29-Mar-08	\$20.84	2-Sector Perform	*\$23.50
3	21-May-08	\$22.35	2-Sector Perform	*\$24.00
4	8-Jun-08	\$23.40	Obscured	Obscured
	9-Jun-08	\$23.06	* 2-Sector Perform	*\$24.00
5	17-Jul-08	\$21.60	2-Sector Perform	*\$23.00
6	2-Aug-08	\$23.36	2-Sector Perform	*\$24.50
7	8-Oct-08	\$19.04	* 3-Sector Underperform	*\$21.00
8	8-Nov-08	\$22.02	3-Sector Underperform	*\$22.00
	15-Nov-08	\$21.49	3-Sector Underperform	*\$23.00
9	7-Dec-08	\$21.64	Obscured	Obscured
	8-Dec-08	\$22.00	* 3-Sector Underperform	*\$23.00
10	28-Mar-09	\$18.81	* 2-Sector Perform	*\$22.00
11	27-Jun-09	\$21.86	2-Sector Perform	*\$23.00
12	8-Aug-09	\$21.01	2-Sector Perform	*\$23.50
13	26-Sep-09	\$21.17	2-Sector Perform	*\$24.50
14	15-Dec-09	\$24.91	2-Sector Perform	*\$26.00
15	22-Jul-10	\$26.65	* 3-Sector Underperform	\$26.00
16	7-Aug-10	\$26.50	3-Sector Underperform	*\$26.50
17	2-Sep-10	\$27.14	3-Sector Underperform	*\$28.50
	28-Sep-10	\$29.11	3-Sector Underperform	*\$29.25
18	6-Nov-10	\$30.07	* 2-Sector Perform	*\$31.75
	19-Nov-10	\$31.13	2-Sector Perform	*\$33.50
19	4-Dec-10	\$32.40	2-Sector Perform	*\$35.00
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	11-Feb-08	\$29.10	* 1-Sector Outperform	*\$31.00
2	29-Mar-08	\$28.41	1-Sector Outperform	*\$32.00
3	2-May-08	\$27.28	1-Sector Outperform	*\$33.00
	21-May-08	\$27.68	1-Sector Outperform	*\$33.50
4	8-Jun-08	\$27.79	Obscured	Obscured
	9-Jun-08	\$27.50	* 1-Sector Outperform	*\$33.50
5	1-Jul-08	\$27.16	1-Sector Outperform	*\$33.00
	17-Jul-08	\$24.55	1-Sector Outperform	*\$32.00
6	8-Oct-08	\$22.25	1-Sector Outperform	*\$28.00
7	1-Nov-08	\$26.30	1-Sector Outperform	*\$29.00
	15-Nov-08	\$27.39	1-Sector Outperform	*\$30.00
	18-Nov-08	\$25.96	* 2-Sector Perform	\$30.00
8	3-Dec-08	\$25.48	Restricted	Restricted
9	8-Jan-09	\$24.49	* 2-Sector Perform	*\$28.50
10	6-Feb-09	\$23.86	2-Sector Perform	*\$28.00
11	1-May-09	\$22.36	2-Sector Perform	*\$27.00
12	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
13	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
14	14-Nov-09	\$26.60	3-Sector Underperform	*\$27.00
15	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
16	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
17	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
18	6-Nov-10	\$33.26	2-Sector Perform	*\$34.50
19	4-Dec-10	\$32.81	2-Sector Perform	*\$35.00
* represents the value(s) that has changed.				



## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

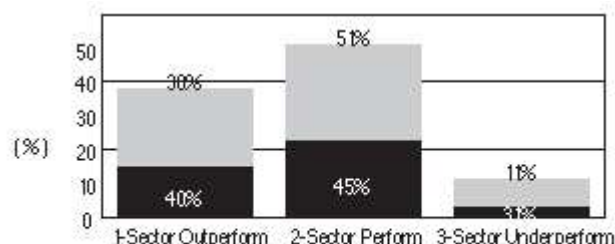
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at January 31, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

## **General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

## **Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of the Bank of Nova Scotia. Scotia Capital Inc. is a member of CIPF.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

**(FTS-T C\$32.86)**

Sam Kanes, CA, CFA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[sam\\_kanes@scotiacapital.com](mailto:sam_kanes@scotiacapital.com)

David Forster, CA - 416-863-7846  
(Scotia Capital Inc. - Canada)  
[david\\_forster@scotiacapital.com](mailto:david_forster@scotiacapital.com)

<b>Rating:</b> 3-Sector Underperform	<b>Target</b>	1-Yr: C\$34.50	<b>ROR</b>	1-Yr: 8.5%	<b>Est. NTM Div.</b>	C\$1.16
<b>Risk Ranking:</b> Low		2-Yr: C\$36.00		2-Yr: 16.6%	<b>Div. (Current)</b>	C\$1.16
<b>Valuation:</b> 10.25x EV/EBITDA on 2012E EBITDA						
<b>Key Risks to Target:</b> Interest rates, growth						<b>Yield</b> 3.5%

## Fortis Luncheon Highlights - Consistent

### Event

- We hosted Fortis for an investor lunch yesterday. The investment message was overall consistent with unchanged \$5.5B of capital expenditures and a 6% organic rate base/EPS/dividend growth intact.

### Implications

- Future 6%/year EPS/dividend growth will be mostly driven by FTS' growing rate base. 80% of the growth will be in Western Canada.
- On potential acquisitions, FTS continues to target mostly U.S. electric utilities that are \$1B-\$5B in enterprise value. These U.S. utilities tend to have higher regulated equity thickness (45%-50% versus 40% in Canada) and ROE returns (10%-10.5% versus 9%-9.5% in Canada).
- FTS' Belize shareholder issues continue and an appeal is likely but Belize assets only generate 2.5% of earnings. On March 15, FTS announced the Supreme Court of Belize dismissed FTS' appeal.

### Recommendation

- We like FTS' low risk and steady growth proposition but view FTS' stock price as high at 20x P/E for 6% EPS growth. EMA dividend is 60 bp higher while TRP's is 80 bp higher with better EPS growth.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	\$0.54 A	\$0.31 A	\$0.21 A	\$0.48 A	\$1.54	18.62
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.62	\$0.32	\$0.25	\$0.57	\$1.76	18.67
2012E					\$1.85	17.76
(FY-Dec.)	2008A	2009A	2010A	2011E	2012E	
Adj Earnings/Share	\$1.56	\$1.54	\$1.65	\$1.76	\$1.85	
Cash Flow/Share	\$3.90	\$3.77	\$4.08	\$4.38	\$4.70	
Price/Earnings	15.8	18.6	20.6	18.7	17.8	
Revenues	\$3,903	\$3,637	\$3,664	\$4,050	\$4,275	
EBITDA	\$1,048	\$1,064	\$1,150	\$1,203	\$1,275	
Current Ratio	0.7	0.7	0.8	0.8	0.8	
EBITDA/Int. Exp	2.9	3.0	3.3	3.4	3.5	
IBES Estimates	BVPS11E	N/A				
EPS 2011E: \$1.75	ROE11E	N/A				
EPS 2012E: \$1.83						



Source: Global Insight, Inc.

<b>Capitalization</b>	
Shares O/S (M)	173.6
Total Value (\$M)	5,704
Float O/S (M)	171.7
Float Value (\$M)	5,642
TSX Weight	0.35%
Next Reporting Date	Apr-11

[Fixed Income Research Link](#)
[SC Online Analyst Link](#)

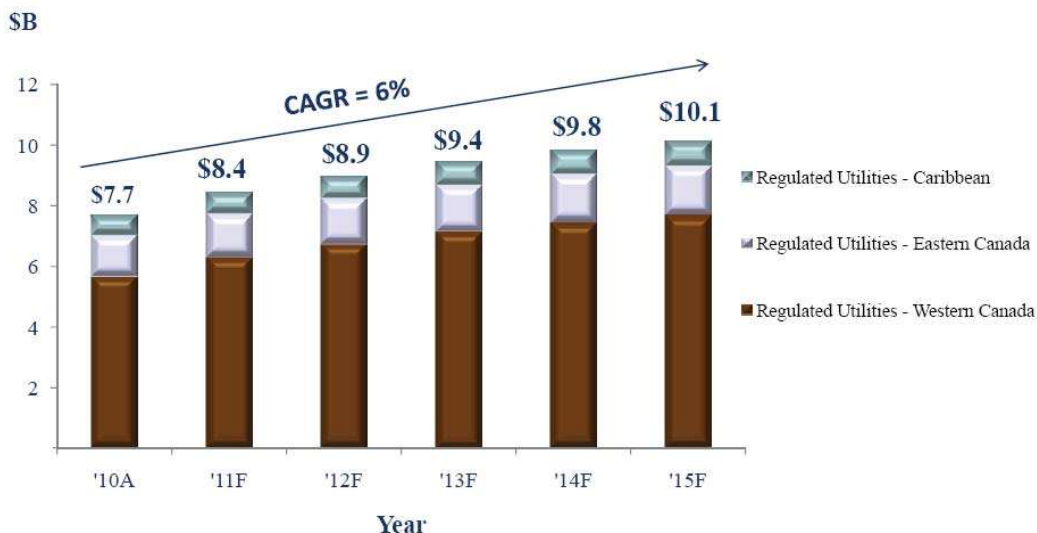
Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

**Investor Meeting Highlights**

- **Steady 6%/yr dividend growth:** Fortis has grown its dividends per share at 9.3% since 1972 and currently pays out 68% of its earnings with an unofficial 60%-70% targeted range. FTS's payout ratio was closer to 50% prior to buying Terasen Gas so that is why FTS' forecast EPS growth rate will likely match its dividend growth rate going forward. In 2011 FTS inferred its 2011 dividend payout will drop to ~65%. FTS' rate base at a 6% CAGR through 2015 will take overall regulated asset rate bases from \$7.7B to \$10.1B in 2015 (see Exhibit 1). Rate base growth is expected to be mainly driven by growth in FTS' Western Canada division (80%). FTS forecasts its 2011 capex spending at a steady \$1.2B, of which \$800M comes from Western Canada, including \$210M on an LNG Storage Facility on Vancouver Island, expected to be completed in May 2011. The LNG Storage Facility is regulated with a 40% equity thickness and 10% allowed ROE. FTS stated the likelihood of some fixed asset investment in the Kitimat LNG terminal as highly unlikely but observed that buying the Pacific Northern Gas Pipeline would be more logical but currently too expensive.

Exhibit 1 - Mid-Year Rate Base Projections



Source: Company reports.

- **Belize update:** FTS continues to have problems in Belize following the 2008 Annual Tariff Review Proceeding that disallowed FTS a valid increase in rates to pay for valid fuel costs incurred to make power on behalf of Belize residents. On March 15, FTS announced the Supreme Court of Belize dismissed FTS' appeal. There are two more courts to appeal to if FTS chooses (Belize Appeals Court and then a Caribbean court based in Trinidad). FTS does not expect any resolution prospect until the final appeal is made. FTS noted its **Belize assets are relatively immaterial** at less than 2% of total assets while Belize earnings are ~2.5% overall.
- **On potential acquisitions, FTS continues to target mostly U.S. electric utilities** (lack of Canadian regulated targets) that are \$1B-\$5B in enterprise value. Traditionally, the U.S. electric utility industry benefits from higher equity thickness (45%-50% or 52%-53% with generation) and ROE returns (10%-10.5%) relative to Canada. These relatively higher returns (vs. Canada) are partially/mostly offset by a greater regulatory lag on rate hike request approvals. This can vary greatly among the 50 states so FTS is careful when assessing targets as the regulatory construct can be the greatest investment variable. Also, FTS does not

believe in paying more than 30% premium over regulated book values as at that level, most takeovers of regulated assets would not be accretive.

- **On wind:** FTS is not a supporter of investing in wind development/acquisitions as FTS had a bad experience with an Alberta wind farm (Crowley) in the past. FTS also does not like wind power's reliance on government tax incentives but would consider wind developments/acquisitions within a regulatory rate base as EMA has in N.S.
- **On Waneta:** FTS gave more colour on its pro-forma investment (51% of \$900M) in the Waneta dam for 2015. FTS hopes to earn 12%-13% ROE on a 35%-40% equity thickness to compensate for taking financing and construction cost risks.

[SC Online Analyst Link](#)

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
ATCO Ltd.	ACO.X	S
Emera Incorporated	EMA	D23, G, I, S, U
Fortis Inc.	FTS	G, I, S, U
TransCanada Corporation	TRP	G, I, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. The Supervisory Analyst, who reviews the report prior to publication, has a dual reporting line to the Head of Equity Research and the Head of Scotia Capital Compliance. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- D23** Sylvia Chrominska, Group Head of Global Human Resources and Communications for The Bank of Nova Scotia, is on the Board of Directors of Emera Inc.
- G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	\$47.62	* 2-Sector Perform	*\$56.00
2	1-May-08	\$48.30	2-Sector Perform	*\$57.50
	21-May-08	\$51.70	2-Sector Perform	*\$60.00
3	17-Jul-08	\$49.51	2-Sector Perform	*\$57.00
4	17-Sep-08	\$43.13	2-Sector Perform	*\$55.00
5	8-Oct-08	\$34.00	2-Sector Perform	*\$48.00
6	17-Nov-08	\$40.48	2-Sector Perform	*\$49.00
7	18-Sep-09	\$41.86	2-Sector Perform	*\$48.50
8	3-Nov-09	\$43.00	2-Sector Perform	*\$49.50
9	15-Dec-09	\$45.74	2-Sector Perform	*\$54.00
10	19-Feb-10	\$48.23	2-Sector Perform	*\$55.00
11	22-Jul-10	\$49.99	* 1-Sector Outperform	\$55.00
12	2-Sep-10	\$52.35	1-Sector Outperform	*\$62.00
13	8-Nov-10	\$56.95	1-Sector Outperform	*\$66.50
14	6-Dec-10	\$58.05	1-Sector Outperform	*\$68.50
15	25-Feb-11	\$57.31	1-Sector Outperform	*\$70.00
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Emera Incorporated				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	\$21.04	* 2-Sector Perform	*\$23.50
2	21-May-08	\$22.35	2-Sector Perform	*\$24.00
3	17-Jul-08	\$21.60	2-Sector Perform	*\$23.00
4	5-Aug-08	\$22.71	2-Sector Perform	*\$24.50
5	8-Oct-08	\$19.04	* 3-Sector Underperform	*\$21.00
6	10-Nov-08	\$21.53	3-Sector Underperform	*\$22.00
	17-Nov-08	\$21.50	3-Sector Underperform	*\$23.00
7	30-Mar-09	\$18.79	* 2-Sector Perform	*\$22.00
8	29-Jun-09	\$22.05	2-Sector Perform	*\$23.00
9	10-Aug-09	\$20.94	2-Sector Perform	*\$23.50
10	28-Sep-09	\$21.35	2-Sector Perform	*\$24.50
11	15-Dec-09	\$24.91	2-Sector Perform	*\$26.00
12	22-Jul-10	\$26.65	* 3-Sector Underperform	\$26.00
13	9-Aug-10	\$26.25	3-Sector Underperform	*\$26.50
14	2-Sep-10	\$27.14	3-Sector Underperform	*\$28.50
	28-Sep-10	\$29.11	3-Sector Underperform	*\$29.25
15	8-Nov-10	\$30.87	* 2-Sector Perform	*\$31.75





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

	19-Nov-10	\$31.13	2-Sector Perform	*\$33.50
16	6-Dec-10	\$32.39	2-Sector Perform	*\$35.00
17	25-Feb-11	\$31.57	Restricted	Restricted
18	17-Mar-11	\$31.03	* 2-Sector Perform	*\$35.00
* represents the value(s) that has changed.				

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	\$29.21	* 1-Sector Outperform	*\$32.00
2	2-May-08	\$27.28	1-Sector Outperform	*\$33.00
	21-May-08	\$27.68	1-Sector Outperform	*\$33.50
3	2-Jul-08	\$27.23	1-Sector Outperform	*\$33.00
	17-Jul-08	\$24.55	1-Sector Outperform	*\$32.00
4	8-Oct-08	\$22.25	1-Sector Outperform	*\$28.00
5	3-Nov-08	\$26.42	1-Sector Outperform	*\$29.00
	17-Nov-08	\$27.58	1-Sector Outperform	*\$30.00
	18-Nov-08	\$25.96	* 2-Sector Perform	\$30.00
6	3-Dec-08	\$25.48	Restricted	Restricted
7	8-Jan-09	\$24.49	* 2-Sector Perform	*\$28.50
8	6-Feb-09	\$23.86	2-Sector Perform	*\$28.00
9	1-May-09	\$22.36	2-Sector Perform	*\$27.00
10	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
11	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
12	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
13	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
14	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
15	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
16	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
17	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
18	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

TransCanada Corporation				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	\$39.55	* 1-Sector Outperform	*\$48.00
2	2-Apr-08	\$36.30	1-Sector Outperform	*\$47.00
	18-Apr-08	\$36.73	1-Sector Outperform	*\$46.00
3	6-May-08	\$37.90	Restricted	Restricted
	14-May-08	\$38.17	* 1-Sector Outperform	*\$46.00
	21-May-08	\$39.60	1-Sector Outperform	*\$48.00
4	17-Jul-08	\$38.04	1-Sector Outperform	*\$46.00
5	1-Aug-08	\$39.49	1-Sector Outperform	*\$48.00
6	18-Sep-08	\$36.67	1-Sector Outperform	*\$47.00
7	8-Oct-08	\$35.65	1-Sector Outperform	*\$42.00
8	17-Nov-08	\$34.53	1-Sector Outperform	*\$44.00
	18-Nov-08	\$32.85	Restricted	Restricted
	26-Nov-08	\$32.55	* 1-Sector Outperform	*\$44.00
9	4-Feb-09	\$33.17	1-Sector Outperform	*\$43.00
10	4-May-09	\$30.30	1-Sector Outperform	*\$42.00
11	17-Jun-09	\$31.37	Restricted	Restricted
	25-Jun-09	\$31.30	* 1-Sector Outperform	*\$41.00
12	31-Jul-09	\$30.64	1-Sector Outperform	*\$40.00
13	23-Sep-09	\$33.66	Obscured	Obscured
	25-Sep-09	\$33.73	* 1-Sector Outperform	*\$40.00
14	13-Oct-09	\$33.30	1-Sector Outperform	*\$41.00
15	5-Nov-09	\$32.75	1-Sector Outperform	*\$40.50
	19-Nov-09	\$33.00	1-Sector Outperform	*\$40.00
16	15-Dec-09	\$35.98	1-Sector Outperform	*\$44.00
17	5-Jan-10	\$35.96	1-Sector Outperform	*\$45.00
18	3-Feb-10	\$34.52	1-Sector Outperform	*\$44.00
19	30-Jul-10	\$36.33	1-Sector Outperform	*\$42.00
20	2-Sep-10	\$38.49	1-Sector Outperform	*\$47.00
21	4-Nov-10	\$37.36	1-Sector Outperform	*\$46.00
22	6-Dec-10	\$37.60	1-Sector Outperform	*\$49.00
23	16-Feb-11	\$37.85	1-Sector Outperform	*\$48.00
* represents the value(s) that has changed.				

## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

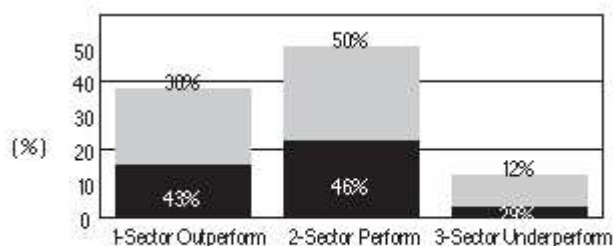
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at February 28, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

## **General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

## **Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of the Bank of Nova Scotia. Scotia Capital Inc. is a member of CIPF.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

(FTS-T C\$32.21)

Sam Kanes, CA, CFA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[sam\\_kanes@scotiacapital.com](mailto:sam_kanes@scotiacapital.com)

Rating: 3-Sector Underperform Target 1-Yr: C\$34.50 ROR 1-Yr: 10.7% Est. NTM Div. C\$1.16  
Risk Ranking: Low 2-Yr: C\$36.00 2-Yr: 19.0% Div. (Current) C\$1.16  
Valuation: 10.25x EV/EBITDA on 2012E EBITDA, implies 2012E P/E of 18.6x Yield 3.6%  
Key Risks to Target: Interest rates, growth

### Q1/11 EPS Mildly Beats Our Estimates/Street

#### Event

- FTS reported Q1/11 EPS of \$0.67/sh or \$0.65 recurring that mildly beat our estimate and the Street at \$0.62 (\$0.59-\$0.64). FTS' electric utilities and strong demand benefitted from colder YOY conditions in W. Cda.

#### Implications

- Q1/11 EPS was mild beat at \$0.65 adjusted. This offset Q4/10's mild miss on lower temperatures at FTS's Caribbean operations and higher-than-expected Q4 O&M costs. Strong Q1/11 electric utilities earnings of \$53M were up \$13M YOY on higher rate bases, cooler weather, and strong demand.
- FTS' 2011E-15E capital budget remains unchanged at \$5.5B as does its 6%/year organic EPS/dividend growth. Most 2011 regulatory allowed ROE levels remain flat with 2010.
- We decided to maintain all our 2011/12 EPS forecasts and valuation parameters.

#### Recommendation

- Our current rank energy utilities/IPP/Pipe order is TRP and ATCO (1-SO), Emera, CPX, CU and Enbridge, followed by Fortis. Relative stock performances have however, tightened this group considerably with Q1/11 FTS stock price performance the poorest in the group.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	\$0.54 A	\$0.31 A	\$0.21 A	\$0.48 A	\$1.54	18.62
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.67 A	\$0.31	\$0.23	\$0.55	\$1.76	18.30
2012E					\$1.85	17.41
(FY-Dec.)	2008A	2009A	2010A	2011E	2012E	
Adj Earnings/Share	\$1.56	\$1.54	\$1.65	\$1.76	\$1.85	
Cash Flow/Share	\$3.90	\$3.75	\$4.08	\$4.40	\$4.68	
Price/Earnings	15.8	18.6	20.6	18.3	17.4	
Revenues	\$3,903	\$3,637	\$3,664	\$4,050	\$4,275	
EBITDA	\$1,048	\$1,064	\$1,150	\$1,215	\$1,276	
Current Ratio	0.7	0.7	0.8	0.8	0.8	
EBITDA/Int. Exp	2.9	3.0	3.3	3.4	3.5	
IBES Estimates	BVPS11E	16.01				
EPS 2011E: \$1.75	ROE11E	11.2%				
EPS 2012E: \$1.83						



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	175.0
Total Value (\$M)	5,637
Float O/S (M)	173.0
Float Value (\$M)	5,572
TSX Weight	0.36%
Next Reporting Date	Aug-11

#### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
10.25x EV/EBITDA on 2012E EBITDA,		
implies 2012E P/E of 18.6x		
<b>Old Valuation:</b>		
10.25x EV/EBITDA on 2012E EBITDA		

[Fixed Income Research Link](#)
[SC Online Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

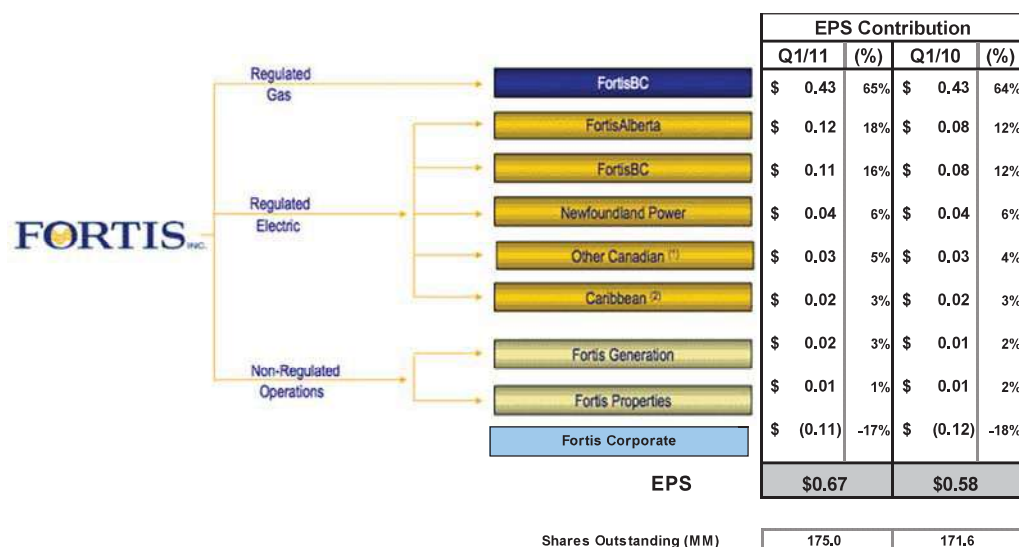
Note: Indirect



## Q1/11 EPS/2011E/2012E EPS Forecasts/Stock & Sector Valuation

- **Fortis reported Q1/11 EPS** of \$0.67 (\$0.58 in Q1/10), recurring at \$0.65, moderately beating our estimate at \$0.62 and the Street at \$0.62 rounded (\$0.59-\$0.64). The mild Q1/11 EPS beat vs. our expectations was due to FortisBC Electric's and FortisAlberta's higher energy sales due partly to colder weather. The timing of revenue recognition in Q1/10 vs. Q1/11 was also a factor as well as higher Belize non-regulated hydroelectric generation. See Exhibit 1 for Fortis' EPS contribution by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment



Source: Company reports; Scotia Capital estimates.

- **2011E/2012E EPS forecasts unchanged:** We conservatively decided to maintain all our 2011/12 EPS estimates and valuation parameters as is. Fortis beat our expectations after adjusting for non-recurring items partially due to colder weather. Therefore we left our 2011E/2012E EPS unchanged at \$1.76/\$1.85.
- **Sector valuation:** We cut our energy utilities recommendation from market weight in mid-December 2010 to underweight in late January 2011 due to better-than-expected U.S. and Canadian economic data, higher 2011-12 GDP and higher interest rate forecasts. Long 10-year government bond interest rates had backed up 80 and 130 basis points in Canada and the U.S., respectively from their October 2010 bottoms. While our economists still forecast 4% 10-year Canada rates by Q4/12, we use 3.6% forecast 10-year Canada rates to help set our Q1/11 one-year-out stock price targets versus 3.1% as of yesterday. Our bias is to move up to market weight again at the moment due to softer U.S. and Canadian economic growth data.
- **FTS US acquisition targets unchanged:** Last year, PPL won over a consortium that included Fortis' bid to buy E.ON's U.S. regulated utility assets for US\$6.7B. **Fortis' CEO previously guided to looking at US\$3B-\$4B regulated utility acquisitions.** In its Q1/11 release, FTS stated it **continues to pursue acquisitions** of regulated electric and natural gas utilities in the United States and Canada. We respect FTS' track record for making value added acquisitions but **do not put any premium in our FTS P/E multiple or earnings** until we see what transpires, if anything.

Exhibit 2 - Nature of FTS' Regulation

Nature of Regulation							
Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%)					
		2006	2007	2008	2009 (1)	2010	2011
		ROE					
Terasen Gas Companies							
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps	8.38 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75	9.75
Fortis Ontario	40	9	9	9	8.01	8.01	8.01
		ROA					
Belize Electricity	N/A	10-15	10-15	10	10	?	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75	?
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5	?

(1) Pre-July 2009 / Effective July 1, 2009

(2) 2011 on an interim basis

Source: Company reports.

## Segmented Q1/11 Results

- **Q1/11 FortisBC Energy Companies (former Terasen Gas):** Reported earnings of \$76M in Q1/11 were up 4% YOY due to: (1) higher rate base from continuous investment in utility capital assets, (2) lower earnings in Q1/10 from the timing of recording Q1/10 profits in Q3/10, and (3) lower depreciation expense due to retirement of some plant assets in late 2010. There was also unfavourable timing of increase in operating expenses, driven by higher labour costs. Net customer additions decreased 12% YOY to 1,373 in Q1/11 vs. 1,566 in Q1/10. FortisBC (former TerasenGas) is comprised of FEI (former TGI) (i.e., Vancouver), FEVI (former TGVI) (i.e., Vancouver Island), and FEWI (former TGWI) (i.e., Whistler area). FEI's allowed 2011 ROE is 9.5% on a deemed equity of 40%, **flat YOY**. FEVI's allowed ROE for 2011 is 10% on a deemed equity of 40% (see Exhibit 2), also **flat YOY**.
- **Q1/11 FortisAlberta:** Reported earnings were up \$7M YOY to \$21M due to (1) continued investment into utility capital assets and higher energy deliveries, (2) one time \$1M gain on the sale of property (\$0.01/share non recurring), and (3) the timing of revenue recording in Q1/10. **Power deliveries rose 7% YOY to 4,402 GWh**, due to increased oil & gas activities driving an increased customer base and higher deliveries with cooler winter temperatures. The client base increased by 10,800 QOQ. **Revenue for Q1/10** included only a 7.5% interim customer rate increase, **while Q1/11 revenues reflect the final approved 20.1% impact of the 2010 rate increase**.
- **Q1/11 FortisBC Electric:** Reported Q1/11 net earnings of \$19M were up \$5M from Q1/10 due to (1) a 10.4% increase in electricity sales, (2) 6.6% increase in customer electricity rates effective January 1, 2011, and (3) higher cost of capital, 2.9% increase in rate base as of September 1, 2010 (flow through of increased power costs). FortisBC's allowed 2011 ROE is 9.9%, **on an unchanged equity thickness of 40%, flat YOY**.
- **Q1/11 Newfoundland Power:** Earnings were **flat YOY**. Electricity sales went up by 2% YOY, offset by a lower ROE in 2011 (2010's 9% vs. 2011's 8.38%), higher maintenance, and labour costs.



- **Q1/11 Other Canadian Electric Utilities:** Maritime Electric and FortisOntario are in this "other" category. Earnings were **up \$1M YOY to \$6M**. Increased YOY earnings were driven by increased allowed ROE at Algoma Power to 9.85% from 8.57%. Electric sales increased by 3.5% due to colder weather. Maritime Electric's 2010 and 2011 ROE is 9.75% on deemed equity of 40%. FortisOntario OEB Canadian Niagara Power's 2010 and 2011 ROE is at only 8.01%.
- **Q1/11 Regulated Utilities - Caribbean:** This group owns 59.5% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos. Q1/11 **earnings were flat YOY** at \$4M. Earnings from slightly higher Grand Cayman electricity sales (\$1M increase from \$256M YOY) were fully offset by higher provision for Belize Electricity bad debts and high interest expenses on regulatory liabilities.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a Belize government cut to 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL eventually got 10% but the Government denied \$12.6M of retroactive diesel costs incurred for Belize power production net to FTS shareholders. The appeal hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined. In June 2010 the Supreme Court of Belize issued an order prohibiting the PUC from carrying out any rate-setting review proceedings or changing any rates for Belize Electricity until further order of the Supreme Court. The case was heard in October 2010 and closing arguments completed December 2010. **In March 2011, the Supreme Court of Belize dismissed the Belize Electricity's appeal.** Currently Fortis is in the process of filing an appeal and has filed an application to restrain the regulator from any rate action, pending the hearing of the appeal.
- **Q1/11 Fortis Non-Regulated Generation:** YOY earnings were **up \$1M YOY to \$3M** in Q1/11 due to higher hydro production in Belize.
- **Q1/11 Fortis Properties:** Earnings **decreased by \$1M YOY** to \$1M due to a lower average occupancy rate of 94.3% (Q1/10 rate 95.8%) and higher amortization costs because of the higher investments in Hospitality and Real Estate Divisions. The loss was partially offset by \$0.5M gain resulting from the sale of the Viking Mall in Newfoundland.
- **Corporate and other expenses:** Overall net corporate and other expenses were down **\$1M YOY** to \$20M due to lower operating expenses, and lower finance charges related to \$125M 8% Capital Securities, redeemed April 2010, offset by higher preference share dividends due to the issuance of First Preference Shares, Series H in January 2010.
- **Unchanged strong capital expenditures:** Expected utility capital expenditures remain at **\$1.2B** in 2011, mostly in B.C. and Alberta. FTS expects 2011-15 capital expenditures will be \$5.5B, unchanged, with 63% to be incurred at the regulated electric utilities, 20% at the regulated gas utilities, and 17% at the non regulated operations. **Some of the larger projects include:**
  - **\$900M** 335 MW Waneta Expansion hydro facility in B.C. of which FTS owns 51%, partnering with Columbia Power Corporation & Columbia Basin Trust (CBC/CBT, 100% owned by the B.C. government). Although non-regulated, the risk of this hydro project is reduced through fixed energy and capacity entitlements. 101 MW of the capacity will be sold to BC Hydro under a long-term PPA with the remaining 234 MW sold to FortisBC. Construction began in fall/10 and is expected to come into service in spring 2015.
  - **\$214M** (was \$210M) liquefied natural gas facility on Vancouver Island, expected to be completed in the next several weeks and in service by January 2012.
  - **\$126M** installation of automated meters at FortisAlberta was substantially completed as of March 2011.
  - **\$106M** Okanagan Transmission Reinforcement Project at FortisBC, completion expected mid-2011.
  - **\$110M** Customer Care Enhancement Project at FortisBC, expected to be completed by January 2012.
  - **\$50M** 12-store office building in St. John's Newfoundland is expected to be completed in 2013. The project is subject to municipal government approval.

- **Financial:** FTS' capital structure at 3/31/11 is 57.5% debt, 9.0% preferred equity, and 33.5% common equity, **in line with FTS' targets except for certain debt at Belize Electricity and the Exploits River Hydro Partnership**, and relatively unchanged from Q4/10. In May 2010 S&P confirmed FTS with an A- credit rating with a stable outlook. In October/10, DBRS raised FTS' credit rating to A (low) Stable. FTS stated it focuses on EPS as its final measure of financial performance.

[SC Online Analyst Link](#)

## **Appendix A: Important Disclosures**

<b>Company</b>	<b>Ticker</b>	<b>Disclosures (see legend below)*</b>
ATCO Ltd.	ACO.X	S
Canadian Utilities Limited	CU	B33, I, S, U
Capital Power Corporation	CPX	G, I, T, U
Emera Incorporated	EMA	D23, G, I, S, U
Enbridge Inc.	ENB	G, I, S, U
Fortis Inc.	FTS	G, I, S, U
TransCanada Corporation	TRP	G, I, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. The Supervisory Analyst, who reviews the report prior to publication, has a dual reporting line to the Head of Equity Research and the Head of Scotia Capital Compliance. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### **\* Legend**

**B33** David A. Dodge is a director of Canadian Utilities Limited and is a director of the Bank of Nova Scotia.

**D23** Sylvia Chrominska, Group Head of Global Human Resources and Communications for The Bank of Nova Scotia, is on the Board of Directors of Emera Inc.

**G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.

**I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.

**S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

**T** The Fundamental Research Analyst/Associate has visited material operations of this issuer.

**U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

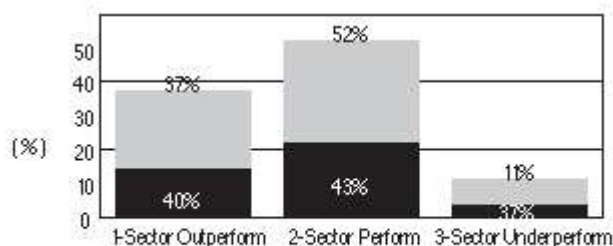
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at April 30, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of the Bank of Nova Scotia. Scotia Capital Inc. is a member of CIPF.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.



**Fortis Inc.****(FTS-T C\$34.06)**

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew\\_akman@scotiacapital.com](mailto:matthew_akman@scotiacapital.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

**Rating: 2-Sector Perform****Target** 1-Yr: C\$35.00 **ROR** 1-Yr: 6.2%**Risk Ranking: Low**

2-Yr: C\$36.00 2-Yr: 12.6%

**Valuation:** 7.0% 2012E Free Cash Yield and 11.3x 2012E EV/EBITDA**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory**Est. NTM Div.** C\$1.18**Div. (Current)** C\$1.16**Yield** 3.4%**Regulated Reliability****Event**

- FTS reported Q3/11 results. Adjusted EPS was \$0.25 (prior year \$0.26), in line with our estimate of \$0.24.

**Implications**

- The Q3 result demonstrates that business risk at FTS has declined since the relatively rocky events of the summer (Belize, Vermont). With the reduction in earnings from Caribbean and unregulated businesses, and growth in regulated Canadian utility, almost 90% of future earnings are expected to derive from low-volatility and mostly regulated sources.
- Any remaining risk relates primarily to changes in allowed Canadian returns for regulated utilities. We see potential for modest reductions, but are hopeful there will be no major adjustments.
- Acquisitions of U.S. utilities are still possible despite challenges in Vermont this past summer. Like other Canadian infrastructure, FTS maintains its cost of capital advantage and potential for accretive deals.

**Recommendation**

- Though earnings were in line and there are no changes to our estimates, the company's improved risk profile may attract a modestly higher valuation. We are raising our one-year target price by \$1 to \$35 and remain comfortable recommending investors hold the stock at these levels.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.67 A	\$0.33 A	\$0.25 A	\$0.45	\$1.70	20.04
2012E	\$0.69	\$0.30	\$0.24	\$0.52	\$1.75	19.46
2013E	\$0.73	\$0.33	\$0.28	\$0.46	\$1.80	18.92
(FY-Dec.)	2009A	2010A	2011E	2012E	2013E	
Free Cash Flow/Share	\$1.86	\$2.00	\$2.36	\$2.47	\$2.58	
Price/Earnings	18.8	20.6	20.1	19.5	18.9	
EV/EBITDA	10.8	11.2	11.0	11.2	10.9	
Payout Ratio	56%	56%	49%	49%	49%	
EBITDA	\$1,067	\$1,150	\$1,220	\$1,258	\$1,289	
Debt/EBITDA	5.5	5.2	5.1	5.3	5.2	
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57	
Enterprise Value	\$11,503	\$12,859	\$13,372	\$13,977	\$14,000	

**IBES Estimates**

EPS 2011E: \$1.70

EPS 2012E: \$1.78



Source: Global Insight, Inc.

<b>Capitalization</b>	
Shares O/S (M)	186.9
Total Value (\$M)	6,367
Float O/S (M)	185.5
Float Value (\$M)	6,318
TSX Weight	0.43%
Next Reporting Date	Feb-12

**Pertinent Revisions**

	New	Old
<b>Target:</b>		
1-Yr	\$35.00	\$34.00
2-Yr	\$36.00	\$35.00

**New Valuation:**

7.0% 2012E Free Cash Yield and 11.3x 2012E EV/EBITDA

**Old Valuation:**

7.3% 2012E Free Cash Yield and 11.1x 2012E EV/EBITDA

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

## **Appendix A: Important Disclosures**

<b>Company</b>	<b>Ticker</b>	<b>Disclosures (see legend below)*</b>
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	3-Nov-08	\$26.42	* 1-Sector Outperform	*\$29.00
	17-Nov-08	\$27.58	1-Sector Outperform	*\$30.00
	18-Nov-08	\$25.96	* 2-Sector Perform	\$30.00
2	3-Dec-08	\$25.48	Restricted	Restricted
3	8-Jan-09	\$24.49	* 2-Sector Perform	*\$28.50
4	6-Feb-09	\$23.86	2-Sector Perform	*\$28.00
5	1-May-09	\$22.36	2-Sector Perform	*\$27.00
6	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
7	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
8	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
9	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
10	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
11	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
12	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
13	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
14	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
15	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
16	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
17	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
* represents the value(s) that has changed.				

## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

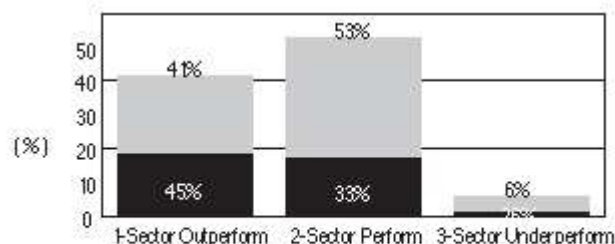
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at October 31, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

**Additional Disclosures**

**Canada:** This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. is not in the business of providing investment banking services.

**Hong Kong:** This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

**Mexico:** This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

**Singapore:** This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

**United States:** This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

**Non-U.S. investors** wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

(FTS-T C\$33.51)

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew\\_akman@scotiacapital.com](mailto:matthew_akman@scotiacapital.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

Rating: 2-Sector Perform

Target

1-Yr: C\$34.00

ROR

1-Yr: 5.0%

Est. NTM Div.

C\$1.18

Risk Ranking: Low

2-Yr: C\$35.00

2-Yr: 11.5%

Div. (Current)

C\$1.16

Valuation: 7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

Yield

3.5%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

## BC to Review Regulated Returns

### Event

- The B.C. Utilities Commission (BCUC) announced it will initiate a generic cost of capital proceeding in early 2012.

### Implications

- The BCUC last reviewed cost of capital in early 2009. Given that government bond yields and credit spreads have come in significantly since that time, and given that the BCUC unilaterally initiated the proceeding, we have to assume allowed returns are going lower.
- Fortis is the only utility we cover with material exposure to allowed returns on equity in B.C. Allowed ROEs are 9.5%-10%. With about \$1.9B of 2013E regulated equity in the province, every 100 basis point reduction in allowed ROE decreases 2013E EPS by about \$0.10.
- We are therefore reducing our 2013E EPS estimate by \$0.10 and our one-year target price by \$1 to \$34. In a separate regulatory proceeding, the Alberta Utilities Commission is due to decide soon on a new generic ROE. Our estimates assume it is reduced to 8.5% from 9%.

### Recommendation

- It will be hard for FTS shares to move up given new uncertainty around allowed returns in a core jurisdiction. We maintain our 2-SP rating and would only accumulate aggressively closer to \$30.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.67 A	\$0.33 A	\$0.25 A	\$0.45	\$1.70	19.71
2012E	\$0.71	\$0.32	\$0.26	\$0.46	\$1.75	19.15
2013E	\$0.69	\$0.31	\$0.25	\$0.44	\$1.70	19.71
(FY-Dec.)	2009A	2010A	2011E	2012E	2013E	
Free Cash Flow/Share	\$1.86	\$2.00	\$2.36	\$2.46	\$2.48	
Price/Earnings	18.8	20.6	19.8	19.2	19.8	
EV/EBITDA	10.8	11.2	10.9	11.1	11.1	
Payout Ratio	56%	56%	49%	49%	51%	
EBITDA	\$1,067	\$1,150	\$1,220	\$1,258	\$1,265	
Debt/EBITDA	5.5	5.2	5.1	5.3	5.3	
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57	
Enterprise Value	\$11,503	\$12,859	\$13,292	\$13,935	\$14,044	

IBES Estimates

EPS 2011E: \$1.71

EPS 2012E: \$1.77



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	186.9
Total Value (\$M)	6,264
Float O/S (M)	185.5
Float Value (\$M)	6,216
TSX Weight	0.45%
Next Reporting Date	Feb-12

### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$34.00	\$35.00
2-Yr	\$35.00	\$36.00
EPS13E	\$1.70	\$1.80

### New Valuation:

7.2% 2012E Free Cash Yield and 11.2x  
2012E EV/EBITDA

### Old Valuation:

7.0% 2012E Free Cash Yield and 11.3x  
2012E EV/EBITDA

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	1-Dec-08	\$27.28	* 2-Sector Perform	*\$30.00
	3-Dec-08	\$25.48	Restricted	Restricted
2	8-Jan-09	\$24.49	* 2-Sector Perform	*\$28.50
3	6-Feb-09	\$23.86	2-Sector Perform	*\$28.00
4	1-May-09	\$22.36	2-Sector Perform	*\$27.00
5	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
6	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
7	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
8	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
9	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
10	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
11	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
12	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
13	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
14	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
15	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
16	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
17	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
* represents the value(s) that has changed.				



## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

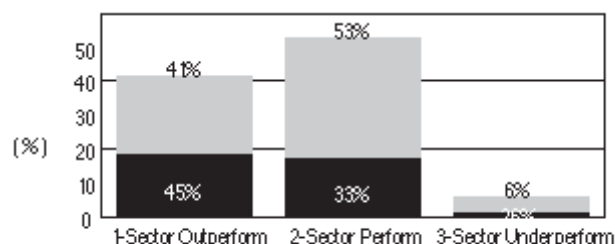
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



■ Percentage of companies covered by Scotia Capital Equity Research within each rating category.

■ Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

\* As at October 31, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.



## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

## Additional Disclosures

**Canada:** This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. is not in the business of providing investment banking services.

**Hong Kong:** This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

**Mexico:** This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

**Singapore:** This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

**United States:** This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

(FTS-T C\$32.58)

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew\\_akman@scotiacapital.com](mailto:matthew_akman@scotiacapital.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

<b>Rating:</b> 2-Sector Perform	<b>Target</b>	1-Yr: C\$34.00	<b>ROR</b>	1-Yr: 8.0%	<b>Est. NTM Div.</b>	C\$1.18
<b>Risk Ranking:</b> Low		2-Yr: C\$35.00		2-Yr: 14.7%	<b>Div. (Current)</b>	C\$1.16
<b>Valuation:</b> 7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA						
<b>Key Risks to Target:</b> Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory						<b>Yield</b> 3.6%

## NEB 2012 Benchmark ROE Drags New Lows

### Event

- The National Energy Board (NEB) yesterday released a 7.58% 2012 benchmark ROE for certain long-haul pipelines.

### Implications

- The NEB benchmark does not apply to FTS (nor even to most Canadian pipelines any more) but establishes challenging optics going into the 2012 B.C. Utilities Commission (BCUC) hearing on cost of capital.
- As we wrote last week, the allowed ROE in B.C. is susceptible to a reduction as it sits at 9.5% - 10.15% depending on the asset.
- The NEB benchmark is only one data point and we are not suggesting the BCUC is going to 7.58%. Ontario's ROE is above 9% and comparable U.S. utility investments attract similar returns.
- Nevertheless, consumer advocates will no doubt highlight the NEB benchmark during the hearing process and it could influence the BCUC's decision.

### Recommendation

- As highlighted in our Dec. 1 comment, FTS faces a risk to 2013 earnings. Our estimate reflects a 100 basis point reduction in the B.C. allowed ROE (every 100 basis points is about \$0.11 in EPS). The stock could remain in a rut pending resolution of the matter.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.59
2011E	\$0.67 A	\$0.33 A	\$0.25 A	\$0.45	\$1.70	19.16
2012E	\$0.71	\$0.32	\$0.26	\$0.46	\$1.75	18.62
2013E	\$0.69	\$0.31	\$0.25	\$0.44	\$1.70	19.16
(FY-Dec.)	2009A	2010A	2011E	2012E	2013E	
Free Cash Flow/Share	\$1.86	\$2.00	\$2.36	\$2.46	\$2.48	
Price/Earnings	18.8	20.6	19.2	18.7	19.2	
EV/EBITDA	10.8	11.2	10.8	11.0	11.0	
Payout Ratio	56%	56%	49%	49%	51%	
EBITDA	\$1,067	\$1,150	\$1,220	\$1,258	\$1,265	
Debt/EBITDA	5.5	5.2	5.1	5.3	5.3	
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57	
Enterprise Value	\$11,503	\$12,859	\$13,139	\$13,777	\$13,884	

IBES Estimates  
EPS 2011E: \$1.71  
EPS 2012E: \$1.77



Source: Global Insight, Inc.

<b>Capitalization</b>	
Shares O/S (M)	186.9
Total Value (\$M)	6,090
Float O/S (M)	185.5
Float Value (\$M)	6,044
TSX Weight	0.42%
Next Reporting Date	Feb-12

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

## **Appendix A: Important Disclosures**

<b>Company</b>	<b>Ticker</b>	<b>Disclosures (see legend below)*</b>
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotia Capital has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotia Capital and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotia Capital departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

Scotia Capital Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### **\* Legend**

- G** Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	5-Dec-08	\$25.43	Restricted	Restricted
2	8-Jan-09	\$24.49	* 2-Sector Perform	*\$28.50
3	6-Feb-09	\$23.86	2-Sector Perform	*\$28.00
4	1-May-09	\$22.36	2-Sector Perform	*\$27.00
5	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
6	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
7	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
8	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
9	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
10	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
11	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
12	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
13	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
14	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
15	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
16	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
17	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
18	1-Dec-11	\$32.95	2-Sector Perform	*\$34.00
* represents the value(s) that has changed.				

## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

**Tender** – Investors are guided to tender to the terms of the takeover offer.

**Under Review** – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

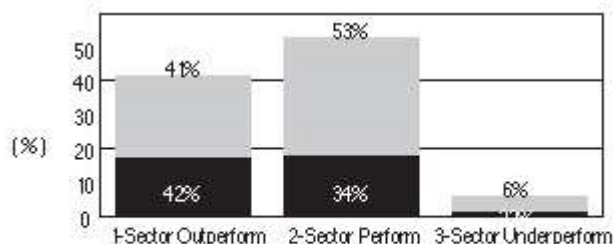
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at November 30, 2011.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.



**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotia Capital™. The Scotia Capital trademark represents the corporate and investment banking businesses of the Scotiabank Group.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotia Capital Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotia Capital makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotia Capital has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotia Capital makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotia Capital or any of its affiliates.

Neither Scotia Capital nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotia Capital are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotia Capital.

**Additional Disclosures**

**Canada:** This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. is not in the business of providing investment banking services.

**Hong Kong:** This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

**Mexico:** This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

**Singapore:** This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

**United States:** This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotia Capital entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

**(FTS-T C\$33.89)**

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

<b>Rating:</b> 2-Sector Perform	<b>Target</b>	1-Yr: C\$34.00	<b>ROR</b>	1-Yr: 3.9%	<b>Est. NTM Div.</b>	C\$1.20
<b>Risk Ranking:</b> Low		2-Yr: C\$35.00		2-Yr: 10.4%	<b>Div. (Current)</b>	C\$1.20
<b>Valuation:</b> 7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA						
<b>Key Risks to Target:</b> Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory						<b>Yield</b> 3.5%

## Churning Through a Soft Patch

### Event

- FTS reported Q4/11 EPS of \$0.46 vs. \$0.49 in Q4/10 (our est. - \$0.45).

### Implications

- Though full-year earnings were up, FTS growth is at least for now not what it used to be. Normalized 2011 EPS was \$1.69 vs. \$1.65 in 2010.
- The soft patch may continue for another year or two due to several factors including downward pressure on allowed ROEs, weak economic conditions in the Caribbean, and dilution from the 2011 equity issue.
- In particular, we remain concerned about the B.C. cost of capital review. The utilities commission has provided no update on a schedule but has stated an intention to hold a hearing "early in 2012."
- Goods news is regulated utility investments continue at a rapid pace, with a \$1.3B capital budget for this year. Given balance sheet strength due to recent equity issuance, growth should offset ROE compression.

### Recommendation

- Holding FTS shares may not hurt in 2012, but we see little potential for near-term capital appreciation. Despite an attractive investment program, the B.C. ROE proceeding casts uncertainty over earnings growth prospects and the stock is not cheap (free cash yield of 7.3% vs. group at 8.7%). We maintain our 2-SP rating and \$34 one-year target.



Source: Global Insight, Inc.

<b>Capitalization</b>	
Shares O/S (M)	188.8
Total Value (\$M)	6,399
Float O/S (M)	187.4
Float Value (\$M)	6,351
TSX Weight	0.43%
Next Reporting Date	May-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.63
2011A	\$0.67 A	\$0.33 A	\$0.25 A	\$0.46 A	\$1.69	19.73
2012E	\$0.69	\$0.30	\$0.22	\$0.54	\$1.75	19.39
2013E	\$0.68	\$0.29	\$0.21	\$0.52	\$1.70	19.98
(FY-Dec.)		2009A	2010A	2011A	2012E	2013E
Free Cash Flow/Share		\$1.86	\$2.00	\$2.24	\$2.46	\$2.48
Price/Earnings		18.8	20.6	19.7	19.4	20.0
EV/EBITDA		10.8	11.2	11.0	11.4	11.2
Payout Ratio		56%	56%	52%	49%	50%
EBITDA		\$1,067	\$1,150	\$1,185	\$1,240	\$1,269
Debt/EBITDA		5.5	5.2	5.0	5.4	5.3
Tot. Debt/(Tot.Dbt+Eq.)		0.61	0.59	0.55	0.57	0.57
Enterprise Value		\$11,503	\$12,859	\$13,035	\$14,081	\$14,264

IBES Estimates  
EPS 2012E: \$1.77  
EPS 2013E: N/A

### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA		
<b>Old Valuation:</b>		
7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA		

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.



Exhibit 1 - Fortis Inc. Financial Statement Summary

<b>Income Statement (\$M)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
BC Gas	\$129	\$139	\$138	\$125
Newfoundland Power (Electric)	\$35	\$34	\$33	\$34
Alberta & BC Utilities (Electric)	\$110	\$123	\$129	\$132
Other Canadian (Electric)	\$19	\$22	\$22	\$23
Caribbean Electric	\$23	\$20	\$24	\$24
Fortis Generation	\$19	\$18	\$21	\$21
Fortis Properties	\$26	\$23	\$28	\$30
Corporate and Other	(\$78)	(\$72)	(\$64)	(\$64)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$285</b>	<b>\$307</b>	<b>\$332</b>	<b>\$326</b>
Unusual items	\$0	\$11	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$285</b>	<b>\$318</b>	<b>\$332</b>	<b>\$326</b>
EBITDA	\$1,150	\$1,185	\$1,240	\$1,269
Shares Outstanding - Basic	173	182	190	192
EPS to Common S/H - Reported	\$1.65	\$1.75	\$1.75	\$1.70
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.65</b>	<b>\$1.69</b>	<b>\$1.75</b>	<b>\$1.70</b>
<b>Cash Flow Statement (\$M)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Earnings	\$285	\$318	\$332	\$326
Depreciation and Amortization	\$410	\$419	\$467	\$490
Other	\$39	\$70	\$69	\$68
Cash Flow from Operations	\$734	\$807	\$868	\$885
Changes in non-cash Working Capital	\$49	\$98	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$783</b>	<b>\$905</b>	<b>\$868</b>	<b>\$885</b>
Total Capex	(\$1,073)	(\$1,174)	(\$1,291)	(\$732)
Other & Asset Sales	\$82	\$49	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$991)</b>	<b>(\$1,125)</b>	<b>(\$1,291)</b>	<b>(\$732)</b>
Dividends - common/pref shares	(\$244)	(\$151)	(\$253)	(\$265)
Other Financing Activities	\$476	\$352	\$750	\$75
<b>Cash Used in Financing Activities</b>	<b>\$232</b>	<b>\$201</b>	<b>\$497</b>	<b>(\$190)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$24</b>	<b>(\$19)</b>	<b>\$74</b>	<b>(\$38)</b>
Cash and cash equivalents, beginning of year	\$85	\$108	\$89	\$163
<b>Cash and cash equivalents, end of year</b>	<b>\$109</b>	<b>\$89</b>	<b>\$163</b>	<b>\$125</b>
<b>Balance Sheet (\$M)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Cash	\$109	\$89	\$163	\$125
Other Current Assets	\$1,095	\$1,031	\$1,031	\$1,031
PP&E	\$9,593	\$10,266	\$11,723	\$12,168
Intangibles	\$324	\$341	\$341	\$341
Goodwill	\$1,553	\$1,557	\$1,557	\$1,557
Other Assets	\$229	\$278	\$227	\$177
<b>Total Assets</b>	<b>\$12,903</b>	<b>\$13,562</b>	<b>\$15,042</b>	<b>\$15,399</b>
Short-term debt	\$414	\$159	\$159	\$159
Other Current Liabilities	\$1,103	\$1,161	\$1,772	\$1,954
Long-term debt and convertible debentures	\$5,609	\$5,785	\$6,485	\$6,510
Other Liabilities	\$1,560	\$1,668	\$1,708	\$1,747
<b>Total Liabilities</b>	<b>\$8,686</b>	<b>\$8,773</b>	<b>\$10,124</b>	<b>\$10,370</b>
Preferred shares	\$912	\$912	\$912	\$912
Common equity	\$3,305	\$3,877	\$4,006	\$4,117
<b>Total Shareholders' Equity</b>	<b>\$4,217</b>	<b>\$4,789</b>	<b>\$4,918</b>	<b>\$5,029</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$12,903</b>	<b>\$13,562</b>	<b>\$15,042</b>	<b>\$15,399</b>

Source: Company reports; Scotiabank GBM estimates.

## **Appendix A: Important Disclosures**

<b>Company</b>	<b>Ticker</b>	<b>Disclosures (see legend below)*</b>
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit <http://www.gbm.scotiabank.com/disclosures>

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### *\* Legend*

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	9-Feb-09	\$24.15	* 2-Sector Perform	*\$28.00
2	1-May-09	\$22.36	2-Sector Perform	*\$27.00
3	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
4	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
5	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
6	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
7	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
8	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
9	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
10	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
11	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
12	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
13	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
14	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
15	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
16	1-Dec-11	\$32.95	2-Sector Perform	*\$34.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

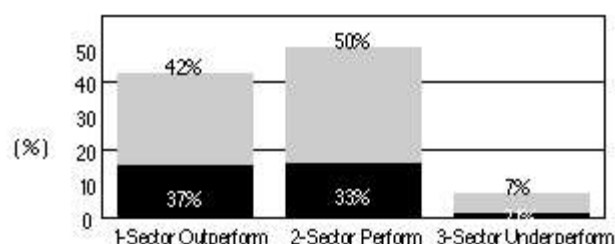
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at January 31, 2012.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$32.38)

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

**Rating:** 2-Sector Perform **Target** 1-Yr: C\$34.00 **ROR** 1-Yr: 8.7%  
**Risk Ranking:** Low 2-Yr: C\$35.00 2-Yr: 15.5%  
**Valuation:** 7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA  
**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Est. NTM Div.** C\$1.20  
**Div. (Current)** C\$1.20  
**Yield** 3.7%

## CH Energy - It's a Start

### Event

- FTS announced an agreement to acquire CH Energy Group (CHG-NYSE) for US\$1.5B in cash and assumed debt.

### Implications

- The CH Energy acquisition, in our view, is a logical starting point for FTS in its quest for U.S. utility growth. The asset is consistent with the FTS geography, business profile, and risk profile.
- However, the transaction is not in itself a means to any end. We see the proposed valuation as relatively high in comparison to recent historical utility acquisitions by Canadian companies. Furthermore, there are regulatory and other risks in the year-long closing process.
- In the medium term, further growth opportunities may arise from the deal. CH is growing at about 5%, and contiguous regulated utilities may come for sale as European conglomerates shed non-core assets.

### Recommendation

- The deal's short-term value remains uncertain due to transaction price and regulatory uncertainty. Meanwhile, earnings growth will likely be modest considering the potential for erosion of allowed ROEs in British Columbia. For these reasons, we still see the stock as range-bound in 2012 and maintain our 2-SP rating and \$34 one-year price target.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	\$0.58 A	\$0.32 A	\$0.26 A	\$0.49 A	\$1.65	20.63
2011A	\$0.67 A	\$0.33 A	\$0.25 A	\$0.46 A	\$1.69	19.73
2012E	\$0.69	\$0.30	\$0.22	\$0.54	\$1.75	18.53
2013E	\$0.68	\$0.29	\$0.21	\$0.52	\$1.70	19.09
(FY-Dec.)	2009A	2010A	2011A	2012E	2013E	
Free Cash Flow/Share	\$1.86	\$2.00	\$2.24	\$2.46	\$2.48	
Price/Earnings	18.8	20.6	19.7	18.5	19.1	
EV/EBITDA	10.8	11.2	11.0	11.1	11.0	
Payout Ratio	56%	56%	52%	49%	50%	
EBITDA	\$1,067	\$1,150	\$1,185	\$1,240	\$1,269	
Debt/EBITDA	5.5	5.2	5.0	5.4	5.3	
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.55	0.57	0.57	
Enterprise Value	\$11,503	\$12,859	\$13,035	\$13,794	\$13,973	

IBES Estimates  
EPS 2012E: \$1.74  
EPS 2013E: \$1.80



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	188.8
Total Value (\$M)	6,114
Float O/S (M)	187.4
Float Value (\$M)	6,068
TSX Weight	0.41%
Next Reporting Date	May-12

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.



## CH Energy - It's a Start

- Acquiring an almost fully regulated distribution utility in rural and small-town New York sounds like a dull prospect. Unless, of course, your business is running regulated distribution utilities in rural areas and small towns. And so, for FTS, the proposed US\$1.5B acquisition of CH Energy Group is not dull. On the contrary, it is the potential start of a broader U.S. growth initiative.
- The acquisition appears logical for FTS due to its consistency with the existing business. FTS had its start in running northeast electrical utilities with no generation assets, and CH Energy fits this bill with about 80% of its customers in electrical service and the rest in natural gas service. The target company fits the FTS low-risk profile, as it takes no commodity price risk and maintains variance accounts for potential expenditures on items like environmental remediation and pension benefits.
- But CH Energy is not in itself a means to an end for FTS because it is not meaningfully accretive at the proposed transaction price. Our preliminary analysis suggests FTS is proposing to pay about 1.5x closing rate base, 20.6x P/E, and 10.4x EBITDA<sup>1</sup>. These acquisition multiples sit toward the high end of the range for recent utility acquisitions by Canadian companies.

Exhibit 1 - Recent Utility Acquisitions by Canadian Companies

Announced Date	Target	Acquirer	EV (\$M)	Rate Base	Rate Base Multiple	Regulated Book Equity Multiple	Effective ROE
6/23/2011	Central Vermont Public Service	Gaz Metro	US\$702	US\$426	1.6x	2.1x	4.4%
2/21/2012	CH Energy Group	Fortis	US\$1,443	US\$957	1.5x	2.1x	4.9%
9/15/2003	Aquila Canada	Fortis	C\$1,394	C\$943	1.5x	2.2x	4.4%
2/26/2007	Terasen Inc. (B.C. Gas)	Fortis	C\$3,700	C\$3,000	1.2x	1.7x	5.1%
10/5/2011	Bristol Water (70% interest)	Capstone	C\$432	C\$354	1.2x	1.6x	6.2%
7/7/2011	Western Australia Gas Networks (WestNet)	ATCO	A\$1,000	A\$840	1.2x	1.5x	7.1%
12/9/2010	Granite State Electric Co. & EnergyNorth Natural Gas Inc.	Algonquin	US\$285	US\$251	1.1x	1.2x	7.7%
5/13/2011	Midwest Natural Gas Utilities (Atmos Energy)	Algonquin	US\$124	US\$112	1.1x	1.4x	6.8%

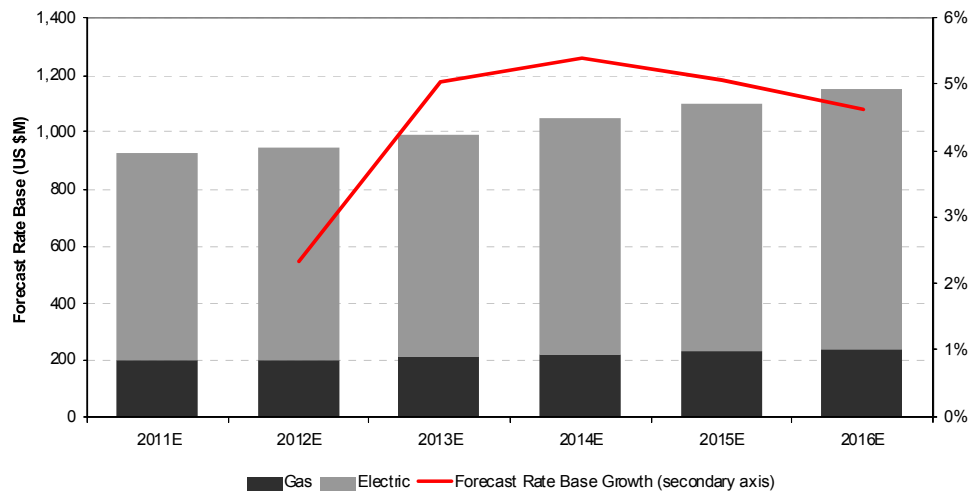
Source: Company reports; Scotiabank GBM estimates.

- There is no way for FTS to make up the premium, as there are no meaningful synergies available in the FTS decentralized operating model. Moreover, there is still some chance FTS has to raise its bid and/or that there is some rate reduction or mitigation required in the regulatory approval process. Finally, we believe appropriate long-term financing involves \$400M-\$500M of new equity. As a result, there are no changes to our 2013 EPS estimates (deal forecast to close in 1H/13).
- Companies can add shareholder value in the acquisition of regulated utilities even when they pay sizeable premiums, but generally only if there is significant organic growth. FTS grows EPS building utility assets at book value because its cost of capital is generally below the regulated returns (10% in the case of CH Energy). That is how FTS added value in the acquisition of Aquila, which was done at 1.6x rate base. The target in this case does not have the double-digit organic growth profile of Aquila, but it is not absent organic growth either. It appears the rate base grows at about 5%/year.

<sup>1</sup> P/E based on trailing 2011 adjusted EPS as disclosed by CHG and EV/EBITDA from a CHG press release.



Exhibit 2 - Central Hudson Gas & Electric Projected Rate Base Growth



Source: Company reports; Scotiabank GBM estimates.

- Contiguous acquisitions are another potential area for value-add going forward. The large utility owners in NY State (other than ConEd) are National Grid and Iberdrola, both of whom have been sellers of small non-core utility assets in recent years as they struggle with European operations and sub-par returns. On this basis, opportunities may emerge for FTS. Having said that, it appears the U.S. Northeast is still core to both European utility conglomerates - National Grid has 6.4 m customers and Iberdrola has 2.4 m customers in the region (not to mention transmission assets).
- The proposed CH Energy Group acquisition is a logical starting point for FTS in its U.S. acquisition strategy. Still, we see the stock as range-bound in 2012 for several reasons. The deal is not meaningfully accretive on its own and the regulatory approval process is lengthy and uncertain. Meanwhile, earnings growth will likely be modest considering the potential for erosion of allowed ROEs in British Columbia.
- We suggest monitoring progress on the CH Energy acquisition and potential follow-on transactions that may add shareholder value. FTS is a skilled operator and CH Energy could be the start of a more lucrative acquisition trend. However, there is no urgency to aggressively acquire FTS shares now in our opinion. Our 2-Sector Perform rating and \$34 one-year target price are unchanged following the acquisition announcement.

**Exhibit 3 - Fortis Inc. Financial Statement Summary (Excludes impact of CH Group Acquisition)**

<b>Income Statement (\$M)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
BC Gas	\$129	\$139	\$138	\$125
Newfoundland Power (Electric)	\$35	\$34	\$33	\$34
Alberta & BC Utilities (Electric)	\$110	\$123	\$129	\$132
Other Canadian (Electric)	\$19	\$22	\$22	\$23
Caribbean Electric	\$23	\$20	\$24	\$24
Fortis Generation	\$19	\$18	\$21	\$21
Fortis Properties	\$26	\$23	\$28	\$30
Corporate and Other	(\$78)	(\$72)	(\$64)	(\$64)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$285</b>	<b>\$307</b>	<b>\$332</b>	<b>\$326</b>
Unusual items	\$0	\$11	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$285</b>	<b>\$318</b>	<b>\$332</b>	<b>\$326</b>
EBITDA	\$1,150	\$1,185	\$1,240	\$1,269
Shares Outstanding - Basic	173	182	190	192
EPS to Common S/H - Reported	\$1.65	\$1.75	\$1.75	\$1.70
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.65</b>	<b>\$1.69</b>	<b>\$1.75</b>	<b>\$1.70</b>
<b>Cash Flow Statement (\$M)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Earnings	\$285	\$318	\$332	\$326
Depreciation and Amortization	\$410	\$419	\$467	\$490
Other	\$39	\$70	\$69	\$68
Cash Flow from Operations	\$734	\$807	\$868	\$885
Changes in non-cash Working Capital	\$49	\$98	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$783</b>	<b>\$905</b>	<b>\$868</b>	<b>\$885</b>
Total Capex	(\$1,073)	(\$1,174)	(\$1,291)	(\$732)
Other & Asset Sales	\$82	\$49	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$991)</b>	<b>(\$1,125)</b>	<b>(\$1,291)</b>	<b>(\$732)</b>
Dividends - common/pref shares	(\$244)	(\$151)	(\$253)	(\$265)
Other Financing Activities	\$476	\$352	\$750	\$75
<b>Cash Used in Financing Activities</b>	<b>\$232</b>	<b>\$201</b>	<b>\$497</b>	<b>(\$190)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$24</b>	<b>(\$19)</b>	<b>\$74</b>	<b>(\$38)</b>
Cash and cash equivalents, beginning of year	\$85	\$108	\$89	\$163
<b>Cash and cash equivalents, end of year</b>	<b>\$109</b>	<b>\$89</b>	<b>\$163</b>	<b>\$125</b>
<b>Balance Sheet (\$M)</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Cash	\$109	\$89	\$163	\$125
Other Current Assets	\$1,095	\$1,031	\$1,031	\$1,031
PP&E	\$9,593	\$10,266	\$11,723	\$12,168
Intangibles	\$324	\$341	\$341	\$341
Goodwill	\$1,553	\$1,557	\$1,557	\$1,557
Other Assets	\$229	\$278	\$227	\$177
<b>Total Assets</b>	<b>\$12,903</b>	<b>\$13,562</b>	<b>\$15,042</b>	<b>\$15,399</b>
Short-term debt	\$414	\$159	\$159	\$159
Other Current Liabilities	\$1,103	\$1,161	\$1,772	\$1,954
Long-term debt and convertible debentures	\$5,609	\$5,785	\$6,485	\$6,510
Other Liabilities	\$1,560	\$1,668	\$1,708	\$1,747
<b>Total Liabilities</b>	<b>\$8,686</b>	<b>\$8,773</b>	<b>\$10,124</b>	<b>\$10,370</b>
Preferred shares	\$912	\$912	\$912	\$912
Common equity	\$3,305	\$3,877	\$4,006	\$4,117
<b>Total Shareholders' Equity</b>	<b>\$4,217</b>	<b>\$4,789</b>	<b>\$4,918</b>	<b>\$5,029</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$12,903</b>	<b>\$13,562</b>	<b>\$15,042</b>	<b>\$15,399</b>

Source: Company reports; Scotiabank GBM estimates.

**Appendix A: Important Disclosures**

Company	Ticker	Disclosures (see legend below)*
Algonquin Power & Utilities Corp.	AQN	G, I, S, U
ATCO Ltd.	ACO.X	S
Capstone Infrastructure Corporation	CSE	G, I, T, U
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit <http://www.gbm.scotiabank.com/disclosures>

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

---

\* *Legend*

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- T** The Fundamental Research Analyst/Associate has visited material operations of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	23-Feb-09	\$33.26	* 2-Sector Perform	*\$49.00
2	18-Sep-09	\$41.86	2-Sector Perform	*\$48.50
3	3-Nov-09	\$43.00	2-Sector Perform	*\$49.50
4	15-Dec-09	\$45.74	2-Sector Perform	*\$54.00
5	19-Feb-10	\$48.23	2-Sector Perform	*\$55.00
6	22-Jul-10	\$49.99	* 1-Sector Outperform	\$55.00
7	2-Sep-10	\$52.35	1-Sector Outperform	*\$62.00
8	8-Nov-10	\$56.95	1-Sector Outperform	*\$66.50
9	6-Dec-10	\$58.05	1-Sector Outperform	*\$68.50
10	25-Feb-11	\$57.31	1-Sector Outperform	*\$70.00
11	13-May-11	\$64.37	1-Sector Outperform	*\$73.00
	19-May-11	\$63.83	* 8-Coverage Suspended	N/A
12	19-Sep-11	\$61.20	* 2-Sector Perform	*\$66.00
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Algonquin Power & Utilities Corp.				
#	Date	Closing Price	Rating	Target-1YR
1	30-Oct-09	\$3.58	* 3-Sector Underperform	*\$3.75
2	11-Nov-09	\$3.52	Restricted	Restricted
3	4-Dec-09	\$3.67	* 2-Sector Perform	*\$3.75
4	8-Mar-10	\$4.51	2-Sector Perform	*\$4.50
5	15-Nov-10	\$4.73	2-Sector Perform	*\$5.00
6	13-Dec-10	\$4.92	2-Sector Perform	*\$5.50
7	7-Mar-11	\$5.24	* 1-Sector Outperform	*\$5.75
8	3-May-11	\$5.35	1-Sector Outperform	*\$6.00
9	26-Jul-11	\$5.73	* 8-Coverage Suspended	N/A
10	19-Sep-11	\$5.85	* 1-Sector Outperform	*\$7.00
11	7-Oct-11	\$5.61	Restricted	Restricted
12	15-Nov-11	\$5.77	* 1-Sector Outperform	*\$7.00
* represents the value(s) that has changed.				



Capstone Infrastructure Corporation				
#	Date	Closing Price	Rating	Target-1YR
1	19-Sep-11	\$6.75	* 2-Sector Perform	*\$7.25
2	25-Oct-11	\$6.25	Restricted	Restricted
3	16-Nov-11	\$6.06	* 2-Sector Perform	*\$6.75
4	7-Dec-11	\$3.96	* 1-Sector Outperform	*\$5.50
* represents the value(s) that has changed.				

Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.



Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	23-Feb-09	\$22.90	* 2-Sector Perform	*\$28.00
2	1-May-09	\$22.36	2-Sector Perform	*\$27.00
3	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
4	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
5	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
6	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
7	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
8	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
9	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
10	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
11	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
12	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
13	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
14	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
15	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
16	1-Dec-11	\$32.95	2-Sector Perform	*\$34.00
* represents the value(s) that has changed.				

Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

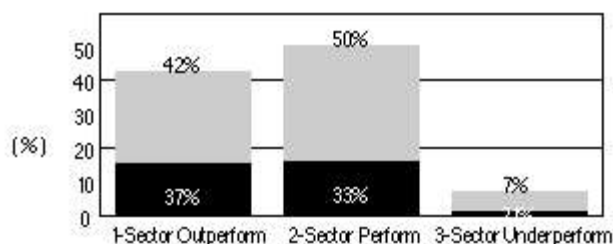
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at January 31, 2012.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.



**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotia Capital (Europe) Limited, a subsidiary of the Bank of Nova Scotia. Scotia Capital (Europe) Limited is authorized and regulated by the Financial Services Authority (FSA). Scotia Capital (Europe) Limited research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. Scotia Capital Inc. is regulated by the FSA for the conduct of investment business in the UK.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

**(FTS-T C\$34.55)**

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

<b>Rating:</b> 2-Sector Perform	<b>Target</b>	1-Yr: C\$34.00	<b>ROR</b>	1-Yr: 1.9%	<b>Est. NTM Div.</b>	C\$1.21
<b>Risk Ranking:</b> Low		2-Yr: C\$35.00		2-Yr: 8.3%	<b>Div. (Current)</b>	C\$1.20
<b>Valuation:</b> 7.1% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA						
<b>Key Risks to Target:</b> Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory						<b>Yield</b> 3.5%

## Grinding Through a Soft Spot

### Event

- FTS reported adjusted Q1/12 EPS of \$0.66 vs. our estimate of \$0.69 and \$0.67 in Q1/11.

### Implications

- The Q1 report reinforces our view that FTS is going through a low-growth phase. While ratebase has grown, reductions in achieved returns are offsetting at this time.
- That trend probably continues through 2013 due to our forecast decline in allowed ROE in B.C. The BCUC has now commenced a proceeding that should conclude this year for Jan. 1, 2013 rates. We are assuming a 100 basis point reduction in allowed returns.
- Going forward from there, continued utility asset expansion and, to a lesser extent, the CH Energy acquisition (scheduled to close early next year) should bring some earnings growth back into the company. We are introducing a 2014 EPS estimate of \$1.85.

### Recommendation

- FTS is not cheap (20x P/E and free cash yield of 7.4%) and growth will likely remain slow for now. However, downside is limited as most of the key risks such as Belize have dissipated and earnings momentum should change in 2014. On this basis, we maintain our Sector Perform rating.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.33 A	\$0.25 A	\$0.46 A	\$1.69	19.73
2012E	\$0.66 A	\$0.32	\$0.23	\$0.54	\$1.75	19.78
2013E	\$0.75	\$0.31	\$0.24	\$0.45	\$1.75	19.78
2014E	\$0.75	\$0.30	\$0.25	\$0.55	\$1.85	18.71
(FY-Dec.)	2010A	2011A	2012E	2013E	2014E	
Free Cash Flow/Share	\$2.00	\$2.24	\$2.39	\$2.56	\$2.64	
Price/Earnings	20.6	19.7	19.8	19.8	18.7	
EV/EBITDA	11.2	11.2	11.6	11.7	11.2	
Payout Ratio	56%	52%	50%	49%	49%	
EBITDA	\$1,150	\$1,185	\$1,261	\$1,416	\$1,517	
Debt/EBITDA	5.2	5.0	5.5	5.6	5.3	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.59	0.59	0.59	
Enterprise Value	\$12,917	\$13,278	\$14,634	\$16,636	\$16,944	

**IBES Estimates**  
EPS 2012E: \$1.75  
EPS 2013E: \$1.81



Source: Global Insight, Inc.

<b>Capitalization</b>	
Shares O/S (M)	189.3
Total Value (\$M)	6,540
Float O/S (M)	187.8
Float Value (\$M)	6,488
TSX Weight	0.44%
Next Reporting Date	Jul-12

### Pertinent Revisions

	New	Old
EPS13E	\$1.75	\$1.70
EPS14E	\$1.85	N/A

**New Valuation:**  
7.1% 2013E Free Cash Yield and 11.7x  
2013E EV/EBITDA

**Old Valuation:**  
7.3% 2013E Free Cash Yield and 11.3x  
2013E EV/EBITDA

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.

**Exhibit 1 - Fortis Inc. Financial Statement Summary**

<b>Income Statement (\$M)</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
BC Gas	\$139	\$138	\$125	\$131
Newfoundland Power (Electric)	\$34	\$33	\$35	\$36
Alberta & BC Utilities (Electric)	\$123	\$129	\$132	\$141
Other Canadian (Electric)	\$22	\$23	\$25	\$28
Caribbean Electric	\$20	\$22	\$24	\$27
CH Energy			\$30	\$54
Fortis Generation	\$18	\$21	\$21	\$23
Fortis Properties	\$23	\$28	\$30	\$33
Corporate and Other	(\$72)	(\$64)	(\$65)	(\$65)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$332</b>	<b>\$358</b>	<b>\$407</b>
Unusual items	\$11	(\$4)	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$328</b>	<b>\$358</b>	<b>\$407</b>
EBITDA	\$1,185	\$1,261	\$1,416	\$1,517
Avg. Shares Outstanding - Basic	182	190	209	221
EPS to Common S/H - Reported	\$1.75	\$1.73	\$1.75	\$1.85
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.75</b>	<b>\$1.75</b>	<b>\$1.85</b>
<b>Cash Flow Statement (\$M)</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Earnings	\$318	\$328	\$358	\$407
Depreciation and Amortization	\$419	\$490	\$568	\$587
Other	\$69	\$57	\$73	\$79
Cash Flow from Operations	\$806	\$874	\$998	\$1,073
Changes in non-cash Working Capital	\$98	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$874</b>	<b>\$998</b>	<b>\$1,073</b>
Total Capex	(\$1,174)	(\$1,291)	(\$1,744)	(\$972)
Other & Asset Sales	\$49	\$18	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,273)</b>	<b>(\$1,744)</b>	<b>(\$972)</b>
Dividends - common/pref shares	(\$151)	(\$253)	(\$286)	(\$311)
Other Financing Activities	\$350	\$641	\$1,040	\$180
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$388</b>	<b>\$754</b>	<b>(\$131)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>(\$11)</b>	<b>\$9</b>	<b>(\$30)</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$76	\$85
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$76</b>	<b>\$85</b>	<b>\$55</b>
<b>Balance Sheet (\$M)</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Cash	\$87	\$76	\$85	\$55
Other Current Assets	\$1,031	\$990	\$990	\$990
PP&E	\$10,266	\$12,312	\$15,097	\$15,771
Intangibles	\$341	\$324	\$324	\$324
Goodwill	\$1,557	\$1,563	\$1,563	\$1,563
Other Assets	\$278	\$156	\$104	\$52
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$15,421</b>	<b>\$18,163</b>	<b>\$18,754</b>
Short-term debt	\$159	\$41	\$41	\$41
Other Current Liabilities	\$1,159	\$1,659	\$2,755	\$3,021
Long-term debt and convertible debentures	\$5,785	\$6,867	\$7,867	\$8,017
Other Liabilities	\$1,668	\$2,003	\$2,046	\$2,095
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$10,570</b>	<b>\$12,709</b>	<b>\$13,174</b>
Preferred shares	\$912	\$912	\$912	\$912
Common equity	\$3,877	\$3,940	\$4,542	\$4,668
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$4,852</b>	<b>\$5,454</b>	<b>\$5,580</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$15,421</b>	<b>\$18,163</b>	<b>\$18,754</b>

Source: Company reports; Scotiabank GBM estimates.

**Appendix A: Important Disclosures**

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit <http://www.gbm.scotiabank.com/disclosures>

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

---

\* *Legend*

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	4-May-09	\$22.85	* 2-Sector Perform	*\$27.00
2	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
3	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
4	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
5	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
6	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
7	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
8	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
9	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
10	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
11	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
12	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
13	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
14	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
15	1-Dec-11	\$32.95	2-Sector Perform	*\$34.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

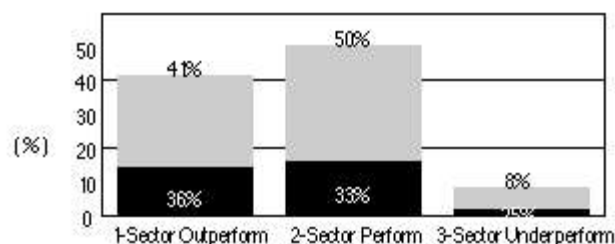
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at April 30, 2012.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia.

Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

(FTS-T C\$33.54)

Matthew Akman, MBA - 416-863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - 416-865-6337  
(Scotia Capital Inc. - Canada)  
Rusty Wong, CA - 416-863-5915  
(Scotia Capital Inc. - Canada)

**Rating:** 2-Sector Perform **Target** 1-Yr: C\$35.00 **ROR** 1-Yr: 8.0% **Est. NTM Div.** C\$1.21  
**Risk Ranking:** Low 2-Yr: C\$36.00 2-Yr: 14.6% **Div. (Current)** C\$1.20  
**Valuation:** 7.2% 2013E Free Cash Yield and 11.8x 2013E EV/EBITDA **Yield** 3.6%

**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### If Anything, Too Steady

#### Event

- FTS reported adjusted Q2/12 EPS of \$0.33 vs. our estimate of \$0.32 and \$0.32 in Q2/11.

#### Implications

- In our view, the earnings report is neutral for the stock as the relatively low earnings growth scenario at FTS is now expected. Reported and "normalized" earnings are roughly the same. On the one hand there were some one-time transaction costs, but on the other hand some of the FTS Alberta earnings were attributable to a prior period (Q1).
- We remain concerned about a reduction in allowed ROE in British Columbia, though recent developments suggest there may be an effective limit to the downside. Consumer advocates and their experts across Canada have been reluctant to recommend ROEs below 8.5% (NL most recent precedent). The 100 basis point reduction (from 9.9% to 8.9%) we are modelling for 2013 seems reasonable in this context.
- The CH Energy Group acquisition faces one more meaningful regulatory hurdle with the NY PSC. Some net customer benefits (rate reduction) may be at stake, but the cost of financing remains low so the deal should still be modestly accretive when it closes in Q1/13.

#### Recommendation

- FTS remains a relatively low risk investment in challenging markets. However, growth may not accelerate until further acquisitions are announced. We maintain our target price and 2-Sector Perform rating.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.32 A	\$0.25 A	\$0.46 A	\$1.69	19.73
2012E	\$0.66 A	\$0.33 A	\$0.25	\$0.51	\$1.75	19.20
2013E	\$0.72	\$0.33	\$0.26	\$0.44	\$1.75	19.14
2014E	\$0.74	\$0.31	\$0.26	\$0.55	\$1.85	18.09
(FY-Dec.)	2010A	2011A	2012E	2013E	2014E	
Free Cash Flow/Share	\$2.00	\$2.24	\$2.39	\$2.53	\$2.59	
Dividends/Share	\$1.12	\$1.16	\$1.20	\$1.25	\$1.30	
EV/EBITDA	11.2	11.2	11.7	11.5	11.0	
Payout Ratio	55.9%	51.9%	50.2%	49.3%	50.2%	
EBITDA	\$1,150	\$1,185	\$1,261	\$1,416	\$1,517	
Debt/EBITDA	5.2	5.0	5.7	5.7	5.4	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.60	0.59	0.59	
Enterprise Value	\$12,917	\$13,278	\$14,699	\$16,336	\$16,654	

IBES Estimates  
EPS 2012E: \$1.73  
EPS 2013E: \$1.82



Capitalization  
Shares O/S (M) 189.3  
Total Value (\$M) 6,349  
Float O/S (M) 187.9  
Float Value (\$M) 6,302  
TSX Weight 0.45%  
Next Reporting Date Oct-12

#### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
7.2% 2013E Free Cash Yield and 11.8x 2013E EV/EBITDA		
<b>Old Valuation:</b>		
7.3% 2013E Free Cash Yield and 11.8x 2013E EV/EBITDA		

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.



Exhibit 1 - FTS Financial Statement Summary

Income Statement (\$M)	2011A	2012E	2013E	2014E
BC Gas	\$139	\$138	\$125	\$131
Newfoundland Power (Electric)	\$34	\$33	\$35	\$36
Alberta & BC Utilities (Electric)	\$123	\$129	\$132	\$141
Other Canadian (Electric)	\$22	\$23	\$25	\$28
Caribbean Electric	\$20	\$22	\$24	\$27
CH Energy			\$30	\$54
Fortis Generation	\$18	\$21	\$21	\$23
Fortis Properties	\$23	\$28	\$30	\$33
Corporate and Other	(\$72)	(\$64)	(\$70)	(\$77)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$332</b>	<b>\$353</b>	<b>\$395</b>
Unusual items	\$11	(\$4)	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$328</b>	<b>\$353</b>	<b>\$395</b>
EBITDA	\$1,185	\$1,261	\$1,416	\$1,517
Avg. Shares Outstanding - Basic	182	190	204	213
EPS to Common S/H - Reported	\$1.75	\$1.73	\$1.75	\$1.85
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.75</b>	<b>\$1.75</b>	<b>\$1.85</b>
Cash Flow Statement (\$M)	2011A	2012E	2013E	2014E
Earnings	\$318	\$328	\$353	\$395
Depreciation and Amortization	\$419	\$490	\$568	\$587
Other	\$69	\$64	\$67	\$69
Cash Flow from Operations	\$806	\$881	\$988	\$1,051
Changes in non-cash Working Capital	\$98	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$881</b>	<b>\$988</b>	<b>\$1,051</b>
Total Capex	(\$1,174)	(\$1,291)	(\$1,744)	(\$972)
Other & Asset Sales	\$49	\$11	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,280)</b>	<b>(\$1,744)</b>	<b>(\$972)</b>
Dividends - common shares (net of DRIP)	(\$151)	(\$171)	(\$191)	(\$208)
Other Financing Activities	\$350	\$611	\$910	\$107
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$440</b>	<b>\$719</b>	<b>(\$100)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>\$41</b>	<b>(\$37)</b>	<b>(\$21)</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$128	\$90
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$128</b>	<b>\$90</b>	<b>\$69</b>
Balance Sheet (\$M)	2011A	2012E	2013E	2014E
Cash	\$87	\$128	\$90	\$69
Other Current Assets	\$1,031	\$796	\$796	\$796
PP&E	\$10,266	\$12,293	\$15,078	\$15,751
Intangibles	\$341	\$324	\$324	\$324
Goodwill	\$1,557	\$1,570	\$1,570	\$1,570
Other Assets	\$278	\$199	\$181	\$164
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$15,309</b>	<b>\$18,039</b>	<b>\$18,675</b>
Short-term debt	\$159	\$302	\$302	\$302
Other Current Liabilities	\$1,159	\$1,132	\$2,243	\$2,525
Long-term debt and convertible debentures	\$5,785	\$6,896	\$7,736	\$7,886
Other Liabilities	\$1,668	\$2,099	\$2,156	\$2,215
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$10,429</b>	<b>\$12,437</b>	<b>\$12,927</b>
Preferred shares	\$912	\$912	\$912	\$912
Common equity	\$3,877	\$3,969	\$4,690	\$4,835
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$4,881</b>	<b>\$5,602</b>	<b>\$5,747</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$15,309</b>	<b>\$18,039</b>	<b>\$18,675</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit <http://www.gbm.scotiabank.com/disclosures>

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	4-Aug-09	\$25.75	* 2-Sector Perform	*\$27.00
	6-Aug-09	\$25.75	* 3-Sector Underperform	\$27.00
2	18-Sep-09	\$24.90	3-Sector Underperform	*\$26.50
3	16-Nov-09	\$26.55	3-Sector Underperform	*\$27.00
4	15-Dec-09	\$28.30	3-Sector Underperform	*\$29.00
	18-Dec-09	\$28.61	3-Sector Underperform	*\$30.00
5	3-Feb-10	\$28.26	* 2-Sector Perform	\$30.00
6	2-Sep-10	\$30.06	2-Sector Perform	*\$32.50
7	8-Nov-10	\$33.60	2-Sector Perform	*\$34.50
8	6-Dec-10	\$33.25	2-Sector Perform	*\$35.00
9	11-Feb-11	\$33.20	* 3-Sector Underperform	*\$34.50
10	19-May-11	\$33.09	* 8-Coverage Suspended	N/A
	31-May-11	\$33.01	Restricted	Restricted
11	16-Jun-11	\$31.97	* 8-Coverage Suspended	*N/A
12	19-Sep-11	\$32.30	* 2-Sector Perform	*\$34.00
13	4-Nov-11	\$33.68	2-Sector Perform	*\$35.00
14	1-Dec-11	\$32.95	2-Sector Perform	*\$34.00
15	29-May-12	\$32.89	2-Sector Perform	*\$35.00
16	20-Jun-12	\$32.46	Restricted	Restricted
17	17-Jul-12	\$32.95	* 2-Sector Perform	*\$35.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

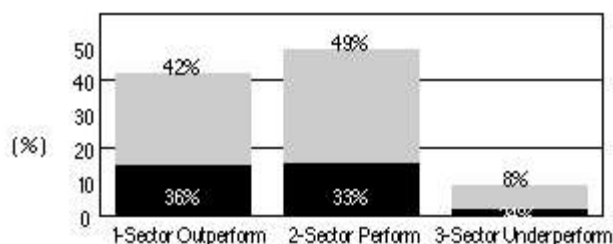
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at June 30, 2012.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$33.90)

### Alberta Still Paying Off

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Rusty Wong, CA, CFA - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: 2-Sector Perform

Target 1-Yr: C\$35.00 ROR 1-Yr: 6.9%

Div. (NTM) \$1.24

Risk Ranking: Low

Div. (Curr.) \$1.20

Valuation: 7.2% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA

Yield (Curr.) 3.5%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported adjusted Q3/12 EPS of \$0.24 vs. our estimate of \$0.25 and \$0.25 in Q3/11.

### Implications

- The acquisition of the Alberta regulated utility is still paying off for FTS as earnings were up strongly YOY (up about 15% YTD normalized). We remain optimistic the company will be able to earn fair returns under the new Alberta incentive regulatory framework.
- Unfortunately, a slow-down in other areas of the business is offsetting the Alberta growth to a large extent. Fortis Generation and Properties are slightly down despite YOY increases in their respective asset bases.
- Closing of the CH Energy acquisition is on track for Q1/13. There is still some uncertainty over the magnitude of customer benefits required but we are hopeful management can negotiate a solution.
- We believe FTS is nearing the end of its relatively slow-growth period. However, the company will likely still have to face one more challenging year in 2013 as regulatory return grind-down could again eat away at earnings growth from rate base additions.

### Recommendation

- Growth remains challenging but FTS is among the safest of the energy infrastructure companies in our coverage universe. Our 2-Sector Perform rating and \$35 1-yr TP are unchanged following the Q3 results (for more on FTS please see our full report "A Tale of Two Utes" dated October 1).

Qly Adj. EPS	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.32 A	\$0.25 A	\$0.46 A	\$1.69	19.7x
2012E	\$0.66 A	\$0.33 A	\$0.24 A	\$0.52	\$1.75	19.4x
2013E	\$0.72	\$0.33	\$0.28	\$0.42	\$1.75	19.4x
2014E	\$0.74	\$0.31	\$0.28	\$0.53	\$1.85	18.3x
(FY-Dec.)	2010A	2011A	2012E	2013E	2014E	
Free Cash Flow/Share	\$2.00	\$2.24	\$2.40	\$2.53	\$2.59	
Dividends/Share	\$1.12	\$1.16	\$1.20	\$1.25	\$1.30	
EV/EBITDA	11.2x	11.2x	11.7x	11.6x	11.0x	
Payout Ratio	55.9%	51.9%	49.9%	49.4%	50.2%	
EBITDA (M)	\$1,150	\$1,185	\$1,261	\$1,416	\$1,517	
Debt/EBITDA	5.24x	5.02x	5.72x	5.68x	5.40x	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.60	0.59	0.59	
Enterprise Value (M)	\$12,917	\$13,278	\$14,765	\$16,409	\$16,728	

IBES EPS 2012E: \$1.73

IBES EPS 2013E: \$1.82

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
7.2% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA		
<b>Old Valuation:</b>		
7.2% 2013E Free Cash Yield and 11.8x 2013E EV/EBITDA		

Capitalization	
Shares O/S (M)	190.7
Market Cap (M)	\$6,465
Float O/S (M)	189.2
Float Value (M)	\$6,414


[ScotiaView Analyst Link](#)



Exhibit 1 - FTS Financial Statement Summary

Income Statement (\$M)	2011A	2012E	2013E	2014E
BC Gas	\$139	\$138	\$125	\$131
Newfoundland Power (Electric)	\$34	\$33	\$35	\$36
Alberta & BC Utilities (Electric)	\$123	\$129	\$132	\$141
Other Canadian (Electric)	\$22	\$23	\$25	\$28
Caribbean Electric	\$20	\$22	\$24	\$27
CH Energy			\$30	\$54
Fortis Generation	\$18	\$21	\$21	\$23
Fortis Properties	\$23	\$28	\$30	\$33
Corporate and Other	(\$72)	(\$64)	(\$70)	(\$77)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$332</b>	<b>\$353</b>	<b>\$395</b>
Unusual items	\$11	(\$5)	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$327</b>	<b>\$353</b>	<b>\$395</b>
EBITDA	\$1,185	\$1,261	\$1,416	\$1,517
Avg. Shares Outstanding - Basic	182	190	204	213
EPS to Common S/H - Reported	\$1.75	\$1.72	\$1.75	\$1.85
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.75</b>	<b>\$1.75</b>	<b>\$1.85</b>
Cash Flow Statement (\$M)	2011A	2012E	2013E	2014E
Earnings	\$318	\$327	\$353	\$395
Depreciation and Amortization	\$419	\$490	\$568	\$587
Other	\$69	\$67	\$67	\$69
Cash Flow from Operations	\$806	\$883	\$988	\$1,051
Changes in non-cash Working Capital	\$98	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$883</b>	<b>\$988</b>	<b>\$1,051</b>
Total Capex	(\$1,174)	(\$1,291)	(\$1,744)	(\$972)
Other & Asset Sales	\$49	\$4	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,287)</b>	<b>(\$1,744)</b>	<b>(\$972)</b>
Dividends - common shares (net of DRIP)	(\$151)	(\$171)	(\$191)	(\$208)
Other Financing Activities	\$350	\$632	\$910	\$107
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$462</b>	<b>\$719</b>	<b>(\$100)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>\$58</b>	<b>(\$37)</b>	<b>(\$21)</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$145	\$108
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$145</b>	<b>\$108</b>	<b>\$86</b>
Balance Sheet (\$M)	2011A	2012E	2013E	2014E
Cash	\$87	\$145	\$108	\$86
Other Current Assets	\$1,031	\$722	\$722	\$722
PP&E	\$10,266	\$12,272	\$15,057	\$15,731
Intangibles	\$341	\$322	\$322	\$322
Goodwill	\$1,557	\$1,566	\$1,566	\$1,566
Other Assets	\$278	\$196	\$179	\$161
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$15,224</b>	<b>\$17,953</b>	<b>\$18,589</b>
Short-term debt	\$159	\$340	\$340	\$340
Other Current Liabilities	\$1,159	\$1,012	\$2,123	\$2,405
Long-term debt and convertible debentures	\$5,785	\$6,871	\$7,711	\$7,861
Other Liabilities	\$1,668	\$2,112	\$2,169	\$2,228
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$10,335</b>	<b>\$12,343</b>	<b>\$12,833</b>
Preferred shares	\$912	\$912	\$912	\$912
Common equity	\$3,877	\$3,977	\$4,698	\$4,843
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$4,889</b>	<b>\$5,610</b>	<b>\$5,755</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$15,224</b>	<b>\$17,953</b>	<b>\$18,589</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	30-Oct-09	C\$25.30	3-Sector Underperform	26.50
2	16-Nov-09	C\$26.55	3-Sector Underperform	*27.00
3	15-Dec-09	C\$28.30	3-Sector Underperform	*29.00
	18-Dec-09	C\$28.61	3-Sector Underperform	*30.00
4	3-Feb-10	C\$28.26	*2-Sector Perform	30.00
5	2-Sep-10	C\$30.06	2-Sector Perform	*32.50
6	8-Nov-10	C\$33.60	2-Sector Perform	*34.50
7	6-Dec-10	C\$33.25	2-Sector Perform	*35.00
8	11-Feb-11	C\$33.20	*3-Sector Underperform	*34.50
9	19-May-11	C\$33.09	* 8-Coverage Suspended	N/A
10	19-Sep-11	C\$32.30	*2-Sector Perform	*34.00
11	4-Nov-11	C\$33.68	2-Sector Perform	*35.00
12	1-Dec-11	C\$32.95	2-Sector Perform	*34.00
13	29-May-12	C\$32.89	2-Sector Perform	*35.00
14	20-Jun-12	C\$32.46	Restricted	
15	17-Jul-12	C\$32.95	2-Sector Perform	35.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### 3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

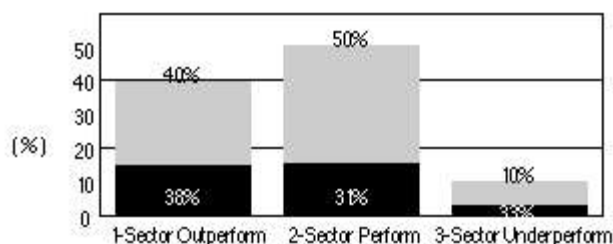
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at October 31, 2012.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$34.24)

### Revenge of the Regulators

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Rusty Wong, CA, CFA - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Perform

Target 1-Yr: C\$34.00 ROR 1-Yr: 2.9%

Div. (NTM) \$1.24

Risk Ranking: Low

Div. (Curr.) \$1.24

Valuation: 6.6% 2013E Free Cash Yield and 11.4x 2013E EV/EBITDA

Yield (Curr.) 3.6%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported adjusted Q4/12 EPS of \$0.47 vs. our estimate of \$0.52 and \$0.46 in Q4/11.

### Implications

- The earnings were lower than we anticipated and, at the same time, earnings visibility is deteriorating due to regulatory uncertainty, in our opinion. In this sense, the Q4 report is slightly negative for the stock.
- Reported 2012 EPS of \$1.70 could have been flat to '11 at \$1.65 had we excluded certain items unlikely to recur, namely transmission revenue in Alberta and financing benefits in B.C. As a result, the earnings base for 2013 is significantly lower than the \$1.75/sh we had anticipated.
- On the regulatory front, there are now two key risks. First, allowed ROEs could be even lower than we thought. Consumer advocates are requesting 7.5% in B.C. and Newfoundland. Second, growth may be limited by Alberta's incentive regulatory framework. Interim rates are 5%-6% below those required to compensate for expansion plans.

### Recommendation

- FTS is normally a company with highly predictable and steadily (if at times slowly) growing earnings. However, our modelling suggests that the outcome of regulatory proceedings in 2013 has created unusually high variability of about 10%-20%. We maintain our Sector Perform rating but are trimming our 2013/2014 EPS estimates by \$0.05 and target price to \$34 (from \$35) in recognition of this challenging situation.

### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$34.00	\$35.00
Adj. EPS13E	\$1.70	\$1.75
Adj. EPS14E	\$1.80	\$1.85

#### New Valuation:

6.6% 2013E Free Cash Yield and 11.4x 2013E EV/EBITDA

#### Old Valuation:

7.2% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA

Qtly Adj. EPS	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.32 A	\$0.25 A	\$0.46 A	\$1.69	19.7x
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.6x
2013E	\$0.66	\$0.33	\$0.24	\$0.48	\$1.70	20.2x
2014E	\$0.66	\$0.30	\$0.24	\$0.59	\$1.80	19.1x
(FY-Dec.)	2010A	2011A	2012A	2013E	2014E	
Free Cash Flow/Share	\$1.96	\$2.20	\$2.27	\$2.23	\$2.26	
Dividends/Share	\$1.12	\$1.16	\$1.20	\$1.24	\$1.29	
EV/EBITDA	11.2x	11.2x	11.3x	11.4x	10.9x	
Payout Ratio	57.1%	52.8%	52.8%	55.5%	57.1%	
EBITDA (M)	\$1,150	\$1,185	\$1,259	\$1,455	\$1,575	
Debt/EBITDA	5.24x	5.02x	5.13x	5.43x	5.27x	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.56	0.58	0.58	
Enterprise Value (M)	\$12,917	\$13,278	\$14,285	\$16,575	\$17,147	

IBES EPS 2013E: \$1.80

IBES EPS 2014E: \$1.88

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

Capitalization	
Shares O/S (M)	191.6
Market Cap (M)	\$6,560
Float O/S (M)	190.2
Float Value (M)	\$6,512


[ScotiaView Analyst Link](#)

Exhibit 1 – Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2011	2012	2013E	2014E
BC Gas	\$139	\$138	\$130	\$136
Newfoundland Power (Electric)	\$34	\$37	\$38	\$41
Alberta & BC Utilities (Electric)	\$123	\$146	\$147	\$156
Other Canadian (Electric)	\$22	\$24	\$25	\$25
Caribbean Electric	\$20	\$19	\$24	\$27
CH Energy			\$30	\$54
Fortis Generation	\$18	\$17	\$23	\$23
Fortis Properties	\$23	\$22	\$24	\$24
Corporate and Other	(\$72)	(\$80)	(\$96)	(\$99)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$323</b>	<b>\$344</b>	<b>\$387</b>
Unusual items	\$11	(\$8)	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$315</b>	<b>\$344</b>	<b>\$387</b>
EBITDA	\$1,185	\$1,259	\$1,455	\$1,575
Avg. Shares Outstanding - Basic	182	190	205	215
EPS to Common S/H - Reported	\$1.75	\$1.66	\$1.70	\$1.80
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>
Cash Flow Statement (\$M)	2011	2012	2013E	2014E
Earnings	\$318	\$315	\$344	\$387
Depreciation and Amortization	\$419	\$470	\$559	\$582
Other	\$69	\$113	\$83	\$84
Cash Flow from Operations	\$806	\$898	\$987	\$1,052
Changes in non-cash Working Capital	\$98	\$78	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$976</b>	<b>\$987</b>	<b>\$1,052</b>
Total Capex	(\$1,174)	(\$1,130)	(\$2,362)	(\$1,209)
Other & Asset Sales	\$49	\$50	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,080)</b>	<b>(\$2,362)</b>	<b>(\$1,209)</b>
Dividends - common shares (net of DRIP)	(\$151)	(\$170)	(\$190)	(\$208)
Other Financing Activities	\$350	\$341	\$1,533	\$382
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$171</b>	<b>\$1,343</b>	<b>\$174</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>\$67</b>	<b>(\$32)</b>	<b>\$17</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$154	\$122
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$154</b>	<b>\$122</b>	<b>\$139</b>
Balance Sheet (\$M)	2011	2012	2013E	2014E
Cash	\$87	\$154	\$122	\$139
Other Current Assets	\$1,031	\$939	\$939	\$939
PP&E	\$10,266	\$11,764	\$15,645	\$16,736
Intangibles	\$341	\$325	\$325	\$325
Goodwill	\$1,557	\$1,568	\$1,568	\$1,568
Other Assets	\$278	\$200	\$182	\$163
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$18,781</b>	<b>\$19,870</b>
Short-term debt	\$159	\$136	\$136	\$136
Other Current Liabilities	\$1,159	\$1,172	\$2,760	\$3,222
Long-term debt and convertible debentures	\$5,785	\$6,328	\$7,768	\$8,168
Other Liabilities	\$1,668	\$2,214	\$2,280	\$2,346
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$9,850</b>	<b>\$12,944</b>	<b>\$13,872</b>
Preferred shares	\$912	\$1,108	\$1,108	\$1,108
Common equity	\$3,877	\$3,992	\$4,729	\$4,889
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$5,100</b>	<b>\$5,837</b>	<b>\$5,997</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$18,781</b>	<b>\$19,870</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department.

Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	5-Feb-10	C\$27.59	Sector Perform	30.00
2	2-Sep-10	C\$30.06	Sector Perform	*32.50
3	8-Nov-10	C\$33.60	Sector Perform	*34.50
4	6-Dec-10	C\$33.25	Sector Perform	*35.00
5	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
6	19-May-11	C\$33.09	* Coverage Suspended	N/A
7	19-Sep-11	C\$32.30	*Sector Perform	*34.00
8	4-Nov-11	C\$33.68	Sector Perform	*35.00
9	1-Dec-11	C\$32.95	Sector Perform	*34.00
10	29-May-12	C\$32.89	Sector Perform	*35.00
11	20-Jun-12	C\$32.46	Restricted	
12	17-Jul-12	C\$32.95	Sector Perform	35.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

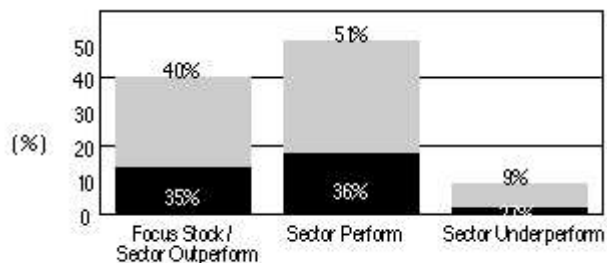
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at January 31, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$34.97)

### CH-allenging Approvals

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337  
(Scotia Capital Inc. - Canada)  
Elena Lissitsyna, MFin - (416) 863-5915  
(Scotia Capital Inc. - Canada)

**Rating:** Sector Perform **Target** 1-Yr: C\$35.00 **ROR** 1-Yr: 3.7%  
**Risk Ranking:** Low  
**Valuation:** 6.2% 2013E Free Cash Yield and 11.6x 2013E EV/EBITDA  
**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Div. (NTM)** \$1.25  
**Div. (Curr.)** \$1.24  
**Yield (Curr.)** 3.5%

### Event

- FTS reported adjusted Q1/13 adjusted EPS of \$0.67 vs. our estimate of \$0.66 and \$0.66 in Q1/12.

### Implications

- Last Friday's negative ALJ decision on the CH Energy acquisition was the key focus of an otherwise "in-line" quarter. A May 6th PSC staff response that the opposing parties "had not met its burden requiring an evidentiary hearing" was, however, welcome news.
- The staff response leaves the door open to an on-time closing with manageable financial impact on FTS. We believe the company may have to offer modest new benefits in the areas of employment and/or rates to avoid further opposition. Should it achieve broader support this month, it could still seek final PSC approval at the June 13 meeting.
- Meanwhile, regulatory developments in Canada are unfolding largely as we anticipated with modest headwinds. The April Newfoundland Power decision (8.8% ROE) supports our thesis that the B.C. allowed return could drop by ~100 basis points from levels of 9.5%-10%.

### Recommendation

- While FTS faces unusual regulatory uncertainty (NY, B.C.) and presently has lower growth than many of its peers, we are maintaining our SP rating because it remains a relatively low-risk investment, in our view. Despite the lack of any change in our estimates, we are raising our TP by \$1 to \$35 due to general sector valuation escalation with lower bond yields.

### Pertinent Revisions

	New	Old
<b>Target:</b>		
1-Yr	\$35.00	\$34.00

**New Valuation:**  
6.2% 2013E Free Cash Yield and 11.6x  
2013E EV/EBITDA

**Old Valuation:**  
6.6% 2013E Free Cash Yield and 11.4x  
2013E EV/EBITDA

Qtly Adj. EPS	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.32 A	\$0.25 A	\$0.46 A	\$1.69	19.7x
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.34	\$0.25	\$0.44	\$1.70	20.6x
2014E	\$0.67	\$0.33	\$0.26	\$0.54	\$1.80	19.5x
(FY-Dec.)	2010A	2011A	2012A	2013E	2014E	
Free Cash Flow/Share	\$1.96	\$2.20	\$2.28	\$2.16	\$2.22	
Dividends/Share	\$1.12	\$1.16	\$1.20	\$1.24	\$1.29	
EV/EBITDA	11.2x	11.2x	11.3x	11.6x	11.0x	
Payout Ratio	57.1%	52.8%	52.7%	57.3%	58.1%	
EBITDA (M)	\$1,150	\$1,185	\$1,260	\$1,460	\$1,598	
Debt/EBITDA	5.24x	5.02x	5.13x	5.54x	5.37x	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.56	0.58	0.59	
Enterprise Value (M)	\$12,917	\$13,278	\$14,284	\$16,887	\$17,653	

IBES EPS 2013E: \$1.76  
IBES EPS 2014E: \$1.85

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

Capitalization	
Shares O/S (M)	192.6
Market Cap (M)	\$6,735
Float O/S (M)	191.2
Float Value (M)	\$6,686
TSX Weight (FD)	0.44%



[ScotiaView Analyst Link](#)

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2011	2012	2013E	2014E
BC Gas	\$139	\$138	\$130	\$136
Newfoundland Power (Electric)	\$34	\$37	\$38	\$40
Alberta & BC Utilities (Electric)	\$123	\$146	\$147	\$156
Other Canadian (Electric)	\$22	\$24	\$25	\$27
Caribbean Electric	\$20	\$19	\$20	\$21
CH Energy			\$24	\$54
Fortis Generation	\$18	\$17	\$24	\$24
Fortis Properties	\$23	\$22	\$24	\$24
Corporate and Other	(\$72)	(\$80)	(\$93)	(\$96)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$323</b>	<b>\$338</b>	<b>\$387</b>
Unusual items	\$11	(\$8)	\$22	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$315</b>	<b>\$360</b>	<b>\$387</b>
EBITDA	\$1,185	\$1,260	\$1,460	\$1,598
Avg. Shares Outstanding - Basic	182	190	200	215
EPS to Common S/H - Reported	\$1.75	\$1.66	\$1.81	\$1.80
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>
Cash Flow Statement (\$M)	2011	2012	2013E	2014E
Earnings	\$318	\$315	\$360	\$387
Depreciation and Amortization	\$419	\$470	\$548	\$590
Other	\$69	\$113	\$55	\$67
Cash Flow from Operations	\$806	\$898	\$963	\$1,044
Changes in non-cash Working Capital	\$98	\$78	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$976</b>	<b>\$963</b>	<b>\$1,044</b>
Total Capex	(\$1,174)	(\$1,130)	(\$2,342)	(\$1,393)
Other & Asset Sales	\$49	\$50	(\$39)	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,080)</b>	<b>(\$2,381)</b>	<b>(\$1,393)</b>
Dividends - common shares (net of DRIP)	(\$151)	(\$170)	(\$173)	(\$195)
Other Financing Activities	\$350	\$341	\$1,595	\$478
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$171</b>	<b>\$1,422</b>	<b>\$283</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>\$67</b>	<b>\$4</b>	<b>(\$65)</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$154	\$158
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$154</b>	<b>\$158</b>	<b>\$93</b>
Balance Sheet (\$M)	2011	2012	2013E	2014E
Cash	\$87	\$154	\$158	\$93
Other Current Assets	\$1,031	\$939	\$919	\$919
PP&E	\$10,266	\$11,764	\$15,675	\$17,079
Intangibles	\$341	\$325	\$319	\$319
Goodwill	\$1,557	\$1,568	\$1,585	\$1,585
Other Assets	\$278	\$200	\$257	\$272
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$18,913</b>	<b>\$20,267</b>
Short-term debt	\$159	\$136	\$199	\$199
Other Current Liabilities	\$1,159	\$1,172	\$2,593	\$3,210
Long-term debt and convertible debentures	\$5,785	\$6,328	\$7,888	\$8,388
Other Liabilities	\$1,668	\$2,214	\$2,354	\$2,420
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$9,850</b>	<b>\$13,033</b>	<b>\$14,217</b>
Preferred shares	\$912	\$1,108	\$1,108	\$1,108
Common equity	\$3,877	\$3,992	\$4,772	\$4,942
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$5,100</b>	<b>\$5,880</b>	<b>\$6,050</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$18,913</b>	<b>\$20,267</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	6-May-10	C\$26.26	Sector Perform	30.00
2	2-Sep-10	C\$30.06	Sector Perform	*32.50
3	8-Nov-10	C\$33.60	Sector Perform	*34.50
4	6-Dec-10	C\$33.25	Sector Perform	*35.00
5	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
6	19-May-11	C\$33.09	* Coverage Suspended	N/A
7	19-Sep-11	C\$32.30	*Sector Perform	*34.00
8	4-Nov-11	C\$33.68	Sector Perform	*35.00
9	1-Dec-11	C\$32.95	Sector Perform	*34.00
10	29-May-12	C\$32.89	Sector Perform	*35.00
11	20-Jun-12	C\$32.46	Restricted	
12	17-Jul-12	C\$32.95	Sector Perform	35.00
13	8-Feb-13	C\$33.78	Sector Perform	*34.00
* represents the value(s) that has changed.				



## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

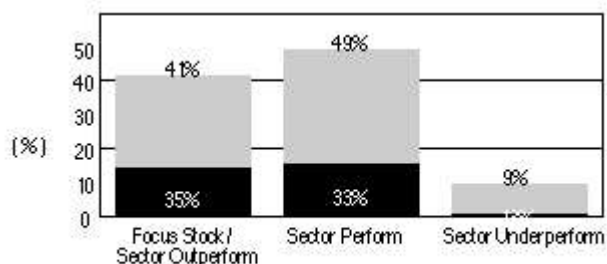
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at April 30, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

**(FTS-T C\$32.05)**

### The 'Lost Years' Are Almost Over

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337  
(Scotia Capital Inc. - Canada)  
Elena Lissitsyna, MFin - (416) 863-5915  
(Scotia Capital Inc. - Canada)

**Rating:** Sector Outperform **Target** 1-Yr: C\$35.00 **ROR** 1-Yr: 13.2%  
**Risk Ranking:** Low  
**Valuation:** 6.2% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA  
**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Div. (NTM)** \$1.26  
**Div. (Curr.)** \$1.24  
**Yield (Curr.)** 3.9%

#### Event

- FTS shares have gone nowhere in three years while the Canadian energy infrastructure group has marched steadily higher (save for a near-term correction). Bad news is largely behind it now and the stock is attractively valued. We are upgrading from SP to SO.

#### Implications

- Historically, FTS has a superior track record of shareholder value creation through organic and acquisition growth. However, there has been a pause in growth between the years 2010-2013.
- Several factors contributed to the slow-down including falling allowed ROEs, the expropriation of assets in Belize, and a lack of success in M&A. But ROEs are probably bottoming and the vast majority of the remaining business mix is comprised of low-risk regulated utility.
- Meanwhile, growth prospects are again improving as the company completes a large hydro project, works on gas infrastructure in support of LNG, and continues expanding in Alberta.
- Partly due to lacklustre growth and partly due to a sell-off of defensive stocks, the shares are cheaper than they have been in the last ten years on key trading metrics related to bond yields.

#### Recommendation

- Solid, if not supernormal growth could come back into the company at a time when the shares are undervalued. We would accumulate the stock at these levels.

Qtly Adj. EPS	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.32 A	\$0.25 A	\$0.46 A	\$1.69	19.7x
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.33	\$0.24	\$0.45	\$1.70	18.9x
2014E	\$0.69	\$0.34	\$0.28	\$0.49	\$1.80	17.8x
(FY-Dec.)	2010A	2011A	2012A	2013E	2014E	
Free Cash Flow/Share	\$1.96	\$2.20	\$2.28	\$2.16	\$2.22	
Dividends/Share	\$1.12	\$1.16	\$1.20	\$1.24	\$1.29	
EV/EBITDA	11.2x	11.2x	11.3x	11.3x	10.6x	
Payout Ratio	57.1%	52.8%	52.7%	57.4%	58.2%	
EBITDA (M)	\$1,150	\$1,185	\$1,260	\$1,428	\$1,590	
Debt/EBITDA	5.24x	5.02x	5.13x	5.58x	5.40x	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.56	0.58	0.59	
Enterprise Value (M)	\$12,917	\$13,278	\$14,284	\$16,082	\$16,801	

IBES EPS 2013E: \$1.72

IBES EPS 2014E: \$1.83

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

#### Pertinent Revisions

	New	Old
<b>Rating:</b>	SO	SP

**New Valuation:**  
6.2% 2013E Free Cash Yield and 11.7x  
2013E EV/EBITDA

**Old Valuation:**  
6.2% 2013E Free Cash Yield and 11.6x  
2013E EV/EBITDA

Capitalization	
Shares O/S (M)	192.6
Market Cap (M)	\$6,173
Float O/S (M)	191.2
Float Value (M)	\$6,128
TSX Weight (FD)	0.31%

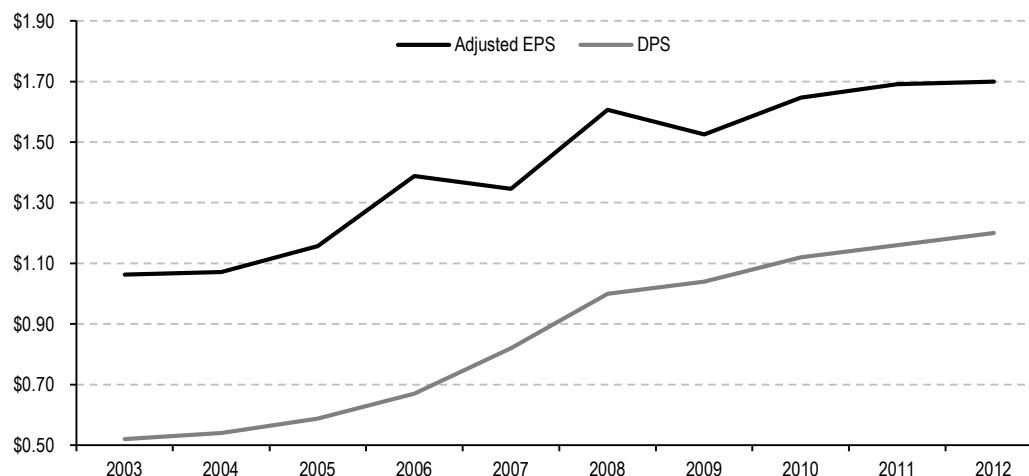


[ScotiaView Analyst Link](#)

## The 'Lost Years' Are Almost Over

- Buying opportunities often arise from situations where bad things happen to good companies. That FTS is a good company was not at all in dispute a few short years ago after its stock went on a nearly 10-year run from 2001-2010. Management added more than its share of value through acquisitions that led to significant accretive organic growth opportunities. But in the past few years, growth has been surprisingly absent as earnings have flattened out and dividend growth has slowed.

Exhibit 1 - FTS 10-Year EPS and DPS Growth

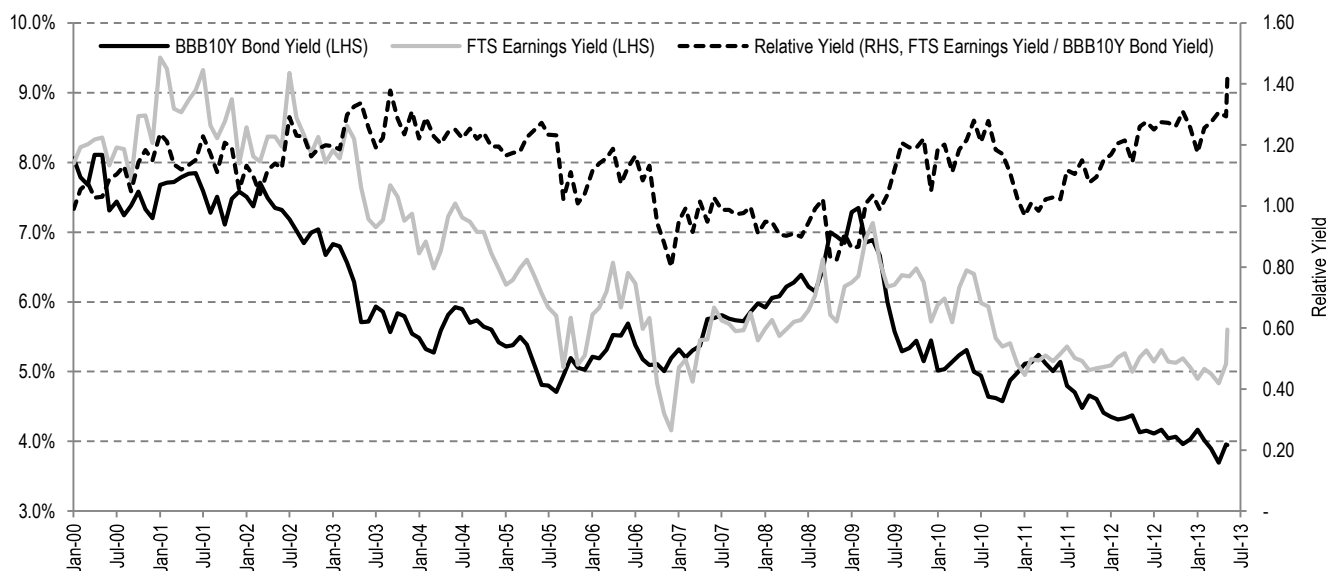


Source: Company reports; Scotiabank GBM estimates.

- Falling Canadian utility returns and expropriation of Belize Electricity are the main factors accounting for the slow-down. Historically, FTS earned ROEs well above the nameplate allowed levels in Western Canada. Achieved ROEs are trending back toward allowed returns, which have in turn been reduced. At the same time, Belize Electricity, which used to contribute about \$10M in net income (\$0.05 in EPS) now contributes zero.
- Acquisitions have also proved more challenging than expected. When FTS acquired BC Gas in 2007, it espoused a consolidation strategy for Northwest utilities. But in the last six years, FTS has not managed to complete a single significant utility acquisition deal. That lack of success is partly due to management discipline and partly due to the political and valuation challenges involved in acquiring anything but small-scale regulated assets.
- As a result of these headwinds, the stock price has stagnated for almost three years while comparable companies' share prices have escalated dramatically. For example, ENB and ATCO/CU are up almost 80% in that same timeframe and EMA is up about 25%. This underperformance is almost exactly the opposite of the situation that evolved during the company's heady days of the previous decade when the stock tripled in value.
- Despite these negative developments, FTS is still a good company with reliable cash flow. One piece of good news is that it appears that Canadian utility allowed returns have bottomed out. The recent B.C. decision that established an 8.75% ROE for BC Gas is consistent with ROEs in Alberta and Newfoundland. It appears the provinces – which act independently of one another – are converging around a range no lower than 8.5%-9.0%.
- One risk to FTS remains that the BC Utilities Commission (BCUC) will reduce the allowed ROE on its electric utility by more than expected. Normally the change would track the 75 basis point reduction at BC Gas. However, the BCUC did not rule out eliminating the risk premium of electric utility over the gas utility, which is worth 40 basis points. On the other hand, and in the company's favour, we believe Alberta may slightly increase its allowed ROE due to increased risk associated with performance-based regulation. The net effect of an elimination of the BC electric utility risk premium and an increase in the Alberta ROE could be positive.

- Though FTS has lacked success in M&A, we believe it is poised to close its first major deal in years, namely CH Energy. An administrative law judge (ALJ) recommended against the deal but, in our opinion, its recommendation lacked sound logic and reason. In response to the ALJ recommendation, FTS shored up support of customer groups and regulatory staff. Subsequently, on May 30 it offered to extend the rate freeze by a year to July, 2015 and to provide four years of employee job security. These measures could nudge the deal toward New York Public Service Commission approval this summer.
- The Caribbean is never absent risk but exposure there has been minimized by the Belize expropriation and by expansion and acquisitions of regulated utilities. One risk remains outstanding, namely the potential for reduced earnings in the Belize hydroelectric business. It is effectively a creditor of the country now because it sells to Belize Electric (the utility that was expropriated). The risk is mitigated by the fact that locally produced electricity has always been much cheaper than electricity imported from Mexico. In any case, we believe the Belize hydro assets normally contribute only about \$0.05 in EPS.
- While risks are dissipating, growth prospects are improving. The flagship growth project is the \$459M (FTS' 51% share) Waneta hydroelectric dam expansion. That project alone should add \$0.05-\$0.10 to annual EPS. There are also opportunities in Alberta where FTS is still forecasting over 6% annual rate-base growth in the distribution business and where the company now has an opportunity to over-earn the nameplate allowed ROE under performance-based regulation. Additionally, as discussed in our May 22 research report "*Canadian LNG Race Heats Up*," we believe FTS has roughly \$0.5B in gas infrastructure expansion opportunities related to B.C. LNG exports.
- While earnings growth should return to FTS next year after a three-year lull, we also believe valuation on FTS is more attractive than it has been in a decade. Not that the P/E multiple is lower than any time in the past ten years – on the contrary, the 17.8x forward P/E significantly exceeds the 12x multiple it traded at a decade ago. More important, and perhaps surprisingly, though, the P/E multiple relative to bond yields is more attractive today than it was back then.
- The validity of P/E relative to bond yields is founded on the tight correlation between energy infrastructure free cash yields and high-quality corporate bond yields. We have observed that the correlation has been steady for over a decade, even while the correlation between free cash yield and government bond yields has broken down. Since earnings are often a good starting point as a proxy for free cash flow in regulated utility (in fact even for regulated utilities free cash is usually higher than earnings due to modest income tax timing differences), the earnings yield correlates well with corporate bond yields.

**Exhibit 2 - FTS Earnings Yield Relative to Corporate Bond Yields**



Source: Company reports; Scotiabank GBM estimates.



- This relative yield measure is indicating a “buy” signal as it is at a multi-year high. Not since the technology bubble, when utilities were completely out of favour, has the relative yield reached today’s level. Over the past 13 years, the FTS earnings yield relative to 10-year BBB corporate bond yields has averaged about 1.1x, has been as low as 0.8x, but now sits at just over 1.4x.
- Based on this analysis, it appears the stock valuation is reflecting significant further increases in bond yields (about 100 basis points). Even if that negative scenario does pan out, regulated utilities like FTS have more protection against rising bond yields than unregulated energy infrastructure companies. In an inflationary environment with rising bond yields, allowed returns on equity also rise and the rising cost of debt is a pass-through to customers. Even in B.C., where the allowed ROE is ostensibly fixed through 2015, there is an off-ramp and automatic upward adjustment if Long Canada Bond yields rise by more than about 100 basis points.
- Defensive stocks all over have sold off sharply in recent weeks on sector rotation and fears of rising interest rates. While some correction may have been warranted following a strong start to the year, we believe many of the high-quality companies with visible dividend growth are now over-sold. FTS, with its low-risk profile and improving EPS growth prospects, now falls into this category. We are upgrading FTS to Sector Outperform and recommend accumulating at this level.

**Exhibit 3 - Fortis Inc. Financial Statement Summary**

<b>Income Statement (\$M)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
BC Gas	\$139	\$138	\$130	\$137
Newfoundland Power (Electric)	\$34	\$37	\$38	\$39
Alberta & BC Utilities (Electric)	\$123	\$146	\$157	\$170
Other Canadian (Electric)	\$22	\$24	\$25	\$27
Caribbean Electric	\$20	\$19	\$20	\$21
CH Energy			\$24	\$48
Fortis Generation	\$18	\$17	\$16	\$23
Fortis Properties	\$23	\$22	\$21	\$20
Corporate and Other	(\$72)	(\$80)	(\$93)	(\$98)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$323</b>	<b>\$338</b>	<b>\$387</b>
Unusual items	\$11	(\$8)	\$22	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$315</b>	<b>\$360</b>	<b>\$387</b>
EBITDA	\$1,185	\$1,260	\$1,428	\$1,590
Avg. Shares Outstanding - Basic	182	190	200	215
EPS to Common S/H - Reported	\$1.75	\$1.66	\$1.81	\$1.80
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>
<b>Cash Flow Statement (\$M)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Earnings	\$318	\$315	\$360	\$387
Depreciation and Amortization	\$419	\$470	\$536	\$588
Other	\$69	\$113	\$51	\$64
Cash Flow from Operations	\$806	\$898	\$946	\$1,039
Changes in non-cash Working Capital	\$98	\$78	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$976</b>	<b>\$946</b>	<b>\$1,039</b>
Total Capex	(\$1,174)	(\$1,130)	(\$2,265)	(\$1,363)
Other & Asset Sales	\$49	\$50	(\$39)	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,080)</b>	<b>(\$2,304)</b>	<b>(\$1,363)</b>
Dividends - common shares (net of DRIP)	(\$151)	(\$170)	(\$173)	(\$194)
Other Financing Activities	\$350	\$341	\$1,474	\$582
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$171</b>	<b>\$1,302</b>	<b>\$388</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>\$67</b>	<b>(\$56)</b>	<b>\$65</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$154	\$98
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$154</b>	<b>\$98</b>	<b>\$163</b>
<b>Balance Sheet (\$M)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Cash	\$87	\$154	\$98	\$163
Other Current Assets	\$1,031	\$939	\$919	\$919
PP&E	\$10,266	\$11,764	\$14,056	\$14,830
Intangibles	\$341	\$325	\$319	\$319
Goodwill	\$1,557	\$1,568	\$1,585	\$1,585
Other Assets	\$278	\$200	\$237	\$235
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$17,214</b>	<b>\$18,050</b>
Short-term debt	\$159	\$136	\$89	\$89
Other Current Liabilities	\$1,159	\$1,172	\$1,128	\$1,128
Long-term debt and convertible debentures	\$5,785	\$6,328	\$7,888	\$8,488
Other Liabilities	\$1,668	\$2,214	\$2,350	\$2,411
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$9,850</b>	<b>\$11,455</b>	<b>\$12,116</b>
Preferred shares	\$912	\$1,108	\$983	\$983
Common equity	\$3,877	\$3,992	\$4,776	\$4,951
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$5,100</b>	<b>\$5,759</b>	<b>\$5,934</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$17,214</b>	<b>\$18,050</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	4-Jun-10	C\$27.22	Sector Perform	30.00
2	2-Sep-10	C\$30.06	Sector Perform	*32.50
3	8-Nov-10	C\$33.60	Sector Perform	*34.50
4	6-Dec-10	C\$33.25	Sector Perform	*35.00
5	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
6	19-May-11	C\$33.09	* Coverage Suspended	N/A
7	19-Sep-11	C\$32.30	*Sector Perform	*34.00
8	4-Nov-11	C\$33.68	Sector Perform	*35.00
9	1-Dec-11	C\$32.95	Sector Perform	*34.00
10	29-May-12	C\$32.89	Sector Perform	*35.00
11	20-Jun-12	C\$32.46	Restricted	
12	17-Jul-12	C\$32.95	Sector Perform	35.00
13	8-Feb-13	C\$33.78	Sector Perform	*34.00
14	8-May-13	C\$34.49	Sector Perform	*35.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

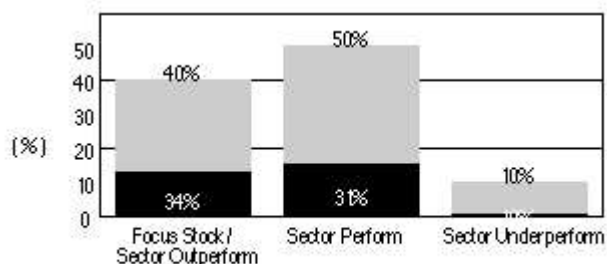
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at May 31, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$32.01)

### CH: "Closed - Hallelujah!"

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Elena Lissitsyna, MFin - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$35.00 ROR 1-Yr: 13.3%

Risk Ranking: Low

Valuation: 6.2% 2013E Free Cash Yield and 11.8x 2013E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Div. (NTM) \$1.26

Div. (Curr.) \$1.24

Yield (Curr.) 3.9%

### Event

- FTS reported Q2/13 adjusted EPS of \$0.32 vs. our estimate and Q2/12 of \$0.33.

### Implications

- As expected, 2Q earnings were soft due to reductions in allowed returns in B.C. Hydrology in Belize is historically low and has exacerbated the weakness. However, we see Canadian returns as having bottomed out and believe EPS growth should resume next year.
- Just as FTS has been negatively impacted relative to its peers from falling bond yields (lower ROE), it should be positively impacted relative to peers as yields rise. The Alberta cost of capital review could boost returns next year and the recently lowered B.C. ROE automatically moves higher if bond yields rise in earnest.
- The combination of rising ROEs, solid utility rate base expansion and a return to normal hydrology in Belize should completely reverse negative earnings momentum in 2014. This momentum should be sustained in 2015 when the Waneta hydro project and accretion from CH Energy make positive contributions.

### Recommendation

- The unusual period of low/no EPS growth is drawing to a close and the company is better positioned than most to weather an era of rising rates. Valuation used to be at a premium but is now in line with the group. We recently upgraded the stock to SO and would accumulate at these levels.

Qtly Adj. EPS	Q1	Q2	Q3	Q4	Year	P/E
2011A	\$0.67 A	\$0.32 A	\$0.25 A	\$0.46 A	\$1.69	19.7x
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.32 A	\$0.24	\$0.46	\$1.70	18.9x
2014E	\$0.69	\$0.31	\$0.29	\$0.51	\$1.80	17.7x
(FY-Dec.)	2010A	2011A	2012A	2013E	2014E	
Free Cash Flow/Share	\$1.96	\$2.20	\$2.28	\$2.16	\$2.22	
Dividends/Share	\$1.12	\$1.16	\$1.20	\$1.24	\$1.29	
EV/EBITDA	11.2x	11.2x	11.3x	11.4x	10.7x	
Payout Ratio	57.1%	52.8%	52.7%	57.4%	58.1%	
EBITDA (M)	\$1,150	\$1,185	\$1,260	\$1,430	\$1,583	
Debt/EBITDA	5.24x	5.02x	5.13x	5.52x	5.37x	
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.56	0.57	0.58	
Enterprise Value (M)	\$12,917	\$13,278	\$14,284	\$16,251	\$16,974	

IBES EPS 2013E: \$1.72

IBES EPS 2014E: \$1.83

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

### Pertinent Revisions

	New	Old
--	-----	-----

#### New Valuation:

6.2% 2013E Free Cash Yield and 11.8x 2013E EV/EBITDA

#### Old Valuation:

6.2% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA

Capitalization	
Shares O/S (M)	211.7
Market Cap (M)	\$6,777
Float O/S (M)	210.3
Float Value (M)	\$6,732
TSX Weight (FD)	0.35%

### Fortis Inc. (FTS-T)

Closing Price and Volume on the TSE



Source: Global Insight, Inc.

[ScotiaView Analytical Link](#)

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2011	2012	2013E	2014E
BC Gas	\$139	\$138	\$130	\$137
Newfoundland Power (Electric)	\$34	\$37	\$38	\$39
Alberta & BC Utilities (Electric)	\$123	\$146	\$157	\$170
Other Canadian (Electric)	\$22	\$24	\$25	\$27
Caribbean Electric	\$20	\$19	\$20	\$21
CH Energy			\$24	\$48
Fortis Generation	\$18	\$17	\$16	\$23
Fortis Properties	\$23	\$22	\$21	\$20
Corporate and Other	(\$72)	(\$80)	(\$91)	(\$97)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$307</b>	<b>\$323</b>	<b>\$341</b>	<b>\$388</b>
Unusual items	\$11	(\$8)	\$15	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$318</b>	<b>\$315</b>	<b>\$355</b>	<b>\$388</b>
EBITDA	\$1,185	\$1,260	\$1,430	\$1,583
Avg. Shares Outstanding - Basic	182	190	203	215
EPS to Common S/H - Reported	\$1.75	\$1.66	\$1.77	\$1.80
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.69</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>
Cash Flow Statement (\$M)	2011	2012	2013E	2014E
Earnings	\$318	\$315	\$355	\$388
Depreciation and Amortization	\$419	\$470	\$536	\$587
Other	\$69	\$113	\$55	\$70
Cash Flow from Operations	\$806	\$898	\$946	\$1,045
Changes in non-cash Working Capital	\$98	\$78	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$904</b>	<b>\$976</b>	<b>\$946</b>	<b>\$1,045</b>
Total Capex	(\$1,174)	(\$1,130)	(\$1,292)	(\$1,363)
Other & Asset Sales	\$49	\$50	(\$1,030)	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,125)</b>	<b>(\$1,080)</b>	<b>(\$2,322)</b>	<b>(\$1,363)</b>
Dividends - common shares (net of DRIP)	(\$151)	(\$170)	(\$177)	(\$194)
Other Financing Activities	\$350	\$341	\$1,501	\$577
<b>Cash Used in Financing Activities</b>	<b>\$199</b>	<b>\$171</b>	<b>\$1,324</b>	<b>\$383</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$22)</b>	<b>\$67</b>	<b>(\$52)</b>	<b>\$65</b>
Cash and cash equivalents, beginning of year	\$109	\$87	\$154	\$102
<b>Cash and cash equivalents, end of year</b>	<b>\$87</b>	<b>\$154</b>	<b>\$102</b>	<b>\$167</b>
Balance Sheet (\$M)	2011	2012	2013E	2014E
Cash	\$87	\$154	\$102	\$167
Other Current Assets	\$1,031	\$939	\$970	\$970
PP&E	\$10,266	\$11,764	\$14,181	\$14,957
Intangibles	\$341	\$325	\$361	\$361
Goodwill	\$1,557	\$1,568	\$2,077	\$2,077
Other Assets	\$278	\$200	\$194	\$191
<b>Total Assets</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$17,885</b>	<b>\$18,722</b>
Short-term debt	\$159	\$136	\$99	\$99
Other Current Liabilities	\$1,159	\$1,172	\$1,156	\$1,156
Long-term debt and convertible debentures	\$5,785	\$6,328	\$7,797	\$8,397
Other Liabilities	\$1,668	\$2,214	\$2,855	\$2,921
<b>Total Liabilities</b>	<b>\$8,771</b>	<b>\$9,850</b>	<b>\$11,907</b>	<b>\$12,573</b>
Preferred shares	\$912	\$1,108	\$1,233	\$1,233
Common equity	\$3,877	\$3,992	\$4,745	\$4,916
<b>Total Shareholders' Equity</b>	<b>\$4,789</b>	<b>\$5,100</b>	<b>\$5,978</b>	<b>\$6,149</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,560</b>	<b>\$14,950</b>	<b>\$17,885</b>	<b>\$18,722</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	30-Jul-10	C\$29.25	Sector Perform	30.00
2	2-Sep-10	C\$30.06	Sector Perform	*32.50
3	8-Nov-10	C\$33.60	Sector Perform	*34.50
4	6-Dec-10	C\$33.25	Sector Perform	*35.00
5	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
6	19-May-11	C\$33.09	* Coverage Suspended	N/A
7	19-Sep-11	C\$32.30	*Sector Perform	*34.00
8	4-Nov-11	C\$33.68	Sector Perform	*35.00
9	1-Dec-11	C\$32.95	Sector Perform	*34.00
10	29-May-12	C\$32.89	Sector Perform	*35.00
11	20-Jun-12	C\$32.46	Restricted	
12	17-Jul-12	C\$32.95	Sector Perform	35.00
13	8-Feb-13	C\$33.78	Sector Perform	*34.00
14	8-May-13	C\$34.49	Sector Perform	*35.00
15	7-Jun-13	C\$32.46	*Sector Outperform	35.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

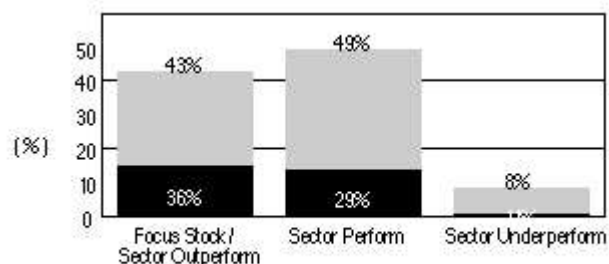
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at July 31, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$30.95)

### Hidden Hydros

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Elena Lissitsyna, MFin - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$34.00 ROR 1-Yr: 13.9%

Div. (NTM) \$1.26

Risk Ranking: Low

Div. (Curr.) \$1.24

Valuation: 6.5% 2014E Free Cash Yield and 11.0x 2014E EV/EBITDA

Yield (Curr.) 4.0%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- We are hosting FTS management for investor meetings this week including CEO Stan Marshall and CFO Barry Perry.

### Implications

- FTS could be on the verge of a significant positive change in earnings momentum. After several years of minimal growth, trends are reversing and we are forecasting almost 15% growth from 2013 - 2015.
- Utility expansion has remained consistently strong but allowed ROEs fell and offset asset additions. However, we see opportunities for increased allowed and achieved returns especially in the key Western Canadian regions in the coming years.
- Meanwhile FTS is quietly developing renewable power assets that might not be fully valued in the stock. With a return to normal hydrology in Belize and the in-service of the Waneta dam in B.C., we estimate hydro could make up ~12% of company earnings.

### Recommendation

- FTS is trading below its historical valuation relative to bonds. Improvements in growth and the business mix could normalize that relationship. We recommend accumulating at this level.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.32 A	\$0.24	\$0.46	\$1.70	18.2x
2014E	\$0.69	\$0.31	\$0.29	\$0.51	\$1.80	17.2x
2015E	\$0.69	\$0.34	\$0.35	\$0.57	\$1.95	15.9x
(FY-Dec.)	2011A	2012A	2013E	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.11	\$2.22	\$2.43	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.29	\$1.34	
EV/EBITDA	11.2x	11.3x	11.2x	10.6x	9.9x	
Payout Ratio	52.8%	52.7%	58.9%	58.1%	55.1%	
EBITDA (M)	\$1,185	\$1,260	\$1,430	\$1,583	\$1,728	
Debt/EBITDA	5.02x	5.13x	5.52x	5.37x	5.03x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.58	0.58	
Enterprise Value (M)	\$13,278	\$14,284	\$16,025	\$16,743	\$17,138	

IBES EPS 2013E: \$1.71

IBES EPS 2014E: \$1.81

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

Capitalization	
Shares O/S (M)	211.7
Market Cap (M)	\$6,552
Float O/S (M)	210.3
Float Value (M)	\$6,509
TSX Weight (FD)	0.43%


[ScotiaView Analyst Link](#)

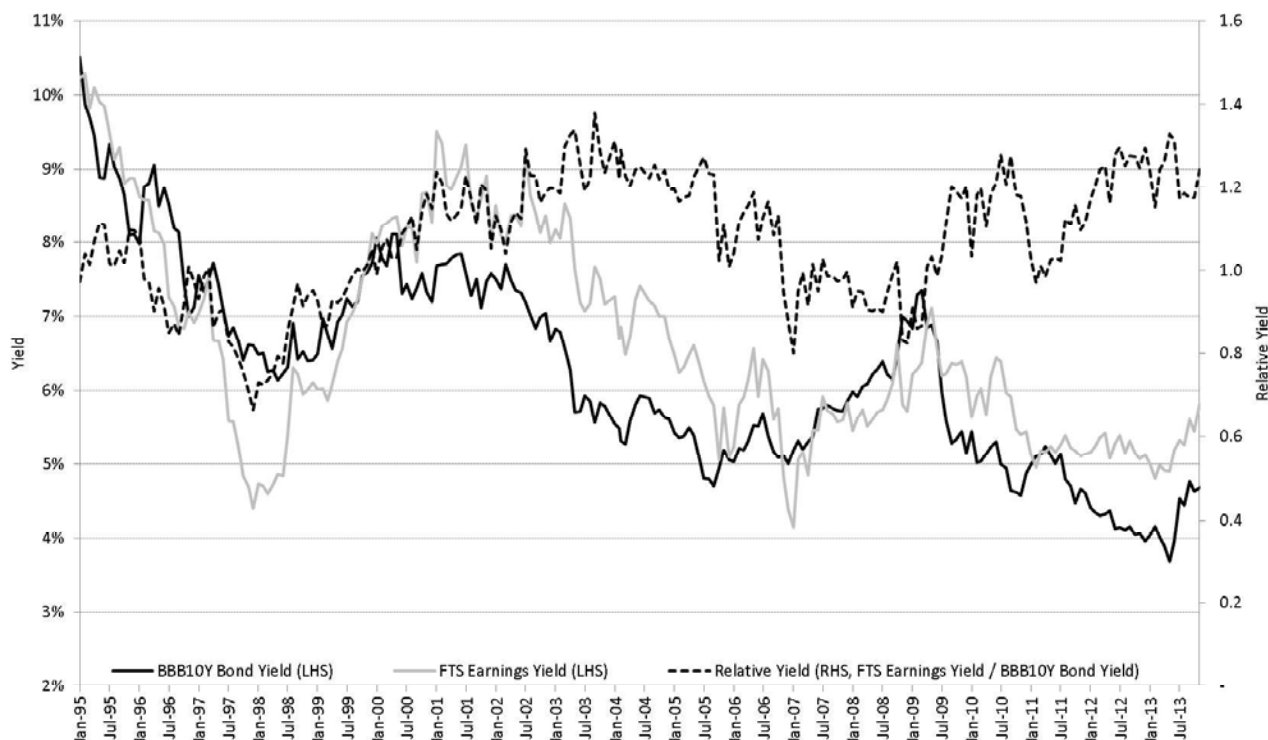
## Hidden Hydros

- When Canadian investors think of renewable power FTS is probably one of the last companies that come to mind. Pure-play companies like Brookfield Renewable, Innergex and Boralex took centre stage initially when the investing theme emerged. Over time, others developing renewable power (ALA, NPI) were rewarded with premium valuations. And if the business went unrewarded it was monetized (ENB via ENF and TA via RNW). FTS might be the only company with significant renewable power assets in our coverage that has not been noticed yet.
- Not to exaggerate the extent of renewable power in the FTS business mix; in 2015 when the Waneta Hydroelectric Project in B.C. comes on line, we estimate only about 12% of company earnings will derive from hydroelectricity. But still, 12% is not insignificant and, given premium valuation for hydro even among renewable assets, can make a meaningful difference to share performance.
- Just as important, the hydro assets should make a strong positive contribution to the "renewed" growth we are projecting at FTS over the next two years. Having achieved very little EPS growth for several years now, our forecasts imply a nearly 15% improvement between 2013 and 2015. Drivers are the operating hydro assets in Belize and the development assets in B.C.
- The company has been involved in hydroelectricity in Belize for many years but has not really experienced a normal hydrology year since 2010. It was March of that year when FTS completed construction of the Vaca plant, which was the third in a collection of a total 50 MW that should normally produce about 240 GWh/year. The assets, together with others in New York and B.C. should generate about 370 GWh/year but produced only 138 GWh in 1H/13 and 306 GWh in 2012. Our modelling suggests the Belize assets should contribute at least another \$0.05 in EPS -- possibly more due to a strengthened US\$ -- in a normal hydrology year.
- Meanwhile the \$900m Waneta project (FTS ~\$460m) is on schedule and budget for a 2015 in-service. It will add another 171 net MW to the ~90 MW of hydro-power FTS already owns. We believe the investment could add \$0.10 in EPS in its first year of operation. Unlike some utility investments, FTS is not booking non-cash earnings from the project prior to its in-service date; so none of the Waneta revenues have yet been booked in earnings.
- The higher hydro earnings should complement utility expansion and a reversal in declining ROEs. In particular, we see potential for improvement in ROEs in Western Canada starting in 2014. That projection may seem optimistic because the B.C. Utilities Commission reduced the allowed ROE by 75 basis points just this year. But the Commission included an automatic adjustment up in allowed returns if Canadian long bond yields exceed 3.8%. Furthermore, in June FTS applied for performance-based regulation for the 2014 - 2018 time-frame.
- We are even more optimistic about the potential for higher ROEs in Alberta than in B.C. The Alberta Utilities Commission had established an 8.75% ROE but is reviewing it in light of its recent transition to performance-based regulation. We believe there is a much higher likelihood of an increase in the ROE than a decrease because incentive regulation increases risk and because bond yields have moved up.
- Hydro development and utility investment returns are not the only growth drivers at FTS. Surprisingly, even FTS might participate in and benefit from LNG export activities. With its BC Gas infrastructure footprint on the West Coast, FTS is well-positioned for niche projects. The company is quietly considering a \$200M-\$300M pipeline expansion to a proposed Pacific Oil & Gas project near Squamish. A small-scale (250 MMcf/d) export facility is under development there and could be in service by 2017-2018. In addition, FTS already owns a small liquefaction and LNG storage facility near Delta, B.C. that could be expanded. The Tilbury site has about 30 acres of spare land and is working on opportunities in the small-scale utility export business as well as LNG applications in the local transportation industry.



- With growth improving again, there is no apparent reason for the stock to trade at a discount to its historically normal trading range. Our normalized earnings data going back almost 20 years suggests that the earnings yield has correlated tightly with 10-year BBB corporate bond yields. In particular, we estimate the earnings yield has averaged about 1.07x the BBB yield but now sits at 1.24x, suggesting an attractive relative valuation.

**Exhibit 1 – Historical Relative Yield Relationship: FTS Earnings Yield vs. BBB 10Y Corporate Bonds**



Source: Company reports; Scotiabank GBM estimates.

- If anything, the emerging FTS business mix has potential to trade at a premium to historical norms. Many of the business risks have diminished -- the Caribbean utilities and properties segments make up a smaller proportion of earnings than ever. The vast majority of earnings are derived from low-risk regulated Canadian utilities and the emerging hydro business. On this basis, we upgraded the stock to Sector Outperform (\$34 TP) earlier this year (see our report titled *"The 'Lost Years' Are Almost Over"*, published June 7<sup>th</sup> 2013) and recommend accumulating at these levels.

Exhibit 2 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2012	2013E	2014E	2015E
BC Gas	\$138	\$130	\$137	\$142
Newfoundland Power (Electric)	\$37	\$38	\$39	\$41
Alberta & BC Utilities (Electric)	\$146	\$157	\$170	\$176
Other Canadian (Electric)	\$24	\$25	\$27	\$27
Caribbean Electric	\$19	\$20	\$21	\$22
CH Energy		\$24	\$48	\$53
Fortis Generation	\$17	\$16	\$23	\$42
Fortis Properties	\$22	\$21	\$20	\$22
Corporate and Other	(\$80)	(\$91)	(\$97)	(\$97)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$323</b>	<b>\$341</b>	<b>\$388</b>	<b>\$427</b>
Unusual items	(\$8)	\$15	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$315</b>	<b>\$355</b>	<b>\$388</b>	<b>\$427</b>
EBITDA	\$1,260	\$1,430	\$1,583	\$1,728
Avg. Shares Outstanding - Basic	190	203	215	219
EPS to Common S/H - Reported	\$1.66	\$1.77	\$1.80	\$1.95
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>	<b>\$1.95</b>
Cash Flow Statement (\$M)	2012	2013E	2014E	2015E
Earnings	\$315	\$355	\$388	\$427
Depreciation and Amortization	\$470	\$536	\$587	\$623
Other	\$113	\$55	\$70	\$75
Cash Flow from Operations	\$898	\$946	\$1,045	\$1,125
Changes in non-cash Working Capital	\$78	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$976</b>	<b>\$946</b>	<b>\$1,045</b>	<b>\$1,125</b>
Total Capex	(\$1,130)	(\$1,292)	(\$1,363)	(\$1,104)
Other & Asset Sales	\$50	(\$1,030)	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,080)</b>	<b>(\$2,322)</b>	<b>(\$1,363)</b>	<b>(\$1,104)</b>
Dividends - common shares (net of DRIP)	(\$170)	(\$177)	(\$194)	(\$206)
Other Financing Activities	\$341	\$1,501	\$577	\$180
<b>Cash Used in Financing Activities</b>	<b>\$171</b>	<b>\$1,324</b>	<b>\$383</b>	<b>(\$26)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$67</b>	<b>(\$52)</b>	<b>\$65</b>	<b>(\$4)</b>
Cash and cash equivalents, beginning of year	\$87	\$154	\$102	\$167
<b>Cash and cash equivalents, end of year</b>	<b>\$154</b>	<b>\$102</b>	<b>\$167</b>	<b>\$163</b>
Balance Sheet (\$M)	2012	2013E	2014E	2015E
Cash	\$154	\$102	\$167	\$163
Other Current Assets	\$939	\$970	\$970	\$970
PP&E	\$11,764	\$14,181	\$14,957	\$15,437
Intangibles	\$325	\$361	\$361	\$361
Goodwill	\$1,568	\$2,077	\$2,077	\$2,077
Other Assets	\$200	\$194	\$191	\$183
<b>Total Assets</b>	<b>\$14,950</b>	<b>\$17,885</b>	<b>\$18,722</b>	<b>\$19,190</b>
Short-term debt	\$136	\$99	\$99	\$99
Other Current Liabilities	\$1,172	\$1,156	\$1,156	\$1,156
Long-term debt and convertible debentures	\$6,328	\$7,797	\$8,397	\$8,597
Other Liabilities	\$2,214	\$2,855	\$2,921	\$2,988
<b>Total Liabilities</b>	<b>\$9,850</b>	<b>\$11,907</b>	<b>\$12,573</b>	<b>\$12,840</b>
Preferred shares	\$1,108	\$1,233	\$1,233	\$1,233
Common equity	\$3,992	\$4,745	\$4,916	\$5,117
<b>Total Shareholders' Equity</b>	<b>\$5,100</b>	<b>\$5,978</b>	<b>\$6,149</b>	<b>\$6,350</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$14,950</b>	<b>\$17,885</b>	<b>\$18,722</b>	<b>\$19,190</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	1-Oct-10	C\$31.66	Sector Perform	32.50
2	8-Nov-10	C\$33.60	Sector Perform	*34.50
3	6-Dec-10	C\$33.25	Sector Perform	*35.00
4	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
5	19-May-11	C\$33.09	* Coverage Suspended	N/A
6	19-Sep-11	C\$32.30	*Sector Perform	*34.00
7	4-Nov-11	C\$33.68	Sector Perform	*35.00
8	1-Dec-11	C\$32.95	Sector Perform	*34.00
9	29-May-12	C\$32.89	Sector Perform	*35.00
10	20-Jun-12	C\$32.46	Restricted	
11	17-Jul-12	C\$32.95	Sector Perform	35.00
12	8-Feb-13	C\$33.78	Sector Perform	*34.00
13	8-May-13	C\$34.49	Sector Perform	*35.00
14	7-Jun-13	C\$32.46	*Sector Outperform	35.00
15	10-Sep-13	C\$30.13	Sector Outperform	*34.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

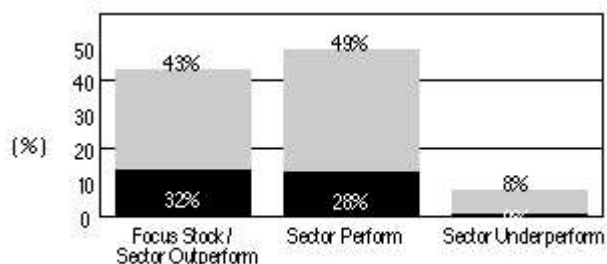
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at September 30, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$32.47)

### The Last of the Down Quarters

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Elena Lissitsyna, MFin - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$35.00 ROR 1-Yr: 11.7%

Div. (NTM) \$1.28

Risk Ranking: Low

Div. (Curr.) \$1.24

Valuation: 6.3% 2014E Free Cash Yield and 11.2x 2014E EV/EBITDA

Yield (Curr.) 3.8%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported Q3/13 adj. EPS of \$0.23, in line with our est. of \$0.24.

### Implications

- As we anticipated, earnings remain soft in 2013, particularly in Q3 with CH Energy making a seasonally low contribution. However, we maintain our view that 2013 marks a bottom on financial performance and likely share price performance too.
- Regulated returns on distribution utilities will probably move gradually higher now due to the risk of rising bond yields. At a minimum, then, earnings growth should track utility expansion which is pegged at almost \$5B over the next four years.
- Removal of the rates freeze at CH Energy in mid-2015 should also help during our forecast period. We believe the subsidiary could be under-earning by up to 300 basis points next year. Even if allowed returns decline slightly, earnings should improve considerably.
- Unregulated businesses should improve or, if they don't, could be monetized. In particular, once the Waneta Dam (expected to enter service in 2015) provides significant unregulated revenues for tax planning, properties may be non-core.

### Recommendation

- FTS shares are picking up but are still trading at a 1-2 P/E-point discount to historical norms given today's bond yields. We maintain our SO rating and are tweaking our target price up to \$35/sh for the recent bond rally.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48	\$1.70	19.1x
2014E	\$0.70	\$0.35	\$0.25	\$0.50	\$1.80	18.0x
2015E	\$0.71	\$0.37	\$0.33	\$0.54	\$1.95	16.7x
(FY-Dec.)	2011A	2012A	2013E	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.10	\$2.21	\$2.44	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.29	\$1.34	
EV/EBITDA	11.2x	11.3x	11.4x	10.8x	10.1x	
Payout Ratio	52.8%	52.7%	59.2%	58.4%	55.0%	
EBITDA (M)	\$1,185	\$1,260	\$1,417	\$1,563	\$1,707	
Debt/EBITDA	5.02x	5.13x	5.51x	5.38x	5.04x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.58	0.57	
Enterprise Value (M)	\$13,278	\$14,284	\$16,177	\$16,916	\$17,291	

IBES EPS 2013E: \$1.71

IBES EPS 2014E: \$1.81

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$35.00	\$34.00

#### New Valuation:

6.3% 2014E Free Cash Yield and 11.2x 2014E EV/EBITDA

#### Old Valuation:

6.5% 2014E Free Cash Yield and 11.0x 2014E EV/EBITDA

Capitalization	
Shares O/S (M)	212.4
Market Cap (M)	\$6,897
Float O/S (M)	211.0
Float Value (M)	\$6,851
TSX Weight (FD)	0.43%


[ScotiaView Analyst Link](#)

Exhibit 1 - Fortis Inc. Financial Statement Summary

<b>Income Statement (\$M)</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
BC Gas	\$138	\$128	\$133	\$142
Newfoundland Power (Electric)	\$37	\$36	\$39	\$40
Alberta & BC Utilities (Electric)	\$146	\$150	\$156	\$165
Other Canadian (Electric)	\$24	\$24	\$27	\$27
Caribbean Electric	\$19	\$19	\$20	\$21
CH Energy		\$22	\$48	\$53
Fortis Generation	\$17	\$17	\$25	\$42
Fortis Properties	\$22	\$22	\$22	\$22
Corporate and Other	(\$80)	(\$78)	(\$84)	(\$84)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$323</b>	<b>\$341</b>	<b>\$387</b>	<b>\$429</b>
Unusual items	(\$8)	\$15	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$315</b>	<b>\$355</b>	<b>\$387</b>	<b>\$429</b>
EBITDA	\$1,260	\$1,417	\$1,563	\$1,707
Avg. Shares Outstanding - Basic	190	203	215	220
EPS to Common S/H - Reported	\$1.66	\$1.77	\$1.80	\$1.95
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>	<b>\$1.95</b>
<b>Cash Flow Statement (\$M)</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Earnings	\$315	\$355	\$387	\$429
Depreciation and Amortization	\$470	\$541	\$588	\$624
Other	\$113	\$50	\$70	\$75
<b>Cash Flow from Operations</b>	<b>\$898</b>	<b>\$946</b>	<b>\$1,045</b>	<b>\$1,128</b>
Changes in non-cash Working Capital	\$78	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$976</b>	<b>\$946</b>	<b>\$1,045</b>	<b>\$1,128</b>
Total Capex	(\$1,130)	(\$1,200)	(\$1,415)	(\$1,116)
Other & Asset Sales	\$50	(\$1,006)	\$50	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$1,080)</b>	<b>(\$2,206)</b>	<b>(\$1,365)</b>	<b>(\$1,066)</b>
Dividends - common shares (net of DRIP)	(\$170)	(\$180)	(\$200)	(\$213)
Other Financing Activities	\$341	\$1,440	\$604	\$209
<b>Cash Used in Financing Activities</b>	<b>\$171</b>	<b>\$1,259</b>	<b>\$404</b>	<b>(\$4)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$67</b>	<b>(\$0)</b>	<b>\$84</b>	<b>\$58</b>
Cash and cash equivalents, beginning of year	\$87	\$154	\$154	\$237
<b>Cash and cash equivalents, end of year</b>	<b>\$154</b>	<b>\$154</b>	<b>\$237</b>	<b>\$295</b>
<b>Balance Sheet (\$M)</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Cash	\$154	\$154	\$237	\$295
Other Current Assets	\$939	\$928	\$928	\$928
PP&E	\$11,764	\$14,080	\$14,908	\$15,400
Intangibles	\$325	\$356	\$356	\$356
Goodwill	\$1,568	\$2,064	\$2,064	\$2,064
Other Assets	\$200	\$160	\$113	\$61
<b>Total Assets</b>	<b>\$14,950</b>	<b>\$17,742</b>	<b>\$18,606</b>	<b>\$19,104</b>
Short-term debt	\$136	\$111	\$111	\$111
Other Current Liabilities	\$1,172	\$1,287	\$1,287	\$1,287
Long-term debt and convertible debentures	\$6,328	\$7,699	\$8,299	\$8,499
Other Liabilities	\$2,214	\$2,680	\$2,753	\$2,826
<b>Total Liabilities</b>	<b>\$9,850</b>	<b>\$11,777</b>	<b>\$12,450</b>	<b>\$12,723</b>
Preferred shares	\$1,108	\$1,229	\$1,229	\$1,229
Common equity	\$3,992	\$4,736	\$4,927	\$5,152
<b>Total Shareholders' Equity</b>	<b>\$5,100</b>	<b>\$5,965</b>	<b>\$6,156</b>	<b>\$6,381</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$14,950</b>	<b>\$17,742</b>	<b>\$18,606</b>	<b>\$19,104</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	29-Oct-10	C\$32.37	Sector Perform	32.50
2	8-Nov-10	C\$33.60	Sector Perform	*34.50
3	6-Dec-10	C\$33.25	Sector Perform	*35.00
4	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
5	19-May-11	C\$33.09	* Coverage Suspended	N/A
6	19-Sep-11	C\$32.30	*Sector Perform	*34.00
7	4-Nov-11	C\$33.68	Sector Perform	*35.00
8	1-Dec-11	C\$32.95	Sector Perform	*34.00
9	29-May-12	C\$32.89	Sector Perform	*35.00
10	20-Jun-12	C\$32.46	Restricted	
11	17-Jul-12	C\$32.95	Sector Perform	35.00
12	8-Feb-13	C\$33.78	Sector Perform	*34.00
13	8-May-13	C\$34.49	Sector Perform	*35.00
14	7-Jun-13	C\$32.46	*Sector Outperform	35.00
15	10-Sep-13	C\$30.13	Sector Outperform	*34.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

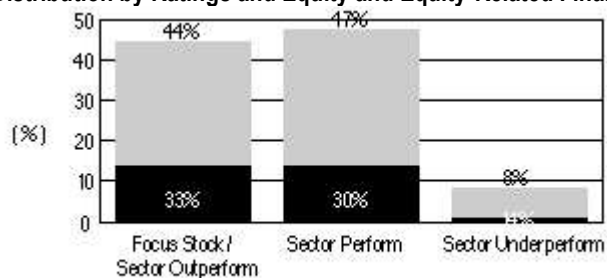
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at October 31, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$30.95)

### Hidden Hydros

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Elena Lissitsyna, MFin - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$34.00 ROR 1-Yr: 13.9%

Div. (NTM) \$1.26

Risk Ranking: Low

Div. (Curr.) \$1.24

Valuation: 6.5% 2014E Free Cash Yield and 11.0x 2014E EV/EBITDA

Yield (Curr.) 4.0%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- We are hosting FTS management for investor meetings this week including CEO Stan Marshall and CFO Barry Perry.

### Implications

- FTS could be on the verge of a significant positive change in earnings momentum. After several years of minimal growth, trends are reversing and we are forecasting almost 15% growth from 2013 - 2015.
- Utility expansion has remained consistently strong but allowed ROEs fell and offset asset additions. However, we see opportunities for increased allowed and achieved returns especially in the key Western Canadian regions in the coming years.
- Meanwhile FTS is quietly developing renewable power assets that might not be fully valued in the stock. With a return to normal hydrology in Belize and the in-service of the Waneta dam in B.C., we estimate hydro could make up ~12% of company earnings.

### Recommendation

- FTS is trading below its historical valuation relative to bonds. Improvements in growth and the business mix could normalize that relationship. We recommend accumulating at this level.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.32 A	\$0.24	\$0.46	\$1.70	18.2x
2014E	\$0.69	\$0.31	\$0.29	\$0.51	\$1.80	17.2x
2015E	\$0.69	\$0.34	\$0.35	\$0.57	\$1.95	15.9x
(FY-Dec.)	2011A	2012A	2013E	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.11	\$2.22	\$2.43	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.29	\$1.34	
EV/EBITDA	11.2x	11.3x	11.2x	10.6x	9.9x	
Payout Ratio	52.8%	52.7%	58.9%	58.1%	55.1%	
EBITDA (M)	\$1,185	\$1,260	\$1,430	\$1,583	\$1,728	
Debt/EBITDA	5.02x	5.13x	5.52x	5.37x	5.03x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.58	0.58	
Enterprise Value (M)	\$13,278	\$14,284	\$16,025	\$16,743	\$17,138	

IBES EPS 2013E: \$1.71

IBES EPS 2014E: \$1.81

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

Capitalization	
Shares O/S (M)	211.7
Market Cap (M)	\$6,552
Float O/S (M)	210.3
Float Value (M)	\$6,509
TSX Weight (FD)	0.43%


[ScotiaView Analyst Link](#)

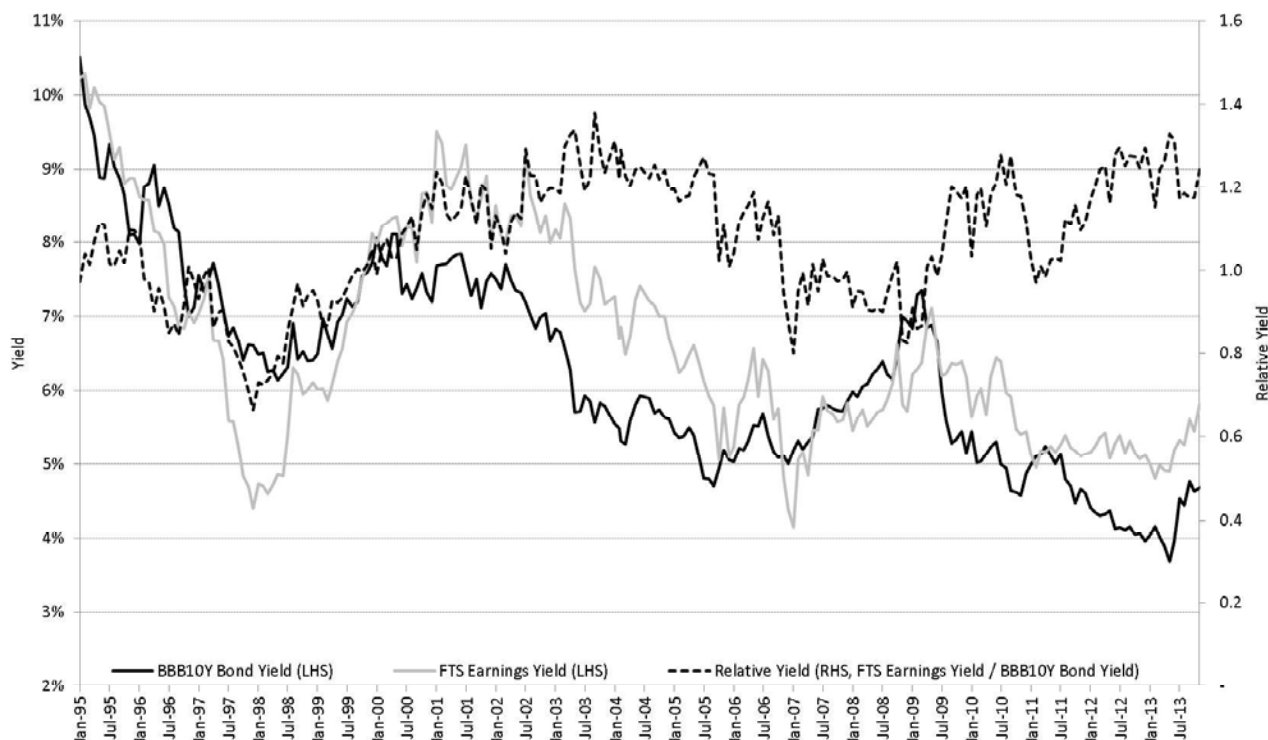
## Hidden Hydros

- When Canadian investors think of renewable power FTS is probably one of the last companies that come to mind. Pure-play companies like Brookfield Renewable, Innergex and Boralex took centre stage initially when the investing theme emerged. Over time, others developing renewable power (ALA, NPI) were rewarded with premium valuations. And if the business went unrewarded it was monetized (ENB via ENF and TA via RNW). FTS might be the only company with significant renewable power assets in our coverage that has not been noticed yet.
- Not to exaggerate the extent of renewable power in the FTS business mix; in 2015 when the Waneta Hydroelectric Project in B.C. comes on line, we estimate only about 12% of company earnings will derive from hydroelectricity. But still, 12% is not insignificant and, given premium valuation for hydro even among renewable assets, can make a meaningful difference to share performance.
- Just as important, the hydro assets should make a strong positive contribution to the "renewed" growth we are projecting at FTS over the next two years. Having achieved very little EPS growth for several years now, our forecasts imply a nearly 15% improvement between 2013 and 2015. Drivers are the operating hydro assets in Belize and the development assets in B.C.
- The company has been involved in hydroelectricity in Belize for many years but has not really experienced a normal hydrology year since 2010. It was March of that year when FTS completed construction of the Vaca plant, which was the third in a collection of a total 50 MW that should normally produce about 240 GWh/year. The assets, together with others in New York and B.C. should generate about 370 GWh/year but produced only 138 GWh in 1H/13 and 306 GWh in 2012. Our modelling suggests the Belize assets should contribute at least another \$0.05 in EPS -- possibly more due to a strengthened US\$ -- in a normal hydrology year.
- Meanwhile the \$900m Waneta project (FTS ~\$460m) is on schedule and budget for a 2015 in-service. It will add another 171 net MW to the ~90 MW of hydro-power FTS already owns. We believe the investment could add \$0.10 in EPS in its first year of operation. Unlike some utility investments, FTS is not booking non-cash earnings from the project prior to its in-service date; so none of the Waneta revenues have yet been booked in earnings.
- The higher hydro earnings should complement utility expansion and a reversal in declining ROEs. In particular, we see potential for improvement in ROEs in Western Canada starting in 2014. That projection may seem optimistic because the B.C. Utilities Commission reduced the allowed ROE by 75 basis points just this year. But the Commission included an automatic adjustment up in allowed returns if Canadian long bond yields exceed 3.8%. Furthermore, in June FTS applied for performance-based regulation for the 2014 - 2018 time-frame.
- We are even more optimistic about the potential for higher ROEs in Alberta than in B.C. The Alberta Utilities Commission had established an 8.75% ROE but is reviewing it in light of its recent transition to performance-based regulation. We believe there is a much higher likelihood of an increase in the ROE than a decrease because incentive regulation increases risk and because bond yields have moved up.
- Hydro development and utility investment returns are not the only growth drivers at FTS. Surprisingly, even FTS might participate in and benefit from LNG export activities. With its BC Gas infrastructure footprint on the West Coast, FTS is well-positioned for niche projects. The company is quietly considering a \$200M-\$300M pipeline expansion to a proposed Pacific Oil & Gas project near Squamish. A small-scale (250 MMcf/d) export facility is under development there and could be in service by 2017-2018. In addition, FTS already owns a small liquefaction and LNG storage facility near Delta, B.C. that could be expanded. The Tilbury site has about 30 acres of spare land and is working on opportunities in the small-scale utility export business as well as LNG applications in the local transportation industry.



- With growth improving again, there is no apparent reason for the stock to trade at a discount to its historically normal trading range. Our normalized earnings data going back almost 20 years suggests that the earnings yield has correlated tightly with 10-year BBB corporate bond yields. In particular, we estimate the earnings yield has averaged about 1.07x the BBB yield but now sits at 1.24x, suggesting an attractive relative valuation.

**Exhibit 1 – Historical Relative Yield Relationship: FTS Earnings Yield vs. BBB 10Y Corporate Bonds**



Source: Company reports; Scotiabank GBM estimates.

- If anything, the emerging FTS business mix has potential to trade at a premium to historical norms. Many of the business risks have diminished -- the Caribbean utilities and properties segments make up a smaller proportion of earnings than ever. The vast majority of earnings are derived from low-risk regulated Canadian utilities and the emerging hydro business. On this basis, we upgraded the stock to Sector Outperform (\$34 TP) earlier this year (see our report titled *"The 'Lost Years' Are Almost Over"*, published June 7<sup>th</sup> 2013) and recommend accumulating at these levels.

Exhibit 2 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2012	2013E	2014E	2015E
BC Gas	\$138	\$130	\$137	\$142
Newfoundland Power (Electric)	\$37	\$38	\$39	\$41
Alberta & BC Utilities (Electric)	\$146	\$157	\$170	\$176
Other Canadian (Electric)	\$24	\$25	\$27	\$27
Caribbean Electric	\$19	\$20	\$21	\$22
CH Energy		\$24	\$48	\$53
Fortis Generation	\$17	\$16	\$23	\$42
Fortis Properties	\$22	\$21	\$20	\$22
Corporate and Other	(\$80)	(\$91)	(\$97)	(\$97)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$323</b>	<b>\$341</b>	<b>\$388</b>	<b>\$427</b>
Unusual items	(\$8)	\$15	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$315</b>	<b>\$355</b>	<b>\$388</b>	<b>\$427</b>
EBITDA	\$1,260	\$1,430	\$1,583	\$1,728
Avg. Shares Outstanding - Basic	190	203	215	219
EPS to Common S/H - Reported	\$1.66	\$1.77	\$1.80	\$1.95
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.80</b>	<b>\$1.95</b>
Cash Flow Statement (\$M)	2012	2013E	2014E	2015E
Earnings	\$315	\$355	\$388	\$427
Depreciation and Amortization	\$470	\$536	\$587	\$623
Other	\$113	\$55	\$70	\$75
Cash Flow from Operations	\$898	\$946	\$1,045	\$1,125
Changes in non-cash Working Capital	\$78	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$976</b>	<b>\$946</b>	<b>\$1,045</b>	<b>\$1,125</b>
Total Capex	(\$1,130)	(\$1,292)	(\$1,363)	(\$1,104)
Other & Asset Sales	\$50	(\$1,030)	\$0	\$0
<b>Cash Used in Investing Activities</b>	<b>(\$1,080)</b>	<b>(\$2,322)</b>	<b>(\$1,363)</b>	<b>(\$1,104)</b>
Dividends - common shares (net of DRIP)	(\$170)	(\$177)	(\$194)	(\$206)
Other Financing Activities	\$341	\$1,501	\$577	\$180
<b>Cash Used in Financing Activities</b>	<b>\$171</b>	<b>\$1,324</b>	<b>\$383</b>	<b>(\$26)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$67</b>	<b>(\$52)</b>	<b>\$65</b>	<b>(\$4)</b>
Cash and cash equivalents, beginning of year	\$87	\$154	\$102	\$167
<b>Cash and cash equivalents, end of year</b>	<b>\$154</b>	<b>\$102</b>	<b>\$167</b>	<b>\$163</b>
Balance Sheet (\$M)	2012	2013E	2014E	2015E
Cash	\$154	\$102	\$167	\$163
Other Current Assets	\$939	\$970	\$970	\$970
PP&E	\$11,764	\$14,181	\$14,957	\$15,437
Intangibles	\$325	\$361	\$361	\$361
Goodwill	\$1,568	\$2,077	\$2,077	\$2,077
Other Assets	\$200	\$194	\$191	\$183
<b>Total Assets</b>	<b>\$14,950</b>	<b>\$17,885</b>	<b>\$18,722</b>	<b>\$19,190</b>
Short-term debt	\$136	\$99	\$99	\$99
Other Current Liabilities	\$1,172	\$1,156	\$1,156	\$1,156
Long-term debt and convertible debentures	\$6,328	\$7,797	\$8,397	\$8,597
Other Liabilities	\$2,214	\$2,855	\$2,921	\$2,988
<b>Total Liabilities</b>	<b>\$9,850</b>	<b>\$11,907</b>	<b>\$12,573</b>	<b>\$12,840</b>
Preferred shares	\$1,108	\$1,233	\$1,233	\$1,233
Common equity	\$3,992	\$4,745	\$4,916	\$5,117
<b>Total Shareholders' Equity</b>	<b>\$5,100</b>	<b>\$5,978</b>	<b>\$6,149</b>	<b>\$6,350</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$14,950</b>	<b>\$17,885</b>	<b>\$18,722</b>	<b>\$19,190</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	1-Oct-10	C\$31.66	Sector Perform	32.50
2	8-Nov-10	C\$33.60	Sector Perform	*34.50
3	6-Dec-10	C\$33.25	Sector Perform	*35.00
4	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
5	19-May-11	C\$33.09	* Coverage Suspended	N/A
6	19-Sep-11	C\$32.30	*Sector Perform	*34.00
7	4-Nov-11	C\$33.68	Sector Perform	*35.00
8	1-Dec-11	C\$32.95	Sector Perform	*34.00
9	29-May-12	C\$32.89	Sector Perform	*35.00
10	20-Jun-12	C\$32.46	Restricted	
11	17-Jul-12	C\$32.95	Sector Perform	35.00
12	8-Feb-13	C\$33.78	Sector Perform	*34.00
13	8-May-13	C\$34.49	Sector Perform	*35.00
14	7-Jun-13	C\$32.46	*Sector Outperform	35.00
15	10-Sep-13	C\$30.13	Sector Outperform	*34.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

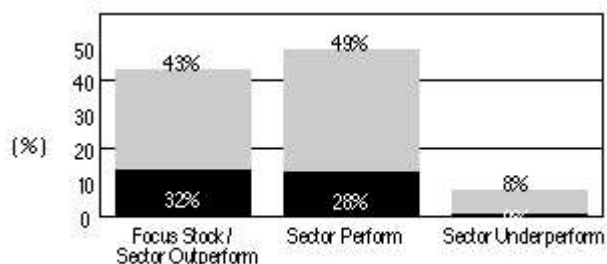
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at September 30, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. DWM Securities Inc. is a subsidiary of The Bank of Nova Scotia and an affiliate of Scotia Capital Inc. Scotia Capital Inc. and DWM Securities Inc. are members of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. DWM Securities Inc. does not provide investment banking services.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe PLC, a subsidiary of the Bank of Nova Scotia. Scotiabank Europe PLC is authorized and regulated by the Financial Services Authority (FSA). Scotiabank Europe PLC complies with all the FSA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$30.31)

### Growth Dry Spell Ends in AZ Desert

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Elena Lissitsyna, MFin - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$36.00 ROR 1-Yr: 23.0%

Div. (NTM) \$1.28

Risk Ranking: Low

Div. (Curr.) \$1.28

Valuation: 6.9% 2015E Free Cash Yield and 10.2x 2015E EV/EBITDA

Yield (Curr.) 4.2%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

#### Event

- FTS announced the acquisition of UNS Energy for US\$4.3b and issued \$1.8b of convertible debentures to finance the equity portion of the deal.

#### Implications

- Due to the premium paid, we doubt the acquisition will add short-term shareholder value. But given the attractive ROE at UNS and its future investment opportunities, it has the potential to add value longer term.
- Even if UNS is a neutral event for shareholders, the stock is more attractive than it was before the deal, in our opinion. The share price is lower due to near-term oversupply of equity but not to any deterioration in earnings outlook. And bond yields have dropped back down.
- The environment for U.S. acquisitions has changed since FTS undertook the strategy after buying BC Gas in 2007. FTS no longer has the cost of capital advantage to make significantly accretive deals.
- In these circumstances, hopefully investors need not worry about further near-term dilution and large equity issuance. We believe the company will have to put any further M&A on pause and re-focus on what FTS does best, namely operating and organically growing regulated utilities safely and efficiently.

#### Recommendation

- FTS offers compelling low-risk value in today's bond yield environment. A re-acceleration of earnings and dividend growth by next year should move the stock price back up to fair value. We are raising our target price from \$35 to \$36 (bond yields) and reiterating our SO rating.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013E	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48	\$1.70	17.9x
2014E	\$0.65	\$0.30	\$0.20	\$0.45	\$1.60	19.0x
2015E	\$0.65	\$0.41	\$0.52	\$0.41	\$2.00	15.2x
(FY-Dec.)	2011A	2012A	2013E	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.10	\$1.99	\$2.49	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.28	\$1.33	
EV/EBITDA	11.2x	11.3x	11.1x	10.5x	9.5x	
Payout Ratio	52.8%	52.7%	59.1%	64.2%	53.4%	
EBITDA (M)	\$1,185	\$1,260	\$1,417	\$1,563	\$2,224	
Debt/EBITDA	5.02x	5.13x	5.51x	5.38x	5.04x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.58	0.61	
Enterprise Value (M)	\$13,278	\$14,284	\$15,746	\$16,424	\$21,160	

IBES EPS 2013E: \$1.69

IBES EPS 2014E: \$1.79

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

#### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$36.00	\$35.00
Adj. EPS14E	\$1.60	\$1.80
Adj. EPS15E	\$2.00	\$1.95
New Valuation:		
6.9% 2015E Free Cash Yield and 10.2x 2015E EV/EBITDA		
Old Valuation:		
6.3% 2014E Free Cash Yield and 11.2x 2014E EV/EBITDA		

Capitalization	
Market Cap (M)	\$6,438
Net Debt + Pref. (M)	\$8,885
Enterprise Value (M)	\$15,696
Shares O/S (M)	212
Float O/S (M)	211

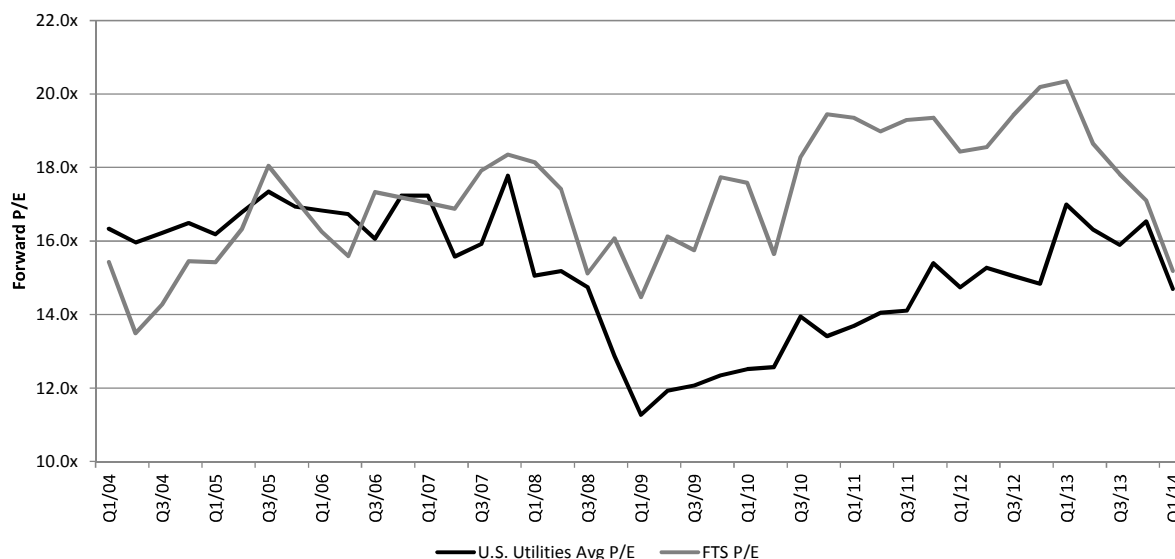

[ScotiaView Analyst Link](#)



## Growth Dry Spell Ends in AZ Desert

- When the FTS share price hit \$30 at the end of 2006, investors were enthusiastic about the company's acquisition strategy. At that time, few would have bet that the stock would stagnate for seven years during one of the most robust yield markets in history. In fairness, several factors contributed to the multi-year underperformance including mean-reversion from super-normal performance in the preceding years, declining Canadian ROEs and political issues in Belize. But dilution, uncertainty and large equity issuance from acquisition activity has also been a significant contributor in our opinion.
- The acquisition of BC Gas in early 2007 signalled a move into multi-utility M&A for a company that had previously only owned electricity assets. It also raised hopes for consolidating combined gas-electrical regulated utilities in the Pacific Northwest that were contiguous with British Columbia. Political issues and robust private equity bids got in the company's way and FTS instead turned its attention to the rest of the U.S. Other M&A attempts almost came to fruition but for various reasons it took years to land the first deal which just recently closed (CH Energy).
- Unfortunately for FTS the window for significantly accretive U.S. utility acquisitions effectively closed while it unsuccessfully pursued targets over the past six years. A massive reduction in U.S. bond yields and then a narrowing of credit spreads caused U.S. utilities to come back into investor favour while the FTS stock stagnated. As a consequence, there has been a significant narrowing of the P/E premium FTS once held over its regulated utility counterparts.

Exhibit 1 - FTS P/E vs. Select Regulated U.S. Utility Holding Companies



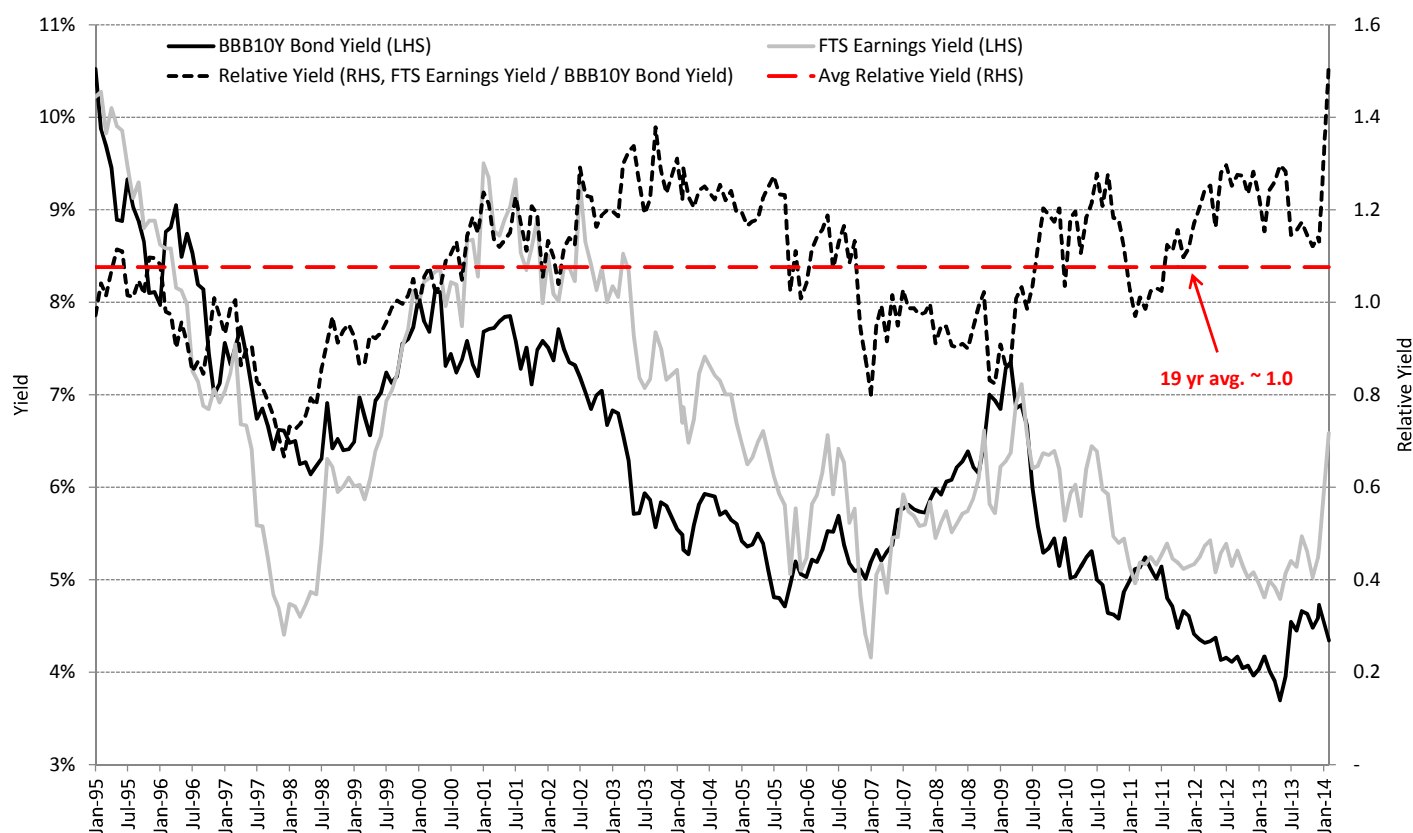
Notes:

1. U.S. Utilities Avg P/E derived by averaging P/E's for Consolidated Edison Inc. (ED), Northeast Utilities (NU), Vectren Corporation (VVC) and WGL Holdings Inc. (WGL).
  2. Current forward P/E's for FTS (15.2x) and U.S. utility group (14.7x) are based on 2015E EPS since 2014 estimates are impacted by the one-time dilution of the UNS deal.
- Source: Company reports; Scotiabank GBM estimates.

- In the absence of a significant valuation advantage, acquiring regulated utilities at a premium isn't meaningfully accretive because returns are fixed and there are no synergies. To the credit of FTS, the corporation doesn't even strive for synergies – it appropriately operates each utility independently and locally without integrating operations or customer service into any larger corporate entity. Small accretion may be available through financing and tax planning (raising our 2015 EPS estimate by \$0.05 to \$2) but those benefits are limited.

- Not that UNS is an unattractive target – on the contrary we see a lot of attraction in its regulatory construct and potential investment opportunities. We believe Canadian allowed ROEs have bottomed out but likely in the area of 9% which is still considerably lower than the 10.7% allowed ROE at UNS. As a result, future investments at UNS will be more accretive than those in Canada. And we see up to \$2b of investments for the replacement of coal-fired plants with natural gas and also to achieve the medium-term Arizona renewable portfolio standard of 15%.
- Those investment prospects in addition to the already-robust organic utility growth profile in Canada should re-ignite EPS and dividend growth (Exhibit 3). The visible potential for renewed growth was in part behind our upgrade of the stock last summer. We remain confident that EPS growth will accelerate next year. So too should dividend growth given the company's long history of tying the dividend growth rate to earnings growth.
- Attractive valuation was the other driver behind our upgrade of the stock. We reasoned at the time that the P/E multiple relative to bond yields was at an historic low. Put another way, the earnings yield relative to the BBB Canada Bond Yield was at an historic high. That situation is even truer now than it was then because bond yields have crashed back down to lows while the share price has moved down almost \$2 on a short-term oversupply of equity from the UNS financing.

Exhibit 2 - FTS Earnings Yield Relative to BBB Corporate Bond Yield



Source: Company reports; Scotiabank GBM estimates.



Exhibit 3 - Visible Organic Growth Initiatives at FTS

Segment	2014E	2015E	14E-'15E		Comment
			Δ \$m	Δ EPS	
BC Gas	\$133	\$142	\$8	\$0.03	Ratebase growth
BC Electric	\$51	\$55	\$4	\$0.01	Ratebase growth
AB Electric	\$106	\$111	\$5	\$0.02	Ratebase growth
Other Canadian, Caribbean Utilities and Non-Regulated	\$110	\$113	\$2	\$0.01	
CH Energy	\$49	\$53	\$4	\$0.01	Rate increase assumed to be effective 2H15
UNS Energy		\$151	\$151	\$0.56	Impact of UNS Energy acquisition
Fortis Generation	\$25	\$42	\$17	\$0.06	Waneta coming online (2Q15E), hydrology
Corporate and Other	(\$133)	(\$136)	(\$3)	(\$0.31)	Impact of incremental debt/shares for UNS acquisition
<b>Total</b>	<b>\$342</b>	<b>\$530</b>	<b>\$188</b>	<b>\$0.40</b>	
Avg Shares Outstanding (millions)	214	268	54		
<b>EPS</b>	<b>\$1.60</b>	<b>\$2.00</b>	<b>\$0.40</b>		

Source: Company reports; Scotiabank GBM estimates.

- The breakdown in long-term valuation trends is partly due to a build-out of its assets that created near-term dilution but should pay off in higher earnings growth as capital invested earns its normal return. Three examples stand out on this front. First, the Waneta hydroelectric project which unlike regulated utility investments, does not book earnings until it comes on line at the start of next year. Second, CH Energy which is operating under a guaranteed rates freeze and is therefore under-earning its allowed ROE until mid-2015. And now UNS which required an equity raise this year but may not close for up to 12-months.
- All by way of saying that achieving accelerated growth and getting valuation back to historical norms is more a matter of doing nothing new than having to do something special. Seven years is a long time to wait for share price appreciation so we believe management and the board will now seek to surface value from the existing assets rather than take any action that might further prolong the return of FTS share price to fair value.
- A lull in earnings growth that should soon reverse has created an attractive buying opportunity in FTS shares. The UNS deal doesn't detract from value but created an additional over-supply because of the relatively large financing for an acquisition that is only modestly accretive. Further equity issuance and short-term dilution from deals is unlikely in our opinion because FTS no longer carries a premium valuation to its peers. We maintain our Sector Outperform rating and recommend accumulating the stock.

Exhibit 4 - Fortis Inc. Financial Statement Summary

<b>Income Statement (\$M)</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
BC Gas	\$138	\$128	\$133	\$142
Newfoundland Power (Electric)	\$37	\$36	\$39	\$40
Alberta & BC Utilities (Electric)	\$146	\$150	\$156	\$165
Other Canadian (Electric)	\$24	\$24	\$27	\$27
Caribbean Electric	\$19	\$19	\$20	\$21
CH Energy		\$24	\$49	\$53
UNS Energy				\$151
Fortis Generation	\$17	\$17	\$25	\$42
Non-Regulated Non-Utility (FTS Properties & Griffith)	\$22	\$21	\$24	\$25
Corporate and Other	(\$80)	(\$78)	(\$133)	(\$136)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$323</b>	<b>\$341</b>	<b>\$342</b>	<b>\$530</b>
Unusual items	(\$8)	\$15	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$315</b>	<b>\$355</b>	<b>\$342</b>	<b>\$530</b>
EBITDA	\$1,260	\$1,417	\$1,563	\$2,224
Avg. Shares Outstanding - Basic	190	203	214	268
EPS to Common S/H - Reported	\$1.66	\$1.77	\$1.60	\$2.00
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>
<b>Cash Flow Statement (\$M)</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Earnings	\$315	\$355	\$342	\$530
Depreciation and Amortization	\$470	\$541	\$587	\$807
Other	\$113	\$50	\$70	\$110
Cash Flow from Operations	\$898	\$946	\$999	\$1,447
Changes in non-cash Working Capital	\$78	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$976</b>	<b>\$946</b>	<b>\$999</b>	<b>\$1,447</b>
Total Capex	(\$1,130)	(\$1,200)	(\$1,423)	(\$1,648)
Other & Asset Sales	\$50	(\$1,006)	\$50	(\$2,586)
<b>Cash Used in Investing Activities</b>	<b>(\$1,080)</b>	<b>(\$2,206)</b>	<b>(\$1,373)</b>	<b>(\$4,234)</b>
Dividends - common shares (net of DRIP)	(\$170)	(\$180)	(\$198)	(\$262)
Other Financing Activities	\$341	\$1,440	\$604	\$3,043
<b>Cash Used in Financing Activities</b>	<b>\$171</b>	<b>\$1,259</b>	<b>\$406</b>	<b>\$2,781</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$67</b>	<b>(\$0)</b>	<b>\$31</b>	<b>(\$7)</b>
Cash and cash equivalents, beginning of year	\$87	\$154	\$154	\$185
<b>Cash and cash equivalents, end of year</b>	<b>\$154</b>	<b>\$154</b>	<b>\$185</b>	<b>\$178</b>
<b>Balance Sheet (\$M)</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Cash	\$154	\$154	\$185	\$178
Other Current Assets	\$939	\$928	\$928	\$1,400
PP&E	\$11,764	\$14,080	\$14,916	\$19,538
Intangibles	\$325	\$356	\$356	\$356
Goodwill	\$1,568	\$2,064	\$2,064	\$3,503
Other Assets	\$200	\$160	\$113	\$158
<b>Total Assets</b>	<b>\$14,950</b>	<b>\$17,742</b>	<b>\$18,563</b>	<b>\$25,133</b>
Short-term debt	\$136	\$111	\$111	\$135
Other Current Liabilities	\$1,172	\$1,287	\$1,287	\$2,901
Long-term debt and convertible debentures	\$6,328	\$7,699	\$8,299	\$11,073
Other Liabilities	\$2,214	\$2,680	\$2,753	\$3,834
<b>Total Liabilities</b>	<b>\$9,850</b>	<b>\$11,777</b>	<b>\$12,450</b>	<b>\$17,943</b>
Preferred shares	\$1,108	\$1,229	\$1,229	\$1,229
Common equity	\$3,992	\$4,736	\$4,883	\$5,961
<b>Total Shareholders' Equity</b>	<b>\$5,100</b>	<b>\$5,965</b>	<b>\$6,112</b>	<b>\$7,190</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$14,950</b>	<b>\$17,742</b>	<b>\$18,563</b>	<b>\$25,133</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	21-Jan-11	C\$33.79	Sector Perform	35.00
2	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
3	19-May-11	C\$33.09	* Coverage Suspended	N/A
4	19-Sep-11	C\$32.30	*Sector Perform	*34.00
5	4-Nov-11	C\$33.68	Sector Perform	*35.00
6	1-Dec-11	C\$32.95	Sector Perform	*34.00
7	29-May-12	C\$32.89	Sector Perform	*35.00
8	20-Jun-12	C\$32.46	Restricted	
9	17-Jul-12	C\$32.95	Sector Perform	35.00
10	8-Feb-13	C\$33.78	Sector Perform	*34.00
11	8-May-13	C\$34.49	Sector Perform	*35.00
12	7-Jun-13	C\$32.46	*Sector Outperform	35.00
13	10-Sep-13	C\$30.13	Sector Outperform	*34.00
14	4-Nov-13	C\$32.34	Sector Outperform	*35.00
15	12-Dec-13	C\$30.04	Restricted	
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

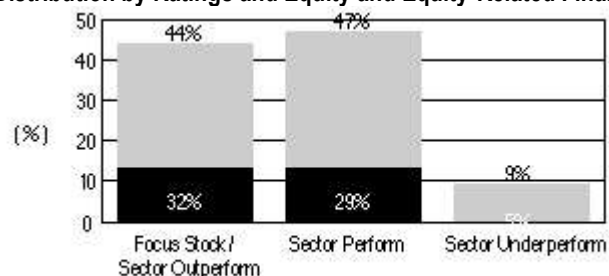
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at December 31, 2013.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

(FTS-T C\$30.65)

### Cheap at Only 15x '15

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Elena Lissitsyna, MFin - (416) 863-5915

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$36.00 ROR 1-Yr: 21.7%

Div. (NTM) \$1.29

Risk Ranking: Low

Div. (Curr.) \$1.28

Valuation: 6.9% 2015E Free Cash Yield and 10.3x 2015E EV/EBITDA

Yield (Curr.) 4.2%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported adjusted Q4/13 EPS of \$0.48 vs. our estimate of \$0.48 and \$0.47 in Q4/12.

### Implications

- Our positive outlook into 2015 and beyond for FTS remains intact following the Q4 report. Organic growth projections are increasingly robust and major projects are on time and budget.
- Management guided to \$1.4B of organic growth this year (in line with our estimate) and >\$6.5B for the next 5 years. The Waneta Hydro Project remains on budget at \$900M. These expenditures combined with integration of acquisitions drives our \$2 EPS forecast for 2015.
- We believe attractive EPS and dividend growth will persist beyond 2015. Western Canada is the main driver with continued high-single digit annual expansion in AB and new opportunities in B.C. driven by LNG/CNG (at least \$400M in service by 2016).
- The recent sale of Griffith (subsidiary of CH Energy) for US\$70M is positive as it contributed little in the way of earnings, sale proceeds should offset recent negative Fx impacts, and it was non-core.

### Recommendation

- The stock has been lacklustre on short-term equity over-supply and near-term dilution. As a result, it is now cheap, in our opinion. Trading at only 15x our 2015 estimate, it would normally trade at 18x+ in today's bond yield environment. We would accumulate at these levels.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.64	\$0.31	\$0.20	\$0.44	\$1.60	19.2x
2015E	\$0.64	\$0.41	\$0.53	\$0.42	\$2.00	15.4x
(FY-Dec.)	2011A	2012A	2013A	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.10	\$1.99	\$2.49	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.28	\$1.33	
EV/EBITDA	11.2x	11.5x	11.3x	10.7x	9.7x	
Payout Ratio	52.8%	52.7%	59.2%	64.5%	53.6%	
EBITDA (M)	\$1,185	\$1,240	\$1,401	\$1,546	\$2,208	
Debt/EBITDA	5.02x	5.21x	5.58x	5.44x	5.08x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.58	0.61	
Enterprise Value (M)	\$13,278	\$14,284	\$15,833	\$16,587	\$21,324	

IBES EPS 2014E: \$1.67

IBES EPS 2015E: \$1.93

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
6.9% 2015E Free Cash Yield and 10.3x 2015E EV/EBITDA		
<b>Old Valuation:</b>		
6.9% 2015E Free Cash Yield and 10.2x 2015E EV/EBITDA		

Capitalization	
Market Cap (M)	\$6,510
Net Debt + Pref. (M)	\$8,970
Enterprise Value (M)	\$15,855
Shares O/S (M)	212
Float O/S (M)	211


[ScotiaView Analyst Link](#)



Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2012	2013	2014E	2015E
BC Gas	\$138	\$127	\$133	\$142
Newfoundland Power (Electric)	\$37	\$35	\$38	\$39
Alberta & BC Utilities (Electric)	\$146	\$144	\$156	\$163
Other Canadian (Electric)	\$24	\$22	\$27	\$27
Caribbean Electric	\$19	\$23	\$20	\$21
CH Energy		\$23	\$49	\$53
UNS Energy				\$151
Fortis Generation	\$17	\$19	\$25	\$42
Non-Regulated Non-Utility (FTS Properties & Griffith)	\$22	\$20	\$22	\$22
Corporate and Other	(\$80)	(\$73)	(\$129)	(\$130)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$323</b>	<b>\$341</b>	<b>\$342</b>	<b>\$530</b>
Unusual items	(\$8)	\$13	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$315</b>	<b>\$353</b>	<b>\$342</b>	<b>\$530</b>
EBITDA	\$1,240	\$1,401	\$1,546	\$2,208
Avg. Shares Outstanding - Basic	190	203	214	268
EPS to Common S/H - Reported	\$1.66	\$1.74	\$1.60	\$2.00
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>
Cash Flow Statement (\$M)	2012	2013	2014E	2015E
Earnings	\$315	\$353	\$342	\$530
Depreciation and Amortization	\$470	\$541	\$584	\$805
Other	\$113	\$50	\$54	\$94
Cash Flow from Operations	\$898	\$944	\$981	\$1,430
Changes in non-cash Working Capital	\$78	(\$45)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$976</b>	<b>\$899</b>	<b>\$981</b>	<b>\$1,430</b>
Total Capex	(\$1,130)	(\$1,175)	(\$1,430)	(\$1,634)
Other & Asset Sales	\$50	(\$992)	\$50	(\$2,586)
<b>Cash Used in Investing Activities</b>	<b>(\$1,080)</b>	<b>(\$2,167)</b>	<b>(\$1,380)</b>	<b>(\$4,220)</b>
Dividends - common shares (net of DRIP)	(\$170)	(\$181)	(\$198)	(\$262)
Other Financing Activities	\$341	\$1,367	\$615	\$3,054
<b>Cash Used in Financing Activities</b>	<b>\$171</b>	<b>\$1,186</b>	<b>\$417</b>	<b>\$2,792</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$67</b>	<b>(\$82)</b>	<b>\$18</b>	<b>\$1</b>
Cash and cash equivalents, beginning of year	\$87	\$154	\$72	\$90
<b>Cash and cash equivalents, end of year</b>	<b>\$154</b>	<b>\$72</b>	<b>\$90</b>	<b>\$91</b>
Balance Sheet (\$M)	2012	2013	2014E	2015E
Cash	\$154	\$72	\$90	\$91
Other Current Assets	\$939	\$1,224	\$1,224	\$1,696
PP&E	\$11,764	\$13,939	\$14,785	\$19,394
Intangibles	\$325	\$345	\$345	\$345
Goodwill	\$1,568	\$2,075	\$2,075	\$3,514
Other Assets	\$200	\$253	\$211	\$261
<b>Total Assets</b>	<b>\$14,950</b>	<b>\$17,908</b>	<b>\$18,729</b>	<b>\$25,301</b>
Short-term debt	\$136	\$160	\$160	\$184
Other Current Liabilities	\$1,172	\$1,924	\$1,924	\$3,538
Long-term debt and convertible debentures	\$6,328	\$7,653	\$8,253	\$11,027
Other Liabilities	\$2,214	\$2,170	\$2,232	\$3,302
<b>Total Liabilities</b>	<b>\$9,850</b>	<b>\$11,907</b>	<b>\$12,569</b>	<b>\$18,051</b>
Preferred shares	\$1,108	\$1,229	\$1,229	\$1,229
Common equity	\$3,992	\$4,772	\$4,931	\$6,020
<b>Total Shareholders' Equity</b>	<b>\$5,100</b>	<b>\$6,001</b>	<b>\$6,160</b>	<b>\$7,249</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$14,950</b>	<b>\$17,908</b>	<b>\$18,729</b>	<b>\$25,301</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	4-Feb-11	C\$35.07	Sector Perform	35.00
	11-Feb-11	C\$33.20	*Sector Underperform	*34.50
2	19-May-11	C\$33.09	* Coverage Suspended	N/A
3	19-Sep-11	C\$32.30	*Sector Perform	*34.00
4	4-Nov-11	C\$33.68	Sector Perform	*35.00
5	1-Dec-11	C\$32.95	Sector Perform	*34.00
6	29-May-12	C\$32.89	Sector Perform	*35.00
7	20-Jun-12	C\$32.46	Restricted	
8	17-Jul-12	C\$32.95	Sector Perform	35.00
9	8-Feb-13	C\$33.78	Sector Perform	*34.00
10	8-May-13	C\$34.49	Sector Perform	*35.00
11	7-Jun-13	C\$32.46	*Sector Outperform	35.00
12	10-Sep-13	C\$30.13	Sector Outperform	*34.00
13	4-Nov-13	C\$32.34	Sector Outperform	*35.00
14	12-Dec-13	C\$30.04	Restricted	
15	27-Jan-14	C\$30.20	Sector Outperform	*36.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

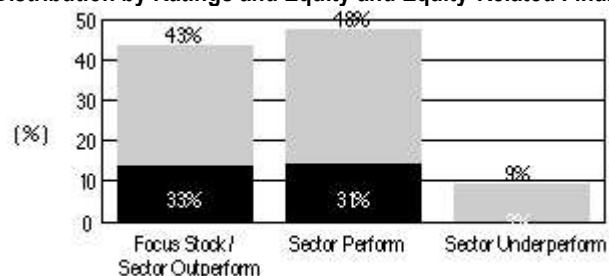
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at January 31, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$31.94)

### AZ Growth Outlook Taking Shape

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337

(Scotia Capital Inc. - Canada)

Dario Neimarlija, CA - (416) 863-2852

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$36.00 ROR 1-Yr: 16.8%

Div. (NTM) \$1.29

Risk Ranking: Low

Div. (Curr.) \$1.28

Valuation: 6.9% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA

Yield (Curr.) 4.0%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- UNS Energy subsidiaries filed Integrated Resource Plans (IRPs) with the Arizona regulator detailing generation additions and fuel mix through 2028.

### Implications

- Based on the IRPs, it appears capital expenditures for generation at UNS could drive growth rates comparable to FTS's premium Western Canadian utilities.
- Key features of the IRPs were replacement of coal-fired power with gas-fired power, as well as construction of renewable power to meet Renewable Portfolio Standards (RPS) in Arizona.
- Our summary analysis suggests that the UNS rate-base could grow on average at 6%-8% annually through 2025 if the IRPs are accepted. This growth already nets off what UNS is forecasting for distributed generation (DG) that could eat into utility sales revenue.

### Recommendation

- FTS shares have started to perform better lately as equity overhang dissipates and sentiment toward interest-sensitive stocks improves. We still see meaningful, low-risk upside to a more normal level of valuation relative to bonds and peers. There are no changes to our Sector Outperform rating and \$36 target price.

### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
6.9% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA		
<b>Old Valuation:</b>		
6.9% 2015E Free Cash Yield and 10.3x 2015E EV/EBITDA		

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.62	\$0.29	\$0.22	\$0.47	\$1.60	20.0x
2015E	\$0.63	\$0.39	\$0.53	\$0.45	\$2.00	15.9x
(FY-Dec.)	2011A	2012A	2013A	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.10	\$1.98	\$2.49	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.28	\$1.33	
EV/EBITDA	11.2x	11.5x	11.3x	10.9x	9.9x	
Payout Ratio	52.8%	52.7%	59.2%	64.5%	53.4%	
EBITDA (M)	\$1,185	\$1,240	\$1,401	\$1,542	\$2,190	
Debt/EBITDA	5.02x	5.21x	5.58x	5.41x	5.09x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.58	0.61	
Enterprise Value (M)	\$13,278	\$14,284	\$15,833	\$16,792	\$21,609	

IBES EPS 2014E: \$1.66

IBES EPS 2015E: \$1.99

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

Capitalization	
Market Cap (M)	\$6,784
Net Debt + Pref. (M)	\$9,175
Enterprise Value (M)	\$16,366
Shares O/S (M)	212
Float O/S (M)	211


[ScotiaView Analyst Link](#)



## AZ Growth Outlook Taking Shape

- When FTS announced the UNS Energy acquisition late last year many investors were left shaking their heads in wonder why a utility so far away from Newfoundland (or anywhere in Canada for that matter) was such an attractive target. But this week's regulatory filing of IRPs starts to uncover what the company saw – and investors may not have – as potential for future value creation. In particular, the opportunity for power generation investment could drive premium utility growth.
- Reducing coal-fired resources in the fuel mix from 80% to 56% by the end of the decade while maintaining a sufficient reserve margin in a growing market drives that investment opportunity. Coal-fired power must be replaced with another form of reliable base-load power, namely gas-fired. Right now the company is seeking approval for the acquisition of a 550 MW plant for US\$219M (Gila River). Well over and above that, the IRPs call for the addition of about 950 MW of gas-fired power between 2018 and 2026. At today's cost, that addition could amount to a US\$1B-\$1.5B investment on a closing rate-base of only ~US\$3B.
- The IRPs also detail the utility-scale renewable power opportunity that we highlighted in research earlier this year. Arizona's RPS law requires renewable to rise from 4% of load to 15% by 2025. The utilities quantified required additions of 342 MW by 2028. Of that amount, the vast majority would be satisfied by solar and a minority of it by wind. We estimate those additions represent nearly a US\$1B investment opportunity for FTS.
- We can utilize the IRP filings to derive rate-base growth estimates into the future; detailed schedules for new generation capacity through 2028 were published. Our analysis applies today's cost estimates to each form and amount of generation. We derive a total potential investment of about ~US\$2.5B through 2025.

**Exhibit 1 - Proposed Generation Additions and Potential Capital Cost (US\$)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Renewables(MW)	70						17	68	24	160	73			
Cumulative Renewables(MW)	70	70	70	70	70	70	87	155	179	339	412	412	412	412
Gas Fired Generation (MW)	512				753	2	2	2	92	2	2	92	2	2
Cumulative Gas Fired Generation (MW)	512	512	512	512	1,265	1,267	1,269	1,271	1,363	1,365	1,367	1,459	1,461	1,463
Renewables Investment (\$m)	\$ 169						\$ 45	\$ 180	\$ 61	\$ 416	\$ 188	\$ 3		
Cumulative Renewables Investment (\$m)	\$ 169	\$ 169	\$ 169	\$ 169	\$ 169	\$ 169	\$ 214	\$ 394	\$ 456	\$ 872	\$1,060	\$1,063	\$1,063	\$1,063
Gas and Other Investment (\$m)	\$ 121	\$ 56			\$ 972				\$ 237	\$ 11		\$ 96		\$ 283
Cumulative Gas and Other (\$m)	\$ 121	\$ 176	\$ 176	\$ 176	\$1,148	\$1,148	\$1,148	\$1,148	\$1,385	\$1,397	\$1,397	\$1,492	\$1,492	\$1,775

Source: Company reports; Scotiabank GBM estimates.

- That US\$2.5b investment potential translates into attractive rate-base growth. While most utilities grow at only 2%-3%/year, our analysis suggests the UNS assets could grow at rough 6%-8% annually. That premium growth rate is comparable to rate-base expansion in FTS's Alberta and B.C. regulated utilities.
- Distributed generation, particularly roof-top solar, has been identified as a competitive threat and deterred some investors from participating in the UNS acquisition financing. Indeed, when households add solar panels to their roof-tops in Arizona, they pay only a \$5/month "exit" fee and no longer contribute to utility grid fixed costs though they still use the grid for back-up power. As a result, it is a risk/threat we intend to monitor closely.
- Having said that, the IRP forecast indicates at this time that DG may have an immaterial impact. The utilities are forecasting a roughly 156 GWh increase in DG from 2015 to 2020. We understand that only about half of that (about 15-16 GWh/year) would be market penetration by competitive DG suppliers, primarily roof-top solar. At retail rates of US\$0.10/KWh, that competitive supply would only cost UNS about US\$1.6m in annual revenue, half of which would be recoverable under the regulator's "lost fixed cost recovery mechanism". On this basis, only if DG penetration accelerated dramatically would UNS face a material financial threat.



- Adding another relatively high-growth utility to the business mix reinforces the potential for a return to mid-high single digit EPS and dividend growth at FTS by next year. As discussed and substantiated in our recent research, at today's bond yields we believe FTS will trade at a high-teens P/E multiple if growth returns to these historically normal levels. Currently trading at ~16x our 2015 estimate, it is still discounted to fair value and to several of the peers trading at 18x+. We would continue accumulating the stock at these levels and maintain our Sector Outperform rating.

Exhibit 2 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2012	2013	2014E	2015E
BC Gas	\$138	\$127	\$133	\$140
Newfoundland Power (Electric)	\$37	\$35	\$38	\$39
Alberta & BC Utilities (Electric)	\$146	\$144	\$157	\$165
Other Canadian (Electric)	\$24	\$22	\$23	\$25
Caribbean Electric	\$19	\$23	\$20	\$21
CH Energy		\$23	\$49	\$50
UNS Energy				\$139
Fortis Generation	\$17	\$19	\$25	\$42
Non-Regulated Non-Utility	\$22	\$20	\$22	\$22
Corporate and Other	(\$80)	(\$73)	(\$125)	(\$111)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$323</b>	<b>\$341</b>	<b>\$342</b>	<b>\$533</b>
Unusual items	(\$8)	\$13	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$315</b>	<b>\$353</b>	<b>\$342</b>	<b>\$533</b>
EBITDA	\$1,240	\$1,401	\$1,542	\$2,190
Avg. Shares Outstanding - Basic	190	203	214	268
EPS to Common S/H - Reported	\$1.66	\$1.74	\$1.60	\$2.00
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>
Cash Flow Statement (\$M)	2012	2013	2014E	2015E
Earnings	\$315	\$353	\$342	\$533
Depreciation and Amortization	\$470	\$541	\$583	\$803
Other	\$113	\$50	\$57	\$97
Cash Flow from Operations	\$898	\$944	\$982	\$1,433
Changes in non-cash Working Capital	\$78	(\$45)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$976</b>	<b>\$899</b>	<b>\$982</b>	<b>\$1,433</b>
Total Capex	(\$1,130)	(\$1,175)	(\$1,430)	(\$1,632)
Other & Asset Sales	\$50	(\$992)	\$127	(\$2,586)
<b>Cash Used in Investing Activities</b>	<b>(\$1,080)</b>	<b>(\$2,167)</b>	<b>(\$1,303)</b>	<b>(\$4,218)</b>
Dividends - common shares (net of DRIP)	(\$170)	(\$181)	(\$198)	(\$262)
Other Financing Activities	\$341	\$1,367	\$537	\$3,051
<b>Cash Used in Financing Activities</b>	<b>\$171</b>	<b>\$1,186</b>	<b>\$339</b>	<b>\$2,789</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$67</b>	<b>(\$82)</b>	<b>\$18</b>	<b>\$3</b>
Cash and cash equivalents, beginning of year	\$87	\$154	\$72	\$90
<b>Cash and cash equivalents, end of year</b>	<b>\$154</b>	<b>\$72</b>	<b>\$90</b>	<b>\$93</b>
Balance Sheet (\$M)	2012	2013	2014E	2015E
Cash	\$154	\$72	\$90	\$93
Other Current Assets	\$939	\$1,224	\$1,224	\$1,696
PP&E	\$11,764	\$13,939	\$14,786	\$19,395
Intangibles	\$325	\$345	\$345	\$345
Goodwill	\$1,568	\$2,075	\$2,075	\$3,514
Other Assets	\$200	\$253	\$134	\$184
<b>Total Assets</b>	<b>\$14,950</b>	<b>\$17,908</b>	<b>\$18,654</b>	<b>\$25,227</b>
Short-term debt	\$136	\$160	\$160	\$184
Other Current Liabilities	\$1,172	\$1,924	\$1,924	\$3,538
Long-term debt and convertible debentures	\$6,328	\$7,653	\$8,178	\$10,952
Other Liabilities	\$2,214	\$2,170	\$2,235	\$3,308
<b>Total Liabilities</b>	<b>\$9,850</b>	<b>\$11,907</b>	<b>\$12,497</b>	<b>\$17,982</b>
Preferred shares	\$1,108	\$1,229	\$1,229	\$1,229
Common equity	\$3,992	\$4,772	\$4,928	\$6,016
<b>Total Shareholders' Equity</b>	<b>\$5,100</b>	<b>\$6,001</b>	<b>\$6,157</b>	<b>\$7,245</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$14,950</b>	<b>\$17,908</b>	<b>\$18,654</b>	<b>\$25,227</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures). Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	8-Apr-11	C\$32.48	Sector Underperform	34.50
2	19-May-11	C\$33.09	* Coverage Suspended	N/A
3	19-Sep-11	C\$32.30	*Sector Perform	*34.00
4	4-Nov-11	C\$33.68	Sector Perform	*35.00
5	1-Dec-11	C\$32.95	Sector Perform	*34.00
6	29-May-12	C\$32.89	Sector Perform	*35.00
7	20-Jun-12	C\$32.46	Restricted	
8	17-Jul-12	C\$32.95	Sector Perform	35.00
9	8-Feb-13	C\$33.78	Sector Perform	*34.00
10	8-May-13	C\$34.49	Sector Perform	*35.00
11	7-Jun-13	C\$32.46	*Sector Outperform	35.00
12	10-Sep-13	C\$30.13	Sector Outperform	*34.00
13	4-Nov-13	C\$32.34	Sector Outperform	*35.00
14	12-Dec-13	C\$30.04	Restricted	
15	27-Jan-14	C\$30.20	Sector Outperform	*36.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

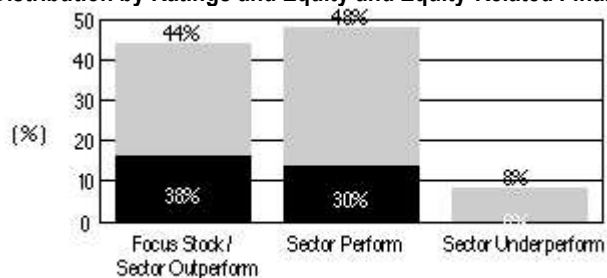
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at March 31, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

**(FTS-T C\$32.38)**

### Seeing the FTS Through the Trees

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337  
(Scotia Capital Inc. - Canada)  
Dario Neimarlija, CA - (416) 863-2852  
(Scotia Capital Inc. - Canada)

**Rating:** Sector Outperform **Target** 1-Yr: C\$38.00 **ROR** 1-Yr: 21.4%  
**Risk Ranking:** Low  
**Valuation:** 6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA  
**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Div. (NTM)** \$1.31  
**Div. (Curr.)** \$1.28  
**Yield (Curr.)** 4.0%

### Event

- FTS reported adjusted Q1/14 EPS of \$0.66 vs. our estimate of \$0.62 and \$0.67 in Q1/13.

### Implications

- The UNS deal appears on track for closing later this year. Regulatory staff has recommended approval with conditions. Some of the conditions would be unacceptable, in our view, but are not insurmountable in the normal negotiating process.
- Despite the proposed premium on UNS, the deal is still on track to deliver modest accretion to EPS next year. Financing costs are coming in below expectations with a recent U.S. debt deal done at an average term of 11 years for 3.84%.
- Visible organic growth should add significant value over time. Including UNS, there is \$8B of utility-type investment opportunities. Given recently-proposed utility transaction multiples of 1.5x+ rate-base (Pepco, AltaLink), these investments could add \$4B of value.
- Over and above that \$8B, we see meaningful potential for LNG-related investments. FTS has strategically-located properties and assets in B.C. that position the company as well or better than the competition in liquefaction as well as pipelines (Tilbury, Woodfibre).

### Recommendation

- We are raising our TP from \$36 to \$38 based on lower bond yield (~4.0% 10-Year BBB) assumptions we have been applying to the sector. Our SO rating is intact and we still recommend accumulating at these levels.

### Pertinent Revisions

	New	Old
<b>Target:</b>		
1-Yr	\$38.00	\$36.00

**New Valuation:**  
6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA

**Old Valuation:**  
6.9% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.66 A	\$0.26	\$0.20	\$0.49	\$1.60	20.2x
2015E	\$0.66	\$0.37	\$0.52	\$0.45	\$2.00	16.2x
(FY-Dec.)	2011A	2012A	2013A	2014E	2015E	
Free Cash Flow/Share	\$2.20	\$2.28	\$2.10	\$1.99	\$2.51	
Dividends/Share	\$1.16	\$1.20	\$1.24	\$1.28	\$1.33	
EV/EBITDA	11.2x	11.5x	11.3x	10.8x	9.7x	
Payout Ratio	52.8%	52.7%	59.2%	64.4%	53.0%	
EBITDA (M)	\$1,185	\$1,240	\$1,401	\$1,577	\$2,239	
Debt/EBITDA	5.02x	5.21x	5.58x	5.31x	4.99x	
Tot. Debt/(Tot.Dbt+Eq.)	0.55	0.56	0.57	0.57	0.60	
Enterprise Value (M)	\$13,278	\$14,284	\$15,833	\$16,971	\$21,811	

IBES EPS 2014E: \$1.66  
IBES EPS 2015E: \$1.99

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

Capitalization	
Market Cap (M)	\$6,939
Net Debt + Pref. (M)	\$9,131
Enterprise Value (M)	\$16,479
Shares O/S (M)	214
Float O/S (M)	213



[ScotiaView Analysis Link](#)



Exhibit 1 – Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2013	2014E	2015E
BC Gas	\$127	\$131	\$139
Newfoundland Power (Electric)	\$35	\$38	\$39
Alberta & BC Utilities (Electric)	\$144	\$155	\$163
Other Canadian (Electric)	\$22	\$22	\$23
Caribbean Electric	\$23	\$23	\$25
CH Energy	\$23	\$52	\$51
UNS Energy			\$139
Fortis Generation	\$19	\$28	\$43
Non-Regulated Non-Utility	\$20	\$20	\$21
Corporate and Other	(\$73)	(\$125)	(\$111)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$344</b>	<b>\$532</b>
Unusual items	\$13	\$3	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$347</b>	<b>\$532</b>
EBITDA	\$1,401	\$1,577	\$2,239
Avg. Shares Outstanding - Basic	203	215	268
EPS to Common S/H - Reported	\$1.74	\$1.62	\$2.00
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>
Cash Flow Statement (\$M)	2013	2014E	2015E
Earnings	\$353	\$347	\$532
Depreciation and Amortization	\$541	\$587	\$810
Other	\$50	\$50	\$97
Cash Flow from Operations	\$944	\$984	\$1,438
Changes in non-cash Working Capital	(\$45)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$984</b>	<b>\$1,438</b>
Total Capex	(\$1,175)	(\$1,430)	(\$1,632)
Other & Asset Sales	(\$992)	\$156	(\$2,586)
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$1,274)</b>	<b>(\$4,218)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$195)	(\$263)
Other Financing Activities	\$1,367	\$482	\$3,040
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$286</b>	<b>\$2,777</b>
Foreign Currency Translation	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>(\$4)</b>	<b>(\$3)</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$68
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$68</b>	<b>\$66</b>
Balance Sheet (\$M)	2013	2014E	2015E
Cash	\$72	\$68	\$66
Other Current Assets	\$1,224	\$1,186	\$1,658
PP&E	\$13,939	\$14,883	\$19,486
Intangibles	\$345	\$340	\$340
Goodwill	\$2,075	\$2,097	\$3,536
Other Assets	\$253	\$309	\$359
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$18,883</b>	<b>\$25,444</b>
Short-term debt	\$160	\$64	\$88
Other Current Liabilities	\$1,924	\$2,533	\$4,147
Long-term debt and convertible debentures	\$7,653	\$8,313	\$11,076
Other Liabilities	\$2,170	\$1,770	\$2,843
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$12,680</b>	<b>\$18,154</b>
Preferred shares	\$1,229	\$1,229	\$1,229
Common equity	\$4,772	\$4,974	\$6,062
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$6,203</b>	<b>\$7,291</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$18,883</b>	<b>\$25,444</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	6-May-11	C\$32.69	Sector Underperform	34.50
	19-May-11	C\$33.09	* Coverage Suspended	N/A
2	19-Sep-11	C\$32.30	*Sector Perform	*34.00
3	4-Nov-11	C\$33.68	Sector Perform	*35.00
4	1-Dec-11	C\$32.95	Sector Perform	*34.00
5	29-May-12	C\$32.89	Sector Perform	*35.00
6	20-Jun-12	C\$32.46	Restricted	
7	17-Jul-12	C\$32.95	Sector Perform	35.00
8	8-Feb-13	C\$33.78	Sector Perform	*34.00
9	8-May-13	C\$34.49	Sector Perform	*35.00
10	7-Jun-13	C\$32.46	*Sector Outperform	35.00
11	10-Sep-13	C\$30.13	Sector Outperform	*34.00
12	4-Nov-13	C\$32.34	Sector Outperform	*35.00
13	12-Dec-13	C\$30.04	Restricted	
14	27-Jan-14	C\$30.20	Sector Outperform	*36.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

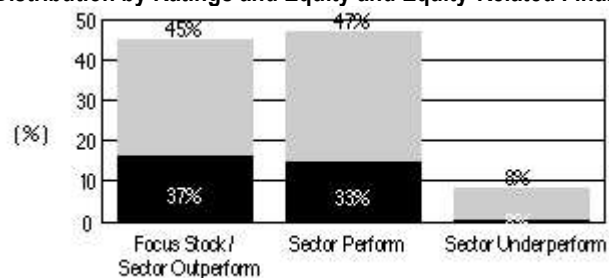
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at April 30, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$32.33)

### Speedy Settlement

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Tuc Tuncay, P.Eng., CFA - (416) 865-6337  
(Scotia Capital Inc. - Canada)  
Elena Lissitsyna, MFin - (416) 863-5915  
(Scotia Capital Inc. - Canada)

<b>Rating:</b> Sector Outperform	<b>Target</b>	1-Yr:	C\$38.00	<b>ROR</b>	1-Yr:	21.6%	<b>Div. (NTM)</b>	\$1.31
<b>Risk Ranking:</b> Low							<b>Div. (Curr.)</b>	\$1.28
<b>Valuation:</b> 6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA							<b>Yield (Curr.)</b>	4.0%
<b>Key Risks to Target:</b> Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory								

### Event

- On May 16, FTS and UNS filed a settlement with AZ regulatory staff and the consumer advocacy group.

### Implications

- The settlement on conditions for approval of the UNS acquisition happened quickly and on reasonable terms. It was only 16 days prior that regulatory staff recommended conditions, some of which, in our view, were draconian and most of which were significantly mitigated.
- The initial staff recommendations for restrictions on dividend payments from subsidiaries and for certain rates constraints were altered. Dividends from subs will now only be limited to 60% of earnings. And there is no burden to prove ongoing rates increases are lower post-deal.
- A US\$220M required equity injection by FTS post-closing relates to the acquisition of power assets (Gila River) and we believe was baked into the acquisition multiple. It also shows a willingness among stakeholders to increase equity thickness which increases earnings.

### Recommendation

- The only condition with a direct financial impact is that FTS deliver a one-time \$30M ratepayer benefit on closing (no impact to 2015 ests). We see this condition as in line with precedent and, taken in the context of the overall settlement, not onerous. An ALJ hearing on the terms is scheduled for June 16. Given the pace and productivity of negotiations, we now believe the deal could close as early as September 30. We would continue accumulating shares at these levels.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2012A	\$0.66 A	\$0.33 A	\$0.24 A	\$0.47 A	\$1.70	20.1x
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.66 A	\$0.26	\$0.20	\$0.49	\$1.60	20.2x
2015E	\$0.66	\$0.37	\$0.52	\$0.45	\$2.00	16.2x
(FY-Dec.)		2011A	2012A	2013A	2014E	2015E
Free Cash Flow/Share		\$2.20	\$2.28	\$2.10	\$1.99	\$2.51
Dividends/Share		\$1.16	\$1.20	\$1.24	\$1.28	\$1.33
EV/EBITDA		11.2x	11.5x	11.3x	10.8x	9.7x
Payout Ratio		52.8%	52.7%	59.2%	64.4%	53.0%
EBITDA (M)		\$1,185	\$1,240	\$1,401	\$1,577	\$2,239
Debt/EBITDA		5.02x	5.21x	5.58x	5.31x	4.99x
Tot. Debt/(Tot. Debt+Eq.)		0.55	0.56	0.57	0.57	0.60
Enterprise Value (M)		\$13,278	\$14,284	\$15,833	\$16,961	\$21,797

IBES EPS 2014E: \$1.67

IBES EPS 2015E: \$2.03

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

Capitalization	
Market Cap (M)	\$6,928
Net Debt + Pref. (M)	\$9,131
Enterprise Value (M)	\$16,468
Shares O/S (M)	214
Float O/S (M)	213


[ScotiaView Analyst Link](#)



Exhibit 1 - Fortis Inc. Financial Statement Summary

<b>Income Statement (\$M)</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
BC Gas	\$127	\$131	\$139
Newfoundland Power (Electric)	\$35	\$38	\$39
Alberta & BC Utilities (Electric)	\$144	\$155	\$163
Other Canadian (Electric)	\$22	\$22	\$23
Caribbean Electric	\$23	\$23	\$25
CH Energy	\$23	\$52	\$51
UNS Energy			\$139
Fortis Generation	\$19	\$28	\$43
Non-Regulated Non-Utility	\$20	\$20	\$21
Corporate and Other	(\$73)	(\$125)	(\$111)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$344</b>	<b>\$532</b>
Unusual items	\$13	\$3	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$347</b>	<b>\$532</b>
EBITDA	\$1,401	\$1,577	\$2,239
Avg. Shares Outstanding - Basic	203	215	268
EPS to Common S/H - Reported	\$1.74	\$1.62	\$2.00
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>
<b>Cash Flow Statement (\$M)</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
Earnings	\$353	\$347	\$532
Depreciation and Amortization	\$541	\$587	\$810
Other	\$50	\$50	\$97
Cash Flow from Operations	\$944	\$984	\$1,438
Changes in non-cash Working Capital	(\$45)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$984</b>	<b>\$1,438</b>
Total Capex	(\$1,175)	(\$1,430)	(\$1,632)
Other & Asset Sales	(\$992)	\$156	(\$2,586)
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$1,274)</b>	<b>(\$4,218)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$195)	(\$263)
Other Financing Activities	\$1,367	\$482	\$3,040
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$286</b>	<b>\$2,777</b>
Foreign Currency Translation	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>(\$4)</b>	<b>(\$3)</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$68
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$68</b>	<b>\$66</b>
<b>Balance Sheet (\$M)</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
Cash	\$72	\$68	\$66
Other Current Assets	\$1,224	\$1,186	\$1,658
PP&E	\$13,939	\$14,883	\$19,486
Intangibles	\$345	\$340	\$340
Goodwill	\$2,075	\$2,097	\$3,536
Other Assets	\$253	\$309	\$359
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$18,883</b>	<b>\$25,444</b>
Short-term debt	\$160	\$64	\$88
Other Current Liabilities	\$1,924	\$2,533	\$4,147
Long-term debt and convertible debentures	\$7,653	\$8,313	\$11,076
Other Liabilities	\$2,170	\$1,770	\$2,843
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$12,680</b>	<b>\$18,154</b>
Preferred shares	\$1,229	\$1,229	\$1,229
Common equity	\$4,772	\$4,974	\$6,062
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$6,203</b>	<b>\$7,291</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$18,883</b>	<b>\$25,444</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	16-May-11	C\$32.56	Sector Underperform	34.50
	19-May-11	C\$33.09	* Coverage Suspended	N/A
2	19-Sep-11	C\$32.30	*Sector Perform	*34.00
3	4-Nov-11	C\$33.68	Sector Perform	*35.00
4	1-Dec-11	C\$32.95	Sector Perform	*34.00
5	29-May-12	C\$32.89	Sector Perform	*35.00
6	20-Jun-12	C\$32.46	Restricted	
7	17-Jul-12	C\$32.95	Sector Perform	35.00
8	8-Feb-13	C\$33.78	Sector Perform	*34.00
9	8-May-13	C\$34.49	Sector Perform	*35.00
10	7-Jun-13	C\$32.46	*Sector Outperform	35.00
11	10-Sep-13	C\$30.13	Sector Outperform	*34.00
12	4-Nov-13	C\$32.34	Sector Outperform	*35.00
13	12-Dec-13	C\$30.04	Restricted	
14	27-Jan-14	C\$30.20	Sector Outperform	*36.00
15	9-May-14	C\$32.54	Sector Outperform	*38.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

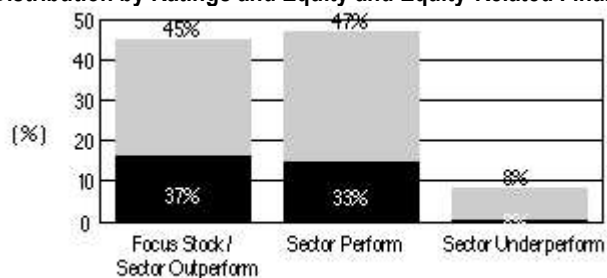
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at April 30, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$33.09)

### Momentum Building Into 2015

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Lukasz Michalowski, MBA - (416) 863-5915  
(Scotia Capital Inc. - Canada)  
Dario Neimarlija, CA - (416) 863-2852  
(Scotia Capital Inc. - Canada)

**Rating:** Sector Outperform **Target** 1-Yr: C\$38.00 **ROR** 1-Yr: 18.8%  
**Risk Ranking:** Low  
**Valuation:** 6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA  
**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Div. (NTM)** \$1.31  
**Div. (Curr.)** \$1.28  
**Yield (Curr.)** 3.9%

### Event

- FTS reported Q2/14 adj. EPS of \$0.22 vs. our \$0.26 est. (\$0.32 Q2/13).

### Implications

- The quarter itself included several short-term impacts that mask what we see as a significant renewed growth phase. Corporate costs were higher due to unusual FX changes short-term dilution from financings. However, we see several catalysts for a major bounce-back in 2015/16.
- We have reasoned that, since CH Energy is under-earning, it can generate increased profit without requesting an unreasonable ROE. In fact, CH just filed in July for new rates that could result in a \$40M+ revenue increase while maintaining a conservative 9% ROE.
- Meanwhile growth in Alberta should resume once regulatory treatment of capital spending is resolved. The company is holding back ~\$27M in revenue pending a likely Q1/15 decision. Not to mention further incentive earnings likely available later next year and into 2016.
- At the same time, a more shareholder-friendly FTS is emerging with the new management changes which should help eliminate the valuation discount. A first-ever investor day is scheduled for October 1. Potential tangible actions include the sale of Properties at a multiple in excess of the forward trading EV/EBITDA multiple on the stock.

### Recommendation

- The shares have started to perform better but we still see attractive returns with deal closing and growth visibility. We maintain our Sector Outperform rating and \$38 target price.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.66 A	\$0.22 A	\$0.22	\$0.51	\$1.60	20.6x
2015E	\$0.60	\$0.38	\$0.54	\$0.48	\$2.00	16.6x
2016E					\$2.10	15.7x
(FY-Dec.)	2012A	2013A	2014E	2015E	2016E	
Free Cash Flow/Share	\$2.28	\$2.10	\$1.96	\$2.50	\$2.64	
Dividends/Share	\$1.20	\$1.24	\$1.28	\$1.33	\$1.38	
EV/EBITDA	11.5x	11.3x	13.3x	9.8x	8.9x	
Payout Ratio	52.7%	59.2%	65.3%	53.2%	52.4%	
EBITDA (M)	\$1,240	\$1,401	\$1,610	\$2,250	\$2,498	
Debt/EBITDA	5.21x	5.58x	6.94x	4.97x	4.51x	
Tot. Debt/(Tot.Dbt+Eq.)	0.56	0.57	0.62	0.60	0.60	
Enterprise Value (M)	\$14,284	\$15,833	\$21,404	\$22,006	\$22,231	

IBES EPS 2014E: \$1.61  
IBES EPS 2015E: \$2.00

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA		
<b>Old Valuation:</b>		
6.6% 2015E Free Cash Yield and 10.5x 2015E EV/EBITDA		

Capitalization	
Market Cap (M)	\$7,124
Net Debt + Pref. (M)	\$9,079
Enterprise Value (M)	\$16,614
Shares O/S (M)	215
Float O/S (M)	214



[ScotiaView Analyst Link](#)

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2013	2014E	2015E	2016E
BC Gas	\$127	\$131	\$139	\$147
Newfoundland Power (Electric)	\$35	\$39	\$39	\$40
Alberta & BC Utilities (Electric)	\$144	\$157	\$164	\$176
Other Canadian (Electric)	\$22	\$22	\$23	\$23
Caribbean Electric	\$23	\$23	\$25	\$25
CH Energy	\$23	\$52	\$58	\$65
UNS Energy		\$5	\$139	\$144
Fortis Generation	\$19	\$28	\$43	\$50
Non-Regulated Non-Utility	\$20	\$18	\$18	\$19
Corporate and Other	(\$73)	(\$117)	(\$96)	(\$102)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$359</b>	<b>\$552</b>	<b>\$588</b>
Unusual items	\$13	\$2	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$361</b>	<b>\$552</b>	<b>\$588</b>
EBITDA	\$1,401	\$1,610	\$2,250	\$2,498
Avg. Shares Outstanding - Basic	203	222	277	279
EPS to Common S/H - Reported	\$1.74	\$1.61	\$2.00	\$2.10
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>	<b>\$2.10</b>
Cash Flow Statement (\$M)	2013	2014E	2015E	2016E
Earnings	\$353	\$361	\$552	\$588
Depreciation and Amortization	\$541	\$586	\$814	\$891
Other	\$50	\$50	\$102	\$87
Cash Flow from Operations	\$944	\$998	\$1,468	\$1,566
Changes in non-cash Working Capital	(\$45)	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$998</b>	<b>\$1,468</b>	<b>\$1,566</b>
Total Capex	(\$1,175)	(\$1,430)	(\$1,727)	(\$1,410)
Other & Asset Sales	(\$992)	(\$2,479)	\$50	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$3,909)</b>	<b>(\$1,677)</b>	<b>(\$1,360)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$203)	(\$268)	(\$287)
Other Financing Activities	\$1,367	\$3,580	\$35	\$125
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$3,377</b>	<b>(\$233)</b>	<b>(\$162)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>\$466</b>	<b>(\$442)</b>	<b>\$45</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$538	\$96
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$538</b>	<b>\$96</b>	<b>\$141</b>
Balance Sheet (\$M)	2013	2014E	2015E	2016E
Cash	\$72	\$538	\$96	\$141
Other Current Assets	\$1,224	\$1,436	\$1,436	\$1,436
PP&E	\$13,939	\$18,669	\$19,581	\$20,100
Intangibles	\$345	\$340	\$340	\$340
Goodwill	\$2,075	\$3,513	\$3,513	\$3,513
Other Assets	\$253	\$420	\$333	\$271
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$24,916</b>	<b>\$25,299</b>	<b>\$25,801</b>
Short-term debt	\$160	\$124	\$124	\$124
Other Current Liabilities	\$1,924	\$3,911	\$3,911	\$3,911
Long-term debt and convertible debentures	\$7,653	\$11,054	\$11,054	\$11,154
Other Liabilities	\$2,170	\$2,842	\$2,907	\$2,982
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$17,931</b>	<b>\$17,996</b>	<b>\$18,170</b>
Preferred shares	\$1,229	\$1,229	\$1,229	\$1,229
Common equity	\$4,772	\$5,756	\$6,075	\$6,401
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$6,985</b>	<b>\$7,304</b>	<b>\$7,630</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$24,916</b>	<b>\$25,299</b>	<b>\$25,801</b>

Source: Company reports; Scotiabank GBM estimates.



## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	29-Jul-11	C\$31.66	* Coverage Suspended	N/A
2	19-Sep-11	C\$32.30	*Sector Perform	*34.00
3	4-Nov-11	C\$33.68	Sector Perform	*35.00
4	1-Dec-11	C\$32.95	Sector Perform	*34.00
5	29-May-12	C\$32.89	Sector Perform	*35.00
6	20-Jun-12	C\$32.46	Restricted	
7	17-Jul-12	C\$32.95	Sector Perform	35.00
8	8-Feb-13	C\$33.78	Sector Perform	*34.00
9	8-May-13	C\$34.49	Sector Perform	*35.00
10	7-Jun-13	C\$32.46	*Sector Outperform	35.00
11	10-Sep-13	C\$30.13	Sector Outperform	*34.00
12	4-Nov-13	C\$32.34	Sector Outperform	*35.00
13	12-Dec-13	C\$30.04	Restricted	
14	27-Jan-14	C\$30.20	Sector Outperform	*36.00
15	9-May-14	C\$32.54	Sector Outperform	*38.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

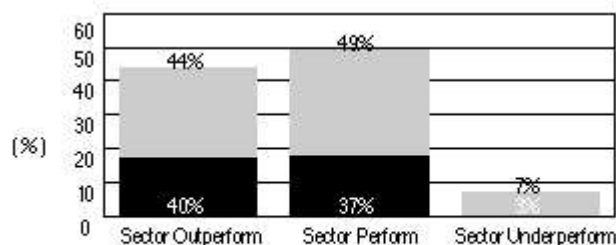
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at July 31, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$33.09)

### Momentum Building Into 2015

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Lukasz Michalowski, MBA - (416) 863-5915

(Scotia Capital Inc. - Canada)

Dario Neimarlija, CA - (416) 863-2852

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$38.00 ROR 1-Yr: 18.8%

Div. (NTM) \$1.31

Risk Ranking: Low

Div. (Curr.) \$1.28

Valuation: 6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA

Yield (Curr.) 3.9%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported Q2/14 adj. EPS of \$0.22 vs. our \$0.26 est. (\$0.32 Q2/13).

### Implications

- The quarter itself included several short-term impacts that mask what we see as a significant renewed growth phase. Corporate costs were higher due to unusual FX changes short-term dilution from financings. However, we see several catalysts for a major bounce-back in 2015/16.
- We have reasoned that, since CH Energy is under-earning, it can generate increased profit without requesting an unreasonable ROE. In fact, CH just filed in July for new rates that could result in a \$40M+ revenue increase while maintaining a conservative 9% ROE.
- Meanwhile growth in Alberta should resume once regulatory treatment of capital spending is resolved. The company is holding back ~\$27M in revenue pending a likely Q1/15 decision. Not to mention further incentive earnings likely available later next year and into 2016.
- At the same time, a more shareholder-friendly FTS is emerging with the new management changes which should help eliminate the valuation discount. A first-ever investor day is scheduled for October 1. Potential tangible actions include the sale of Properties at a multiple in excess of the forward trading EV/EBITDA multiple on the stock.

### Recommendation

- The shares have started to perform better but we still see attractive returns with deal closing and growth visibility. We maintain our Sector Outperform rating and \$38 target price.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.66 A	\$0.22 A	\$0.22	\$0.51	\$1.60	20.6x
2015E	\$0.60	\$0.38	\$0.54	\$0.48	\$2.00	16.6x
2016E					\$2.10	15.7x
(FY-Dec.)	2012A	2013A	2014E	2015E	2016E	
Free Cash Flow/Share	\$2.28	\$2.10	\$1.96	\$2.50	\$2.64	
Dividends/Share	\$1.20	\$1.24	\$1.28	\$1.33	\$1.38	
EV/EBITDA	11.5x	11.3x	13.3x	9.8x	8.9x	
Payout Ratio	52.7%	59.2%	65.3%	53.2%	52.4%	
EBITDA (M)	\$1,240	\$1,401	\$1,610	\$2,250	\$2,498	
Debt/EBITDA	5.21x	5.58x	6.94x	4.97x	4.51x	
Tot. Debt/(Tot.Dbt+Eq.)	0.56	0.57	0.62	0.60	0.60	
Enterprise Value (M)	\$14,284	\$15,833	\$21,404	\$22,006	\$22,231	

IBES EPS 2014E: \$1.61

IBES EPS 2015E: \$2.00

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

### Pertinent Revisions

	New	Old
<b>New Valuation:</b>		
6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA		
<b>Old Valuation:</b>		
6.6% 2015E Free Cash Yield and 10.5x 2015E EV/EBITDA		

Capitalization	
Market Cap (M)	\$7,124
Net Debt + Pref. (M)	\$9,079
Enterprise Value (M)	\$16,614
Shares O/S (M)	215
Float O/S (M)	214


[ScotiaView Analyst Link](#)

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2013	2014E	2015E	2016E
BC Gas	\$127	\$131	\$139	\$147
Newfoundland Power (Electric)	\$35	\$39	\$39	\$40
Alberta & BC Utilities (Electric)	\$144	\$157	\$164	\$176
Other Canadian (Electric)	\$22	\$22	\$23	\$23
Caribbean Electric	\$23	\$23	\$25	\$25
CH Energy	\$23	\$52	\$58	\$65
UNS Energy		\$5	\$139	\$144
Fortis Generation	\$19	\$28	\$43	\$50
Non-Regulated Non-Utility	\$20	\$18	\$18	\$19
Corporate and Other	(\$73)	(\$117)	(\$96)	(\$102)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$359</b>	<b>\$552</b>	<b>\$588</b>
Unusual items	\$13	\$2	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$361</b>	<b>\$552</b>	<b>\$588</b>
EBITDA	\$1,401	\$1,610	\$2,250	\$2,498
Avg. Shares Outstanding - Basic	203	222	277	279
EPS to Common S/H - Reported	\$1.74	\$1.61	\$2.00	\$2.10
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.60</b>	<b>\$2.00</b>	<b>\$2.10</b>
Cash Flow Statement (\$M)	2013	2014E	2015E	2016E
Earnings	\$353	\$361	\$552	\$588
Depreciation and Amortization	\$541	\$586	\$814	\$891
Other	\$50	\$50	\$102	\$87
Cash Flow from Operations	\$944	\$998	\$1,468	\$1,566
Changes in non-cash Working Capital	(\$45)	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$998</b>	<b>\$1,468</b>	<b>\$1,566</b>
Total Capex	(\$1,175)	(\$1,430)	(\$1,727)	(\$1,410)
Other & Asset Sales	(\$992)	(\$2,479)	\$50	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$3,909)</b>	<b>(\$1,677)</b>	<b>(\$1,360)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$203)	(\$268)	(\$287)
Other Financing Activities	\$1,367	\$3,580	\$35	\$125
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$3,377</b>	<b>(\$233)</b>	<b>(\$162)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>\$466</b>	<b>(\$442)</b>	<b>\$45</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$538	\$96
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$538</b>	<b>\$96</b>	<b>\$141</b>
Balance Sheet (\$M)	2013	2014E	2015E	2016E
Cash	\$72	\$538	\$96	\$141
Other Current Assets	\$1,224	\$1,436	\$1,436	\$1,436
PP&E	\$13,939	\$18,669	\$19,581	\$20,100
Intangibles	\$345	\$340	\$340	\$340
Goodwill	\$2,075	\$3,513	\$3,513	\$3,513
Other Assets	\$253	\$420	\$333	\$271
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$24,916</b>	<b>\$25,299</b>	<b>\$25,801</b>
Short-term debt	\$160	\$124	\$124	\$124
Other Current Liabilities	\$1,924	\$3,911	\$3,911	\$3,911
Long-term debt and convertible debentures	\$7,653	\$11,054	\$11,054	\$11,154
Other Liabilities	\$2,170	\$2,842	\$2,907	\$2,982
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$17,931</b>	<b>\$17,996</b>	<b>\$18,170</b>
Preferred shares	\$1,229	\$1,229	\$1,229	\$1,229
Common equity	\$4,772	\$5,756	\$6,075	\$6,401
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$6,985</b>	<b>\$7,304</b>	<b>\$7,630</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$24,916</b>	<b>\$25,299</b>	<b>\$25,801</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	29-Jul-11	C\$31.66	* Coverage Suspended	N/A
2	19-Sep-11	C\$32.30	*Sector Perform	*34.00
3	4-Nov-11	C\$33.68	Sector Perform	*35.00
4	1-Dec-11	C\$32.95	Sector Perform	*34.00
5	29-May-12	C\$32.89	Sector Perform	*35.00
6	20-Jun-12	C\$32.46	Restricted	
7	17-Jul-12	C\$32.95	Sector Perform	35.00
8	8-Feb-13	C\$33.78	Sector Perform	*34.00
9	8-May-13	C\$34.49	Sector Perform	*35.00
10	7-Jun-13	C\$32.46	*Sector Outperform	35.00
11	10-Sep-13	C\$30.13	Sector Outperform	*34.00
12	4-Nov-13	C\$32.34	Sector Outperform	*35.00
13	12-Dec-13	C\$30.04	Restricted	
14	27-Jan-14	C\$30.20	Sector Outperform	*36.00
15	9-May-14	C\$32.54	Sector Outperform	*38.00
* represents the value(s) that has changed.				



## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

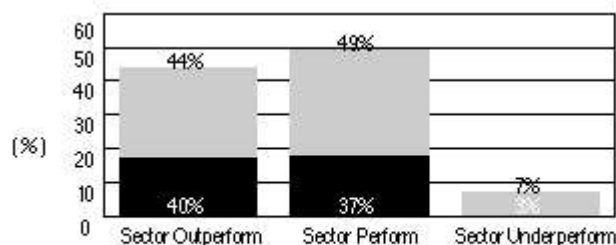
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at July 31, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$34.57)

### 41 Years Of Dividend Growth And Counting

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Lukasz Michalowski, MBA - (416) 863-5915

(Scotia Capital Inc. - Canada)

Dario Neimarlija, CA, CFA - (416) 863-2852

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$39.00 ROR 1-Yr: 16.7%

Risk Ranking: Low

Valuation: 6.4% 2015E Free Cash Yield and 10.3x 2015E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Div. (NTM) \$1.33

Div. (Curr.) \$1.28

Yield (Curr.) 3.7%

#### Event

- FTS held its first Investor Day in Toronto.

#### Implications

- The focus was on the premium utility organic growth embedded within the existing asset footprint. The company highlighted at least \$4.2B of rate base expansion by 2018 and up to \$5.2B assuming certain LNG investments pan out. This expansion implies a CAGR of 7%-8.5%.
- Attractive and bite-sized LNG infrastructure opportunities are materializing. There is ~\$1B of visible investment in the 2015-16 timeframe alone (subject to final permitting/regulatory approval).
- Large utility M&A appears to be on the back-burner at least through 2015. Management indicated the focus is on maximizing the value of existing assets and the organic growth program.
- The proposed disposition of Properties should unlock tangible value and also signals a willingness to more proactively manage capital and the asset portfolio. We value the potential sale and re-deployment of funds into regulated utility at about \$1/share (target up to \$39).

#### Recommendation

- FTS shares have performed well lately but likely still have another leg up. Catalysts included a positive shift in earnings momentum and accelerated dividend growth. We maintain our Sector Outperform rating.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.66 A	\$0.22 A	\$0.34	\$0.50	\$1.72	20.1x
2015E	\$0.61	\$0.40	\$0.52	\$0.46	\$2.00	17.3x
2016E					\$2.10	16.4x
(FY-Dec.)	2012A	2013A	2014E	2015E	2016E	
Free Cash Flow/Share	\$2.28	\$2.10	\$2.07	\$2.50	\$2.64	
Dividends/Share	\$1.20	\$1.24	\$1.28	\$1.34	\$1.41	
EV/EBITDA	11.5x	11.3x	13.2x	9.7x	8.9x	
Payout Ratio	52.7%	59.2%	61.9%	53.7%	53.5%	
EBITDA (M)	\$1,240	\$1,401	\$1,656	\$2,213	\$2,427	
Debt/EBITDA	5.21x	5.58x	6.16x	4.41x	4.12x	
Tot. Debt/(Tot.Dbt+Eq.)	0.56	0.57	0.57	0.54	0.54	
Enterprise Value (M)	\$14,284	\$15,833	\$21,805	\$21,468	\$21,714	

#### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$39.00	\$38.00

#### New Valuation:

6.4% 2015E Free Cash Yield and 10.3x 2015E EV/EBITDA

#### Old Valuation:

6.6% 2015E Free Cash Yield and 10.4x 2015E EV/EBITDA

Capitalization	
Market Cap (M)	\$7,443
Net Debt + Pref. (M)	\$11,477
Enterprise Value (M)	\$19,331
Shares O/S (M)	215
Float O/S (M)	214


[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

## 41 Years of Dividend Growth and Counting

- Any company with a 41-year track record of raising its dividend likely has a winning management team and corporate culture. In recent years, these winning ways at FTS seemed to temporarily fade. But with two major acquisitions out of the way, a visible slate of organic growth projects, and a refresh of the senior management team, we believe the company is returning to its normal prosperity.
- The primary driver for this view is a superior visible organic growth program. In an era where regulated utilities are transacting in a range of 1.5x-2.0x book value, the opportunity to invest billions of dollars at book value is unique. Excluding LNG infrastructure, management highlighted \$9.3B in utility investments over the next five years. The implied rate base CAGR of ~7% should translate into annual EPS growth of ~5% (the 7% net income increase minus cost of new equity).
- In addition to asset expansion, there is a potential opportunity to improve returns and further accelerate the growth rate. The Western Canadian utilities have all just recently entered into incentive regulatory frameworks. Given the company's track record of efficient operations and demonstrated capability of achieving productivity gains, we believe achieved ROEs can exceed allowed ROEs by 100-200 basis points. We anticipate that most of these improvements will be realized in the 2016-2017 timeframe.
- The company's strategic advantage in LNG is panning out in specific investment opportunities. We have written extensively on the ways in which FTS can lever its existing assets in and around the Vancouver area. There is at least \$1B of near-term potential investment with another \$1-\$2B behind that beyond our forecast period (for more detail, see our report dated July 15: "Small Is Beautiful When It Comes to Canadian LNG").
- Large-scale utility M&A is likely on the back-burner at least through 2015. Management stated that the primary objective at this time is surfacing value in the current portfolio. This direction involves a focus on managing regulatory issues and the organic capital expansion program. We believe the company would only make an acquisition if an attractive asset surfaced at a valuation close to book value – a highly unlikely scenario in today's utility M&A market.
- The proposed disposition of Properties should unlock tangible value and also signals a willingness to more proactively manage capital and the asset portfolio. Based on a preliminary review of the Properties portfolio, our real estate group believe it could sell in the range of 12x-13x EBITDA which would value it at ~\$1B. As the stock trades at ~9x forward 2016 EV/EBITDA, a 3-multiple turn on the cash flow would unlock about \$1/share in value (target price up \$1 on assumed sale).
- Re-directing the capital to regulated utility organic growth is another way to look at value creation from the sale of Properties. Assuming the assets sell for ~\$1B and that 40% of the proceeds are used for regulated utility equity investments at a ~10% ROE, the net income pick-up would be about \$20M (\$40M in utility earnings minus the foregone \$20M in Properties earnings). The full accretion as shown in the exhibit below would not occur until 2016/17 after the sale closes and capital is fully re-deployed. However, at a target 18x P/E multiple, the extra \$20M in earnings could be worth about \$1.25/share.

**Exhibit 1 - Summary Analysis of Value-Add From Properties Sale**

Property	# Rooms	Million Sq. Ft.	EV/EBITDA <sup>4</sup>		
			Low	High	Avg.
Hospitality Assets	4,435		10.5x	11.4x	11.0x
Commercial Real Estate <sup>1</sup>		2.8	13.9x	14.3x	14.1x
<b>Total Fortis Properties</b>	<b>4,435</b>	<b>2.8</b>	<b>12.2x</b>	<b>12.8x</b>	<b>12.5x</b>
<b>Valuation &amp; Proceeds Analysis</b>			<b>Low</b>	<b>High</b>	<b>Avg.</b>
EBITDA (\$ millions) <sup>2</sup>			\$80	\$80	\$80
EV/EBITDA multiple			12.2x	12.8x	12.5x
<b>Implied Enterprise Value (\$ millions)</b>			<b>\$973</b>	<b>\$1,026</b>	<b>\$1,000</b>
Estimated Book value of Fortis Properties (\$ millions) - <i>As of June 30, 2014</i> <sup>3</sup>			\$684	\$684	\$684
Gain on Sale			\$289	\$342	\$316
<b>After Tax Cash Proceeds on Sale - assume tax rate of 25%</b>			<b>\$937</b>	<b>\$983</b>	<b>\$960</b>
Debt Associated With Fortis Properties (\$ millions) <sup>4</sup>			\$550	\$550	\$550
<b>After Tax Cash Proceeds on Sale - Equity Portion</b>			<b>\$387</b>	<b>\$433</b>	<b>\$410</b>
Shares Outstanding - December 31, 2014 (millions)			275.2	275.2	275.2
<b>Accretion Analysis</b>			<b>Low</b>	<b>High</b>	<b>Avg.</b>
<b>Regulated Asset Investment</b>					
Equity invested			\$387	\$433	\$410
Additional Net Income - <i>assume ROE of 9.5%</i>			\$37	\$41	\$39
Less: Lost earnings from Fortis Properties <sup>5</sup>			\$19	\$19	\$19
Change in Net Income			\$18	\$23	\$20
<b>Accretion per share</b>			<b>\$0.07</b>	<b>\$0.08</b>	<b>\$0.07</b>

<sup>1</sup> Commercial real estate assets also includes retail properties.

<sup>2</sup> Based on Fortis guidance.

<sup>3</sup> Assumes entire Non-Regulated - Non-Utility asset base relates to Fortis Properties.

<sup>4</sup> Scotiabank estimate.

<sup>5</sup> Based on Scotiabank 2015 estimate.

Source: Company reports; Scotiabank GBM estimates.

- The combination of renewed growth and improved investor perceptions should move the share valuation back to its normal historical relationship relative to bonds. We pointed out earlier this year that the dividend yield on FTS has for the past 20 years been below the BBB 10-Year bond yield. As the payout ratio of earnings has not changed much (still 60%-70% of forecast earnings), that relationship should resume. Yet, with a 3.8% BBB 10-Year Bond yield unless the stock moves up, the dividend yield would once again rise above the relevant corporate bond yield benchmark with the dividend increase we are anticipating during this quarter (assuming a 5% increase in December).
- FTS shares have performed well in the face of a large equity issuance and, lately, challenging equity market conditions. Nevertheless, we believe there is another leg up. As earnings momentum improves into next year, the stock should move toward our target price. We maintain our Sector Outperform rating and would still accumulate.



Exhibit 2 – Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2013	2014E	2015E	2016E
BC Gas	\$127	\$131	\$139	\$147
Newfoundland Power (Electric)	\$35	\$39	\$39	\$40
Alberta & BC Utilities (Electric)	\$144	\$157	\$164	\$176
Other Canadian (Electric)	\$22	\$22	\$23	\$23
Caribbean Electric	\$23	\$23	\$25	\$25
CH Energy	\$23	\$52	\$58	\$65
UNS Energy		\$31	\$139	\$144
Fortis Generation	\$19	\$28	\$43	\$50
Non-Regulated Non-Utility	\$20	\$18	\$8	\$0
Corporate and Other	(\$73)	(\$117)	(\$85)	(\$83)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$383</b>	<b>\$553</b>	<b>\$588</b>
Unusual items	\$13	\$2	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$385</b>	<b>\$553</b>	<b>\$588</b>
EBITDA	\$1,401	\$1,656	\$2,213	\$2,427
Avg. Shares Outstanding - Basic	203	222	277	280
EPS to Common S/H - Reported	\$1.74	\$1.73	\$2.00	\$2.10
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.72</b>	<b>\$2.00</b>	<b>\$2.10</b>
Cash Flow Statement (\$M)	2013	2014E	2015E	2016E
Earnings	\$353	\$385	\$553	\$588
Depreciation and Amortization	\$541	\$586	\$804	\$870
Other	\$50	\$55	\$137	\$132
Funds Flow from Operations	\$944	\$1,026	\$1,493	\$1,590
Changes in non-cash Working Capital	(\$45)	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$1,026</b>	<b>\$1,493</b>	<b>\$1,590</b>
Total Capex	(\$1,175)	(\$1,430)	(\$1,719)	(\$1,394)
Other & Asset Sales	(\$992)	(\$2,479)	\$461	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$3,909)</b>	<b>(\$1,258)</b>	<b>(\$1,344)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$203)	(\$271)	(\$293)
Other Financing Activities	\$1,367	\$3,178	\$132	\$238
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$2,975</b>	<b>(\$138)</b>	<b>(\$56)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>\$93</b>	<b>\$96</b>	<b>\$190</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$165	\$261
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$165</b>	<b>\$261</b>	<b>\$452</b>
Balance Sheet (\$M)	2013	2014E	2015E	2016E
Cash	\$72	\$165	\$261	\$452
Other Current Assets	\$1,224	\$1,436	\$1,436	\$1,436
PP&E	\$13,939	\$18,669	\$18,928	\$19,451
Intangibles	\$345	\$340	\$312	\$312
Goodwill	\$2,075	\$3,513	\$3,513	\$3,513
Other Assets	\$253	\$420	\$323	\$261
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$24,542</b>	<b>\$24,773</b>	<b>\$25,425</b>
Short-term debt	\$160	\$124	\$124	\$124
Other Current Liabilities	\$1,924	\$3,899	\$3,899	\$3,919
Long-term debt and convertible debentures	\$7,653	\$10,069	\$9,639	\$9,876
Other Liabilities	\$2,170	\$2,847	\$2,936	\$3,036
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$16,938</b>	<b>\$16,599</b>	<b>\$16,955</b>
Preferred shares	\$1,229	\$1,829	\$1,829	\$1,829
Common equity	\$4,772	\$5,775	\$6,345	\$6,641
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$7,604</b>	<b>\$8,174</b>	<b>\$8,470</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$24,542</b>	<b>\$24,773</b>	<b>\$25,425</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	30-Sep-11	C\$32.93	Sector Perform	34.00
2	4-Nov-11	C\$33.68	Sector Perform	*35.00
3	1-Dec-11	C\$32.95	Sector Perform	*34.00
4	29-May-12	C\$32.89	Sector Perform	*35.00
5	20-Jun-12	C\$32.46	Restricted	
6	17-Jul-12	C\$32.95	Sector Perform	35.00
7	8-Feb-13	C\$33.78	Sector Perform	*34.00
8	8-May-13	C\$34.49	Sector Perform	*35.00
9	7-Jun-13	C\$32.46	*Sector Outperform	35.00
10	10-Sep-13	C\$30.13	Sector Outperform	*34.00
11	4-Nov-13	C\$32.34	Sector Outperform	*35.00
12	12-Dec-13	C\$30.04	Restricted	
13	27-Jan-14	C\$30.20	Sector Outperform	*36.00
14	9-May-14	C\$32.54	Sector Outperform	*38.00
* represents the value(s) that has changed.				

Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

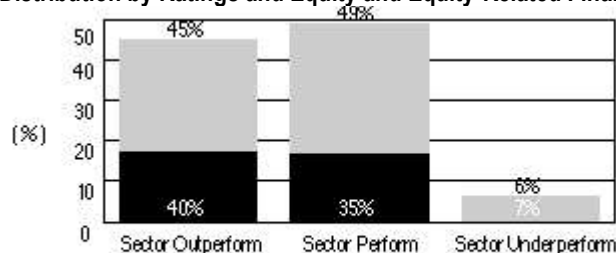
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at September 30, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

**General Disclosures**

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

**Additional Disclosures**

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$37.74)

### Deals Done - Outlook Organic

Matthew Akman, MBA - (416) 863-7798

(Scotia Capital Inc. - Canada)

[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Lukasz Michalowski, MBA - (416) 863-5915

(Scotia Capital Inc. - Canada)

Dario Neimarlija, CA, CFA - (416) 863-2852

(Scotia Capital Inc. - Canada)

Rating: Sector Outperform

Target 1-Yr: C\$40.00 ROR 1-Yr: 9.5%

Div. (NTM) \$1.33

Risk Ranking: Low

Div. (Curr.) \$1.28

Valuation: 6.3% 2015E Free Cash Yield and 10.6x 2015E EV/EBITDA

Yield (Curr.) 3.4%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported normalized (excluding one-time acquisition costs) Q3/14 EPS of \$0.33 vs. our estimate of \$0.34 and \$0.23 in Q3/13.

### Implications

- Regulatory decisions should provide positive earnings catalysts in the coming few quarters. FTS has been attempting to secure rate recovery of capital spent in Alberta ("capital tracker") that could add \$20M+ in annual revenue (decision expected Q1/15).
- We have reasoned that, since CH Energy is under-earning, it can generate increased profit without requesting an unreasonable ROE. In fact, CH just filed in July for new rates that could result in a \$40M+ revenue increase while maintaining a conservative 9% ROE (down from 10% currently). A decision is expected in 1H/15.
- A process has commenced for the disposition of Properties. This process should unlock value and also signals a willingness to more proactively manage capital. We value the potential sale and re-deployment of funds at about \$1/share (see comment dated October 2).
- Concerns over erosion of the UNS customer base due to distributed solar might be overblown. There was no evidence of erosion this past summer as sales were in fact up YOY in the quarter by 2.3%.

### Recommendation

- Management guidance for 7% growth with the potential for 8.5% if LNG projects pan out is consistent with our outlook. Given the combination of growth and safety, we maintain our SO rating, and increase TP to \$40.

### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$40.00	\$39.00
Adj. EPS14E	\$1.71	\$1.72

#### New Valuation:

6.3% 2015E Free Cash Yield and 10.6x 2015E EV/EBITDA

#### Old Valuation:

6.4% 2015E Free Cash Yield and 10.3x 2015E EV/EBITDA

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014E	\$0.66 A	\$0.22 A	\$0.33 A	\$0.49	\$1.71	22.1x
2015E	\$0.61	\$0.40	\$0.53	\$0.45	\$2.00	18.9x
2016E					\$2.10	18.0x
(FY-Dec.)	2012A	2013A	2014E	2015E	2016E	
Free Cash Flow/Share	\$2.28	\$2.10	\$1.88	\$2.50	\$2.64	
Dividends/Share	\$1.20	\$1.24	\$1.28	\$1.34	\$1.41	
EV/EBITDA	11.5x	11.3x	13.9x	10.3x	9.5x	
Payout Ratio	52.7%	59.2%	68.3%	53.7%	53.5%	
EBITDA (M)	\$1,240	\$1,401	\$1,663	\$2,217	\$2,434	
Debt/EBITDA	5.21x	5.58x	6.43x	4.64x	4.34x	
Tot. Debt/(Tot.Dbt+Eq.)	0.56	0.57	0.55	0.53	0.53	
Enterprise Value (M)	\$14,284	\$15,833	\$23,139	\$22,855	\$23,153	

Capitalization	
Market Cap (M)	\$10,352
Net Debt + Pref. (M)	\$12,329
Enterprise Value (M)	\$23,106
Shares O/S (M)	274
Float O/S (M)	273


[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2013	2014E	2015E	2016E
BC Gas	\$127	\$129	\$139	\$147
Newfoundland Power (Electric)	\$35	\$39	\$39	\$40
Alberta & BC Utilities (Electric)	\$144	\$156	\$164	\$176
Other Canadian (Electric)	\$22	\$22	\$23	\$23
Caribbean Electric	\$23	\$23	\$25	\$29
CH Energy	\$23	\$49	\$58	\$65
UNS Energy		\$42	\$139	\$144
Fortis Generation	\$19	\$22	\$43	\$50
Non-Regulated Non-Utility	\$20	\$16	\$7	\$0
Corporate and Other	(\$73)	(\$117)	(\$85)	(\$88)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$381</b>	<b>\$552</b>	<b>\$587</b>
Unusual items	\$13	(\$56)	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$325</b>	<b>\$552</b>	<b>\$587</b>
EBITDA	\$1,401	\$1,663	\$2,217	\$2,434
Avg. Shares Outstanding - Basic	203	222	277	279
EPS to Common S/H - Reported	\$1.74	\$1.45	\$2.00	\$2.10
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.71</b>	<b>\$2.00</b>	<b>\$2.10</b>
Cash Flow Statement (\$M)	2013	2014E	2015E	2016E
Earnings	\$353	\$325	\$552	\$587
Depreciation and Amortization	\$541	\$592	\$809	\$874
Other	\$50	\$71	\$137	\$132
Funds Flow from Operations	\$944	\$988	\$1,497	\$1,593
Changes in non-cash Working Capital	(\$45)	\$0	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$988</b>	<b>\$1,497</b>	<b>\$1,593</b>
Total Capex	(\$1,175)	(\$1,430)	(\$1,765)	(\$1,441)
Other & Asset Sales	(\$992)	(\$2,492)	\$461	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$3,922)</b>	<b>(\$1,305)</b>	<b>(\$1,391)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$201)	(\$271)	(\$293)
Other Financing Activities	\$1,367	\$3,248	\$160	\$266
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$3,047</b>	<b>(\$110)</b>	<b>(\$27)</b>
Foreign Currency Translation	\$0	\$0	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>\$113</b>	<b>\$82</b>	<b>\$175</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$185	\$267
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$185</b>	<b>\$267</b>	<b>\$441</b>
Balance Sheet (\$M)	2013	2014E	2015E	2016E
Cash	\$72	\$185	\$267	\$441
Other Current Assets	\$1,224	\$2,785	\$2,785	\$2,785
PP&E	\$13,939	\$19,389	\$19,690	\$20,256
Intangibles	\$345	\$458	\$430	\$430
Goodwill	\$2,075	\$3,652	\$3,652	\$3,652
Other Assets	\$253	\$414	\$317	\$255
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$26,882</b>	<b>\$27,140</b>	<b>\$27,819</b>
Short-term debt	\$160	\$0	\$0	\$0
Other Current Liabilities	\$1,924	\$4,238	\$4,238	\$4,258
Long-term debt and convertible debentures	\$7,653	\$10,694	\$10,292	\$10,557
Other Liabilities	\$2,170	\$3,306	\$3,395	\$3,495
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$18,237</b>	<b>\$17,926</b>	<b>\$18,310</b>
Preferred shares	\$1,229	\$1,820	\$1,820	\$1,820
Common equity	\$4,772	\$6,825	\$7,394	\$7,689
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$8,645</b>	<b>\$9,214</b>	<b>\$9,509</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$26,882</b>	<b>\$27,140</b>	<b>\$27,819</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).  
Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.





Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	4-Nov-11	C\$33.68	Sector Perform	*35.00
2	1-Dec-11	C\$32.95	Sector Perform	*34.00
3	29-May-12	C\$32.89	Sector Perform	*35.00
4	20-Jun-12	C\$32.46	Restricted	
5	17-Jul-12	C\$32.95	Sector Perform	35.00
6	8-Feb-13	C\$33.78	Sector Perform	*34.00
7	8-May-13	C\$34.49	Sector Perform	*35.00
8	7-Jun-13	C\$32.46	*Sector Outperform	35.00
9	10-Sep-13	C\$30.13	Sector Outperform	*34.00
10	4-Nov-13	C\$32.34	Sector Outperform	*35.00
11	12-Dec-13	C\$30.04	Restricted	
12	27-Jan-14	C\$30.20	Sector Outperform	*36.00
13	9-May-14	C\$32.54	Sector Outperform	*38.00
14	2-Oct-14	C\$34.77	Sector Outperform	*39.00
* represents the value(s) that has changed.				



## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

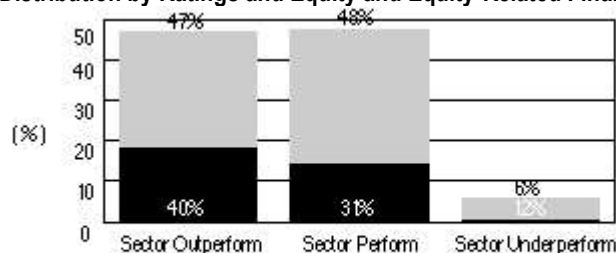
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at October 31, 2014.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$39.41)

### Regulation Time

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Lukasz Michalowski, MBA - (416) 863-5915  
(Scotia Capital Inc. - Canada)  
Dario Neimarlija, CA, CFA - (416) 863-2852  
(Scotia Capital Inc. - Canada)

**Rating:** Sector Outperform **Target** 1-Yr: C\$43.00 **ROR** 1-Yr: 12.6%  
**Risk Ranking:** Low  
**Valuation:** 5.9% 2015E Free Cash Yield and 10.5x 2015E EV/EBITDA  
**Key Risks to Target:** Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

**Div. (NTM)** \$1.36  
**Div. (Curr.)** \$1.36  
**Yield (Curr.)** 3.5%

### Event

- FTS reported normalized Q4/14 EPS of \$0.46 vs. our estimate of \$0.49 and \$0.48 in Q4/13.

### Implications

- Now that the UNS deal has closed, adding value at FTS for the next few years is mostly about securing certain LNG-related and other growth projects and managing regulatory threats and opportunities.
- The LNG projects are progressing a lot better than large-scale efforts in B.C. A \$400M expansion of existing facilities is already underway and will earn a regulated return. The next phase which is \$450M is highly promising and is contracted mostly with Hawaii Electric. Pipeline expansions to Squamish (\$600M) and Vancouver Is. are live options.
- Regulatory proceedings are numerous and several are material to earnings targets. Good news in that CH Energy recently filed a robust settlement for rates. While the agreed-upon 9% ROE is not best-in-class, it far exceeds last year's achieved (~6%) and is accompanied by a 48% equity ratio, thereby supporting the FTS balance sheet.
- We see little change in AB's ROE (8.75%). Though bond yields have dropped, evidence filed should support the current 8.75% allowed. And we think there is upside to that from incentive regulation.

### Recommendation

- We are maintaining our EPS estimates with a slight upward bias (US\$ strength). Also, as we have for other high quality infrastructure stocks, we are bumping our target price for lower bond yields (to \$43 from \$40).

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014A	\$0.66 A	\$0.22 A	\$0.33 A	\$0.46 A	\$1.81	21.5x
2015E	\$0.65	\$0.48	\$0.52	\$0.38	\$2.02	19.5x
2016E					\$2.12	18.6x
(FY-Dec.)	2012A	2013A	2014A	2015E	2016E	
Free Cash Flow/Share	\$2.28	\$2.10	\$2.31	\$2.54	\$2.69	
Dividends/Share	\$1.20	\$1.24	\$1.28	\$1.36	\$1.45	
EV/EBITDA	11.5x	11.3x	14.0x	10.1x	9.4x	
Payout Ratio	52.7%	59.2%	55.5%	53.5%	53.8%	
EBITDA (M)	\$1,240	\$1,401	\$1,721	\$2,339	\$2,542	
Debt/EBITDA	5.21x	5.58x	6.58x	4.62x	4.35x	
Tot. Debt/(Tot.Dbt+Eq.)	0.56	0.57	0.57	0.54	0.54	
Enterprise Value (M)	\$14,284	\$15,833	\$24,090	\$23,674	\$23,909	

### Pertinent Revisions

	New	Old
Target:		
1-Yr	\$43.00	\$40.00

**New Valuation:**  
5.9% 2015E Free Cash Yield and 10.5x 2015E EV/EBITDA

**Old Valuation:**  
6.4% 2015E Free Cash Yield and 10.5x 2015E EV/EBITDA

Capitalization	
Market Cap (M)	\$10,846
Net Debt + Pref. (M)	\$12,953
Enterprise Value (M)	\$24,243
Shares O/S (M)	275
Float O/S (M)	274


[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2013	2014	2015E	2016E
BC Gas	\$127	\$127	\$128	\$135
Newfoundland Power (Electric)	\$35	\$39	\$39	\$40
Alberta & BC Utilities (Electric)	\$144	\$149	\$163	\$173
Other Canadian (Electric)	\$22	\$21	\$23	\$23
Caribbean Electric	\$23	\$27	\$28	\$32
CH Energy	\$23	\$37	\$58	\$66
UNS Energy		\$60	\$199	\$205
Fortis Generation	\$19	\$20	\$43	\$50
Non-Regulated Non-Utility	\$20	\$23	\$8	\$0
Corporate and Other	(\$73)	(\$96)	(\$128)	(\$130)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$341</b>	<b>\$407</b>	<b>\$561</b>	<b>\$592</b>
Unusual items	\$13	(\$90)	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$353</b>	<b>\$317</b>	<b>\$561</b>	<b>\$592</b>
EBITDA	\$1,401	\$1,721	\$2,339	\$2,542
Avg. Shares Outstanding - Basic	203	226	277	280
EPS to Common S/H - Reported	\$1.74	\$1.41	\$2.02	\$2.12
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.70</b>	<b>\$1.81</b>	<b>\$2.02</b>	<b>\$2.12</b>
Cash Flow Statement (\$M)	2013	2014	2015E	2016E
Earnings	\$353	\$317	\$561	\$592
Depreciation and Amortization	\$541	\$688	\$850	\$913
Other	\$50	\$101	\$138	\$137
Funds Flow from Operations	\$944	\$1,106	\$1,548	\$1,642
Changes in non-cash Working Capital	(\$45)	(\$124)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$899</b>	<b>\$982</b>	<b>\$1,548</b>	<b>\$1,642</b>
Total Capex	(\$1,175)	(\$1,725)	(\$1,562)	(\$1,424)
Other & Asset Sales	(\$992)	(\$2,474)	\$461	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$2,167)</b>	<b>(\$4,199)</b>	<b>(\$1,101)</b>	<b>(\$1,374)</b>
Dividends - common shares (net of DRIP)	(\$181)	(\$194)	(\$273)	(\$301)
Other Financing Activities	\$1,367	\$3,555	\$38	\$257
<b>Cash Used in Financing Activities</b>	<b>\$1,186</b>	<b>\$3,361</b>	<b>(\$236)</b>	<b>(\$44)</b>
Foreign Currency Translation	\$0	\$14	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>(\$82)</b>	<b>\$158</b>	<b>\$211</b>	<b>\$224</b>
Cash and cash equivalents, beginning of year	\$154	\$72	\$230	\$441
<b>Cash and cash equivalents, end of year</b>	<b>\$72</b>	<b>\$230</b>	<b>\$441</b>	<b>\$665</b>
Balance Sheet (\$M)	2013	2014	2015E	2016E
Cash	\$72	\$230	\$441	\$665
Other Current Assets	\$1,224	\$1,733	\$1,733	\$1,733
PP&E	\$13,939	\$20,046	\$20,102	\$20,613
Intangibles	\$345	\$488	\$460	\$460
Goodwill	\$2,075	\$3,732	\$3,732	\$3,732
Other Assets	\$253	\$399	\$304	\$239
<b>Total Assets</b>	<b>\$17,908</b>	<b>\$26,628</b>	<b>\$26,772</b>	<b>\$27,442</b>
Short-term debt	\$160	\$330	\$330	\$330
Other Current Liabilities	\$1,924	\$2,354	\$2,354	\$2,374
Long-term debt and convertible debentures	\$7,653	\$10,996	\$10,473	\$10,727
Other Liabilities	\$2,170	\$4,257	\$4,350	\$4,451
<b>Total Liabilities</b>	<b>\$11,907</b>	<b>\$17,937</b>	<b>\$17,506</b>	<b>\$17,882</b>
Preferred shares	\$1,229	\$1,820	\$1,820	\$1,820
Common equity	\$4,772	\$6,871	\$7,446	\$7,740
<b>Total Shareholders' Equity</b>	<b>\$6,001</b>	<b>\$8,691</b>	<b>\$9,266</b>	<b>\$9,560</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,908</b>	<b>\$26,628</b>	<b>\$26,772</b>	<b>\$27,442</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	17-Feb-12	C\$32.85	Sector Perform	34.00
2	29-May-12	C\$32.89	Sector Perform	*35.00
3	20-Jun-12	C\$32.46	Restricted	
4	17-Jul-12	C\$32.95	Sector Perform	35.00
5	8-Feb-13	C\$33.78	Sector Perform	*34.00
6	8-May-13	C\$34.49	Sector Perform	*35.00
7	7-Jun-13	C\$32.46	*Sector Outperform	35.00
8	10-Sep-13	C\$30.13	Sector Outperform	*34.00
9	4-Nov-13	C\$32.34	Sector Outperform	*35.00
10	12-Dec-13	C\$30.04	Restricted	
11	27-Jan-14	C\$30.20	Sector Outperform	*36.00
12	9-May-14	C\$32.54	Sector Outperform	*38.00
13	2-Oct-14	C\$34.77	Sector Outperform	*39.00
14	10-Nov-14	C\$37.94	Sector Outperform	*40.00
* represents the value(s) that has changed.				

Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.



## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

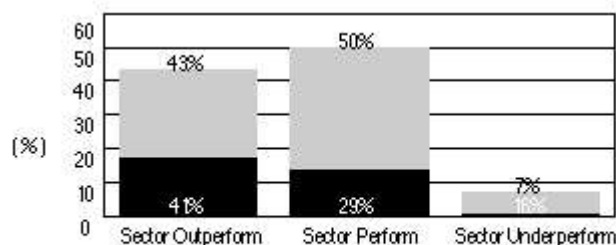
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at January 31, 2015.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.



## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.

## Fortis Inc.

(FTS-T C\$38.89)

### Currency Trumps Lower ROE

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Dario Neimarlija, CA, CFA - (416) 863-2852  
(Scotia Capital Inc. - Canada)  
[dario.neimarlija@scotiabank.com](mailto:dario.neimarlija@scotiabank.com)

Rating: Sector Outperform

Target 1-Yr: C\$43.00 ROR 1-Yr: 14.1%

Risk Ranking: Low

Valuation: 6.0% 2015E Free Cash Yield and 11.1x 2015E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Div. (NTM) \$1.38

Div. (Curr.) \$1.36

Yield (Curr.) 3.5%

#### Event

- FTS reported normalized Q1/15 EPS of \$0.65 vs. our estimate of \$0.64 and \$0.66 in Q1/14.

#### Implications

- The Q1 result supports our thesis that the lower allowed Alberta ROE will be more than offset by savings under incentive regulation. Normalized earnings were \$31M vs. \$25M, which is tracking ahead of rate-base growth (~5%), despite the 45 basis point ROE reduction.
- Non-core asset sales continue as the Properties sale process is scheduled for completion this summer (we see ~\$1B value). In addition, FTS announced that it has entered into an agreement for the sale of small hydro assets (we estimate proceeds at \$50M+). We could also envisage an eventual sale of the Belize hydro assets (possible value \$200M+).
- We believe all of this capital can be re-allocated to the core regulated utility business on an accretive basis. Non-regulated assets trade on EBITDA multiples that imply P/Es in excess of the current FTS multiple (~18x). And there is ample use of proceeds with almost \$6B of capital spending through 2017.

#### Recommendation

- In the near term, US\$ exposure (every 5% move is \$0.04 in EPS) as well as incentive regulatory earnings in Alberta are tailwinds (estimates up \$0.06/year in 2015/16). In the medium term, accretive, low-risk utility expansion is the driver. We maintain our \$43 target price and Sector Outperform rating.

#### Pertinent Revisions

	New	Old
Adj. EPS15E	\$2.05	\$1.99
Adj. EPS16E	\$2.15	\$2.09

##### New Valuation:

6.0% 2015E Free Cash Yield and 11.1x 2015E EV/EBITDA

##### Old Valuation:

5.8% 2015E Free Cash Yield and 10.6x 2015E EV/EBITDA

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2013A	\$0.67 A	\$0.32 A	\$0.23 A	\$0.48 A	\$1.70	18.0x
2014A	\$0.66 A	\$0.22 A	\$0.33 A	\$0.46 A	\$1.81	21.5x
2015E	\$0.65 A	\$0.46	\$0.52	\$0.42	\$2.05	19.0x
2016E					\$2.15	18.1x
(FY-Dec.)	2012A	2013A	2014A	2015E	2016E	
Free Cash Flow/Share	\$2.28	\$2.10	\$2.31	\$2.56	\$2.78	
Dividends/Share	\$1.20	\$1.24	\$1.28	\$1.36	\$1.45	
EV/EBITDA	11.5x	11.3x	14.0x	10.6x	10.3x	
Payout Ratio	52.7%	59.2%	55.5%	53.1%	52.0%	
EBITDA (M)	\$1,240	\$1,401	\$1,721	\$2,334	\$2,432	
Debt/EBITDA	5.21x	5.58x	6.58x	5.10x	4.99x	
Tot. Debt/(Tot.Dbt+Eq.)	0.56	0.57	0.57	0.55	0.55	
Enterprise Value (M)	\$14,284	\$15,833	\$24,090	\$24,799	\$25,140	

Capitalization	
Market Cap (M)	\$10,703
Net Debt + Pref. (M)	\$13,046
Enterprise Value (M)	\$24,206
Shares O/S (M)	275
Float O/S (M)	274


[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.  
All values in C\$ unless otherwise indicated.

Exhibit 1 - Fortis Inc. Financial Statement Summary

<b>Income Statement (\$M)</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
BC Gas	\$127	\$128	\$132
Newfoundland Power (Electric)	\$39	\$37	\$38
Alberta & BC Utilities (Electric)	\$149	\$176	\$179
Other Canadian (Electric)	\$21	\$21	\$24
Caribbean Electric	\$27	\$28	\$32
CH Energy	\$37	\$59	\$62
UNS Energy	\$60	\$198	\$208
Fortis Generation	\$20	\$36	\$34
Non-Regulated Non-Utility	\$23	(\$2)	\$0
Corporate and Other	(\$96)	(\$102)	(\$103)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$407</b>	<b>\$580</b>	<b>\$605</b>
Unusual items	(\$90)	\$27	\$34
<b>Earnings to Common S/H - Reported</b>	<b>\$317</b>	<b>\$606</b>	<b>\$639</b>
EBITDA	\$1,721	\$2,334	\$2,432
Avg. Shares Outstanding - Basic	226	278	281
EPS to Common S/H - Reported	\$1.41	\$2.15	\$2.27
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.81</b>	<b>\$2.05</b>	<b>\$2.15</b>
<b>Cash Flow Statement (\$M)</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
Earnings	\$317	\$606	\$639
Depreciation and Amortization	\$688	\$856	\$889
Other	\$101	\$101	\$157
Funds Flow from Operations	\$1,106	\$1,563	\$1,685
Changes in non-cash Working Capital	(\$124)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$982</b>	<b>\$1,563</b>	<b>\$1,685</b>
Total Capex	(\$1,725)	(\$2,152)	(\$1,578)
Other & Asset Sales	(\$2,474)	\$416	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$4,199)</b>	<b>(\$1,736)</b>	<b>(\$1,528)</b>
Dividends - common shares (net of DRIP)	(\$194)	(\$265)	(\$293)
Other Financing Activities	\$3,555	\$482	\$258
<b>Cash Used in Financing Activities</b>	<b>\$3,361</b>	<b>\$218</b>	<b>(\$34)</b>
Foreign Currency Translation	\$14	\$19	\$0
<b>Change in cash and cash equivalents</b>	<b>\$158</b>	<b>\$64</b>	<b>\$123</b>
Cash and cash equivalents, beginning of year	\$72	\$230	\$294
<b>Cash and cash equivalents, end of year</b>	<b>\$230</b>	<b>\$294</b>	<b>\$417</b>
<b>Balance Sheet (\$M)</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
Cash	\$230	\$294	\$417
Other Current Assets	\$1,733	\$1,731	\$1,731
PP&E	\$20,046	\$21,338	\$22,026
Intangibles	\$488	\$480	\$480
Goodwill	\$3,732	\$3,942	\$3,942
Other Assets	\$399	\$244	\$139
<b>Total Assets</b>	<b>\$26,628</b>	<b>\$28,029</b>	<b>\$28,735</b>
Short-term debt	\$330	\$362	\$362
Other Current Liabilities	\$2,354	\$2,170	\$2,170
Long-term debt and convertible debentures	\$10,996	\$11,534	\$11,780
Other Liabilities	\$4,257	\$4,379	\$4,480
<b>Total Liabilities</b>	<b>\$17,937</b>	<b>\$18,445</b>	<b>\$18,793</b>
Preferred shares	\$1,820	\$1,820	\$1,820
Common equity	\$6,871	\$7,764	\$8,123
<b>Total Shareholders' Equity</b>	<b>\$8,691</b>	<b>\$9,584</b>	<b>\$9,943</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$26,628</b>	<b>\$28,029</b>	<b>\$28,735</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to FINRA Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	4-May-12	C\$33.64	Sector Perform	34.00
	29-May-12	C\$32.89	Sector Perform	*35.00
2	20-Jun-12	C\$32.46	Restricted	
3	17-Jul-12	C\$32.95	Sector Perform	35.00
4	8-Feb-13	C\$33.78	Sector Perform	*34.00
5	8-May-13	C\$34.49	Sector Perform	*35.00
6	7-Jun-13	C\$32.46	*Sector Outperform	35.00
7	10-Sep-13	C\$30.13	Sector Outperform	*34.00
8	4-Nov-13	C\$32.34	Sector Outperform	*35.00
9	12-Dec-13	C\$30.04	Restricted	
10	27-Jan-14	C\$30.20	Sector Outperform	*36.00
11	9-May-14	C\$32.54	Sector Outperform	*38.00
12	2-Oct-14	C\$34.77	Sector Outperform	*39.00
13	10-Nov-14	C\$37.94	Sector Outperform	*40.00
14	20-Feb-15	C\$39.71	Sector Outperform	*43.00
* represents the value(s) that has changed.				

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings & Risk Rankings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

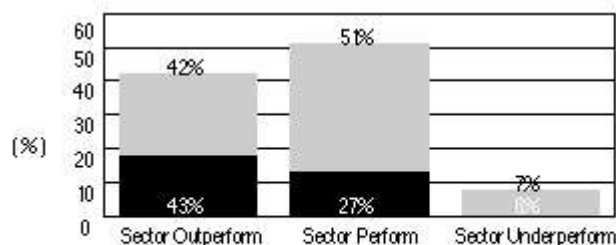
High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Speculative

Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at April 30, 2015.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.



## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.



## Fortis Inc.

(FTS-T C\$37.45)

### Ratebase Rising

Matthew Akman, MBA - (416) 863-7798  
(Scotia Capital Inc. - Canada)  
[matthew.akman@scotiabank.com](mailto:matthew.akman@scotiabank.com)

Dario Neimarlija, CPA, CA, CFA - (416) 863-2852  
(Scotia Capital Inc. - Canada)  
Keith Sandor - (416) 865-6337  
(Scotia Capital Inc. - Canada)

Rating: Sector Outperform Target 1-Yr: C\$43.00 ROR 1-Yr: 18.6%

Div. (NTM) \$1.40  
Div. (Curr.) \$1.36  
Yield (Curr.) 3.6%

Valuation: 6.5% 2016E Free Cash Yield and 10.8x 2016E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

### Event

- FTS reported normalized Q2/15 EPS of \$0.44 vs. our estimate of \$0.48 and \$0.22 in Q2/14.

### Implications

- Though the quarter was slightly weaker than we anticipated due to seasonality (UNS) and one-time Corporate items, the company is on track to achieve our full-year and ongoing growth forecasts.
- Success has been achieved on several regulatory fronts. Following recent approval, the NY utility CH Energy will likely earn a 9%-10% ROE, up from the low-7% recently. And despite lower allowed ROE, FTS Alberta is showing meaningful earnings improvement due to the Capital Tracker decision and incentive savings (1H \$72M vs. \$51M).
- Further success is likely, in our opinion. The Tucson Arizona utility could generate meaningful earnings improvement through recognition of an additional ~\$800M in ratebase and ~7% increase in equity thickness (rates case to be filed this year).
- To raise funds for growth, the company continues achieving success in its asset sales. The final cumulative proceeds on Properties assets will be \$795M, in line with our expectations. In addition, there was a \$93M sale of non-core hydro assets and \$57M associated gain.

### Recommendation

- FTS management is capitalizing on core strengths: managing capital projects and regulatory risk/benefit. Acquisitions are on the backburner and organic growth is robust. We maintain our SO rating and \$43 TP.

Qtly Adj. EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2014A	\$0.66 A	\$0.22 A	\$0.33 A	\$0.46 A	\$1.81	21.5x
2015E	\$0.65 A	\$0.44 A	\$0.50	\$0.47	\$2.05	18.2x
2016E					\$2.15	17.4x
2017E					\$2.26	16.6x
(FY-Dec.)	2013A	2014A	2015E	2016E	2017E	
Free Cash Flow/Share	\$2.10	\$2.31	\$2.56	\$2.78	\$2.86	
Dividends/Share	\$1.24	\$1.28	\$1.36	\$1.45	\$1.54	
EV/EBITDA	11.3x	14.0x	10.3x	10.1x	9.7x	
Payout Ratio	59.2%	55.5%	53.0%	51.9%	53.6%	
EBITDA (M)	\$1,401	\$1,721	\$2,355	\$2,426	\$2,567	
Debt/EBITDA	5.58x	6.58x	5.01x	4.84x	4.69x	
Tot. Debt/(Tot.Dbt+Eq.)	0.57	0.57	0.56	0.55	0.54	
Enterprise Value (M)	\$15,833	\$24,090	\$24,197	\$24,520	\$24,927	

### Pertinent Revisions

New Old

#### Valuation:

6.5% 2016E Free Cash Yield and 10.8x 2016E EV/EBITDA

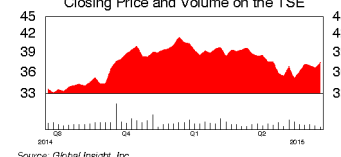
#### Old Valuation:

6.5% 2016E Free Cash Yield and 10.9x 2016E EV/EBITDA

Capitalization	
Market Cap (M)	\$10,434
Net Debt + Pref. (M)	\$12,988
Enterprise Value (M)	\$23,906
Shares O/S (M)	279
Float O/S (M)	277

### Fortis Inc. (FTS-T)

Closing Price and Volume on the TSE



Source: Global Insight, Inc.

[ScotiaView Analyst Link](#)

Historical price multiple calculations use FYE prices. Source: Reuters; company reports; Scotiabank GBM estimates.

All values in C\$ unless otherwise indicated.

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement (\$M)	2014	2015E	2016E	2017E
BC Gas	\$127	\$130	\$134	\$146
Newfoundland Power (Electric)	\$39	\$37	\$38	\$39
Alberta & BC Utilities (Electric)	\$149	\$177	\$177	\$189
Other Canadian (Electric)	\$21	\$21	\$24	\$26
Caribbean Electric	\$27	\$28	\$32	\$35
CH Energy	\$37	\$63	\$68	\$73
UNS Energy	\$60	\$203	\$210	\$222
Fortis Generation	\$20	\$35	\$36	\$37
Non-Regulated Non-Utility	\$23	\$11	\$0	\$0
Corporate and Other	(\$96)	(\$133)	(\$112)	(\$125)
<b>Earnings to Common S/H - Adjusted</b>	<b>\$407</b>	<b>\$571</b>	<b>\$607</b>	<b>\$644</b>
Unusual items	(\$90)	\$154	\$0	\$0
<b>Earnings to Common S/H - Reported</b>	<b>\$317</b>	<b>\$725</b>	<b>\$607</b>	<b>\$644</b>
EBITDA	\$1,721	\$2,355	\$2,426	\$2,567
Avg. Shares Outstanding - Basic	226	278	282	285
EPS to Common S/H - Reported	\$1.41	\$2.61	\$2.15	\$2.26
<b>EPS to Common S/H - Adjusted</b>	<b>\$1.81</b>	<b>\$2.05</b>	<b>\$2.15</b>	<b>\$2.26</b>
Cash Flow Statement (\$M)	2014	2015E	2016E	2017E
Earnings	\$317	\$725	\$607	\$644
Depreciation and Amortization	\$688	\$864	\$889	\$923
Other	\$101	\$12	\$195	\$195
Funds Flow from Operations	\$1,106	\$1,601	\$1,691	\$1,761
Changes in non-cash Working Capital	(\$124)	(\$36)	\$0	\$0
<b>Cash from Operating Activities</b>	<b>\$982</b>	<b>\$1,565</b>	<b>\$1,691</b>	<b>\$1,761</b>
Total Capex	(\$1,725)	(\$2,152)	(\$1,574)	(\$1,692)
Other & Asset Sales	(\$2,474)	\$943	\$50	\$50
<b>Cash Used in Investing Activities</b>	<b>(\$4,199)</b>	<b>(\$1,209)</b>	<b>(\$1,524)</b>	<b>(\$1,642)</b>
Dividends - common shares (net of DRIP)	(\$194)	(\$252)	(\$293)	(\$324)
Other Financing Activities	\$3,555	\$47	(\$44)	\$327
<b>Cash Used in Financing Activities</b>	<b>\$3,361</b>	<b>(\$206)</b>	<b>(\$337)</b>	<b>\$3</b>
Foreign Currency Translation	\$14	\$17	\$0	\$0
<b>Change in cash and cash equivalents</b>	<b>\$158</b>	<b>\$168</b>	<b>(\$170)</b>	<b>\$122</b>
Cash and cash equivalents, beginning of year	\$72	\$230	\$398	\$228
<b>Cash and cash equivalents, end of year</b>	<b>\$230</b>	<b>\$398</b>	<b>\$228</b>	<b>\$350</b>
Balance Sheet (\$M)	2014	2015E	2016E	2017E
Cash	\$230	\$398	\$228	\$350
Other Current Assets	\$1,733	\$1,565	\$1,565	\$1,565
PP&E	\$20,046	\$20,993	\$21,677	\$22,447
Intangibles & Other	\$887	\$465	\$322	\$244
Goodwill	\$3,732	\$3,908	\$3,908	\$3,908
<b>Total Assets</b>	<b>\$26,628</b>	<b>\$27,328</b>	<b>\$27,700</b>	<b>\$28,513</b>
Short-term debt	\$330	\$161	\$161	\$161
Other Current Liabilities	\$2,354	\$2,013	\$2,013	\$2,078
Long-term debt and convertible debentures	\$10,996	\$11,631	\$11,575	\$11,890
Other Liabilities	\$4,257	\$4,086	\$4,187	\$4,289
<b>Total Liabilities</b>	<b>\$17,937</b>	<b>\$17,890</b>	<b>\$17,936</b>	<b>\$18,418</b>
Preferred shares	\$1,820	\$1,820	\$1,820	\$1,820
Common equity	\$6,871	\$7,618	\$7,944	\$8,275
<b>Total Shareholders' Equity</b>	<b>\$8,691</b>	<b>\$9,438</b>	<b>\$9,764</b>	<b>\$10,095</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$26,628</b>	<b>\$27,328</b>	<b>\$27,700</b>	<b>\$28,513</b>

Source: Company reports; Scotiabank GBM estimates.

## Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

This research report was prepared by employees of Scotia Capital Inc. and/or its affiliates who have the title of Analyst.

All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

For Scotiabank, Global Banking and Markets Research analyst standards and disclosure policies, please visit [gbm.scotiabank.com/disclosures](http://gbm.scotiabank.com/disclosures).

Scotiabank, Global Banking and Markets Research, 40 King Street West, 33rd Floor, Toronto, Ontario, M5H 1H1.

### \* Legend

- G** Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
- I** Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Fortis Inc. (FTS)				
#	Date	Closing Price	Rating	Target-1YR
1	31-Jul-12	C\$33.54	Sector Perform	35.00
2	8-Feb-13	C\$33.78	Sector Perform	*34.00
3	8-May-13	C\$34.49	Sector Perform	*35.00
4	7-Jun-13	C\$32.46	*Sector Outperform	35.00
5	10-Sep-13	C\$30.13	Sector Outperform	*34.00
6	4-Nov-13	C\$32.34	Sector Outperform	*35.00
7	12-Dec-13	C\$30.04	Restricted	
8	27-Jan-14	C\$30.20	Sector Outperform	*36.00
9	9-May-14	C\$32.54	Sector Outperform	*38.00
10	2-Oct-14	C\$34.77	Sector Outperform	*39.00
11	10-Nov-14	C\$37.94	Sector Outperform	*40.00
12	20-Feb-15	C\$39.71	Sector Outperform	*43.00
* represents the value(s) that has changed.				

Numbers are located to the left of the lines they represent.  
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

## Definition of Scotiabank, Global Banking and Markets Equity Research Ratings

We have a four-tiered rating system, with ratings of Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

The rating assigned to each security covered in this report is based on the Scotiabank, Global Banking and Markets research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

### Ratings

#### Focus Stock (FS)

The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Perform (SP)

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

#### Sector Underperform (SU)

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

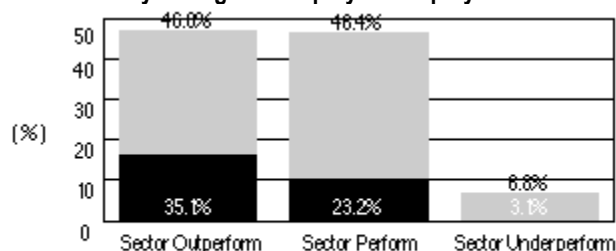
*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Ranking

As of June 22, 2015, Scotiabank, Global Banking and Markets discontinued its Low, Medium, and High risk rankings. The Speculative risk ranking reflects exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, and exceptionally high stock volatility. The Director of Research and the Supervisory Analyst jointly make the final determination of the Speculative risk ranking.

## Scotiabank, Global Banking and Markets Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\* As at July 31, 2015.

Source: Scotiabank GBM.

For the purposes of the ratings distribution disclosure FINRA requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our Focus Stock, Sector Outperform, Sector Perform, and Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to strong buy, buy, neutral and sell ratings, respectively.

## General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets," is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc.

All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only.

Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced.

Scotia Capital Inc. or an affiliate thereof owns or controls an equity interest in TMX Group Limited and in excess of 1% of the issued and outstanding equity securities thereof. In addition, an affiliate of Scotia Capital Inc. is a lender to TMX Group Limited under its credit facilities. As such, Scotia Capital Inc. may be considered to have an economic interest in TMX Group Limited.

This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness.

Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified.

Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Equity research reports published by Scotiabank, Global Banking and Markets are available electronically via: Bloomberg, Thomson Financial/First Call - Research Direct, Reuters, Capital IQ, and FactSet. Institutional clients with questions regarding distribution of equity research should contact us at 1-800-208-7666.

This report and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of Scotiabank, Global Banking and Markets.

## Additional Disclosures

Canada: This report is distributed by Scotia Capital Inc., a subsidiary of The Bank of Nova Scotia. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Chile: This report is distributed by Scotia Corredora de Bolsa Chile S.A., a subsidiary of The Bank of Nova Scotia.

Colombia: This report is distributed in Colombia according to the resolutions issued by the Superintendencia Financiera, in which the regulator authorized marketing / promotion of products and services to the following foreign entities, exclusively for the approved purposes: The Bank of Nova Scotia (Canada) – Resolution 058 of 2014, The Bank of Nova Scotia (Panama) – Resolution 2137 of 2010, and Scotia Capital Inc. – Resolution 0226 of 2015.

Hong Kong: This report is distributed by The Bank of Nova Scotia Hong Kong Branch, which is authorized by the Securities and Future Commission to conduct Type 1, Type 4 and Type 6 regulated activities and regulated by the Hong Kong Monetary Authority.

Mexico: This report is distributed by Scotia Inverlat Casa de Bolsa S.A. de C.V., a subsidiary of the Bank of Nova Scotia.

Peru: This report is distributed by Scotia Sociedad Agente de Bolsa S.A., a subsidiary of The Bank of Nova Scotia.

Singapore: This report is distributed by The Bank of Nova Scotia Asia Limited, a subsidiary of The Bank of Nova Scotia. The Bank of Nova Scotia Asia Limited is authorised and regulated by the Monetary Authority of Singapore, and exempted under Section 99(1)(a), and (b), (c) and (d) of the Securities and Futures Act to conduct regulated activities.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this report is distributed by Scotiabank Europe plc, a subsidiary of The Bank of Nova Scotia. Scotiabank Europe plc is authorized by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). Scotiabank Europe plc complies with all FCA requirements concerning research and the associated disclosures and these are indicated on the research where applicable.

United States: This report is distributed by Scotia Capital (USA) Inc., a subsidiary of Scotia Capital Inc., and a registered U.S. broker-dealer. All transactions by a U.S. investor of securities mentioned in this report must be effected through Scotia Capital (USA) Inc.

Non-U.S. investors wishing to effect a transaction in the securities discussed in this report should contact a Scotiabank, Global Banking and Markets entity in their local jurisdiction unless governing law permits otherwise.



**Newcrest**

A Division of TD Securities Inc.

# Action Notes

February 11, 2011  
Equity Research

1 of 5

## Pipelines, Power & Utilities

**Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00↑****Prior:** **C\$35.00****12-Month Total Return:** **9.9%**

### Market Data (C\$)

Current Price	\$33.81
52-Wk Range	\$21.60-\$35.45
Mkt Cap (f.d.)(mm)	\$6,363.0
Dividend per Share	\$1.16
Dividend Yield	3.4%
Avg. Daily Trading Vol. (3mths)	497834

### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.2
Float Shares (mm)	174.4
Net Debt/Tot Cap	57.8%
BVPS (basic)	\$18.95
ROE	8.6%

### Estimates (C\$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.73	1.82
EPS (basic)(old)	1.50	1.62	1.77	1.85
EPS (f.d.)	1.48	1.60	1.69	1.78
EPS (f.d.)(old)	1.48	1.59	1.73	1.81
CFPS (basic)	3.98	4.25	4.51	4.78
CFPS (basic)(old)	3.98	4.22	4.54	4.79

### EPS (f.d.) Quarterly Estimates (C\$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.59	--
Q2	0.28	0.32	--	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

### Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	22.8x	21.1x	20.0x	19.0x
P/CFPS (basic)	8.5x	8.0x	7.5x	7.1x
P/DI	32.5x	30.2x	29.1x	28.2x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**

416 983 7784

[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Robert Hope, CFA**

416 983 9717

[robert.hope@tdsecurities.com](mailto:robert.hope@tdsecurities.com)

## Fortis Inc.

**(FTS-T) C\$33.81**

### Q4 Results a Solid End to 2010

#### Event

Fortis reported Q4/10 EPS (f.d.) of \$0.47, slightly lower than our \$0.48 estimate, recent consensus of \$0.51 but above Q4/09 normalized EPS (f.d.) of \$0.45.

#### Impact

**NEUTRAL.** We have made numerous adjustments to our model, which include updating our Newfoundland Power rate base model and a private debt placement. Our estimates decrease slightly as a result of these changes. However, our target price increases by one dollar to \$36.00 as we are rolling forward our target to be based 100% on our 2012 forecasts.

#### Details

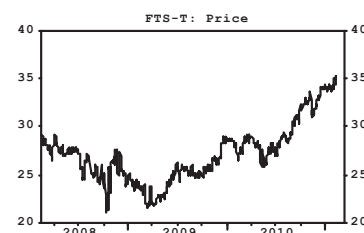
**Regulated Gas Utilities (Terasen)** Q4/10 earnings of \$45 million were \$7 million below normalized Q4/09 results (Exhibit 1). The decrease was largely due to the timing of operating expenses, with a higher weighting of costs in Q4/10, increased labour and employee-benefit expenses, and higher maintenance and operating activities that were approved by the regulator as a result of the recent Negotiated Settlement Agreement.

**Regulated Electric Utilities – Canadian** Q4/10 earnings of \$41 million increased by \$10 million year over year.

- **FortisAlberta** earnings of \$17 million increased by \$5 million versus Q4/09 normalized results primarily from ongoing electrical infrastructure investment, customer growth, and higher regulator-approved expenses recoverable from customers.
- **FortisBC** earnings of \$10 million increased by \$2 million year over year driven largely by increased customer rates reflecting a higher allowed return and increased incentive adjustments.
- **Newfoundland Power** earnings of \$9 million were \$1 million higher than Q4/09 results. Increased electricity rates and sales were the main drivers for the increase.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of \$5 million were \$2 million ahead of Q4/09 normalized results largely due to higher capitalized overhead expenses in Q4/10.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**





**Regulated Utilities – Caribbean** earnings of \$5 million were \$2 million lower year over year largely from increased legal expenses at Belize Electricity as a result of the regulatory challenges, in addition to lower electricity sales.

**Fortis Generation** earnings of \$5 million were \$2 million higher than Q4/09 results largely from increased generation production in all operating regions, and higher average electricity prices in Upper New York State and Ontario.

**Fortis Properties** reported earnings of \$7 million, \$2 million above Q4/09 results primarily due to lower effective income taxes, in addition to rent increases in the real estate division.

**Corporate** expenses decreased by \$1 million to \$18 million in Q4/10 largely due to lower financing costs.

### **Exhibit 1. Segmented Earnings Analysis (\$mm unless stated otherwise)**

	<b>Q4/10</b>	<b>Q4/09</b>	<b>YOY Change</b>	<b>YOY % Change</b>
Regulated Gas Utilities - Canadian <sup>1,2</sup>	\$45	\$52	(\$7)	-13%
FortisAlberta <sup>3</sup>	17	12	5	42%
FortisBC	10	8	2	25%
Newfoundland Power	9	8	1	13%
Other Canadian <sup>4</sup>	5	3	2	67%
Regulated Electric Utilities - Canadian	41	31	10	32%
Regulated Utilities - Caribbean	5	7	(2)	-29%
<b>Total Regulated Utilities</b>	<b>91</b>	<b>90</b>	<b>2</b>	<b>2%</b>
<b>Non-Regulated Fortis Generation</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>67%</b>
<b>Non-Regulated Fortis Properties</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>40%</b>
<b>Corporate</b>	<b>(18)</b>	<b>(19)</b>	<b>1</b>	<b>-5%</b>
<b>Operating Earnings</b>	<b>85</b>	<b>79</b>	<b>7</b>	<b>8%</b>
Adjustments	-	3	(3)	-100%
<b>Reported Earnings</b>	<b>85</b>	<b>81</b>	<b>4</b>	<b>5%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.47</b>	<b>\$0.45</b>	<b>\$0.02</b>	<b>5%</b>
Reported EPS (f.d)	\$0.47	\$0.46	\$0.01	2%

Notes: Earnings have been normalized for the following items:

1) Q4/09 excludes \$5.0 million of costs associated with the conversion of customer appliances from propane to natural gas.

2) Q4/09 excludes \$1.5 million of earnings associated to prior periods.

3) Q4/09 excludes \$3.0 million of earnings associated to prior periods.

4) Q4/09 excludes a \$3.0 million favourable tax adjustment.

Source: Company Reports, TD Newcrest.

### **Outlook**

**MOU to Develop Transmission Projects in Ontario:** On February 2, 2011, FortisOntario announced that it had entered into a memorandum of understanding (MOU) with Lake Huron Anishinabek Transmission Company Inc. (LHATC) for the potential construction and operation of regulated electricity transmission projects in Ontario. FortisOntario will hold a minimum ownership of 51% and LHATC will have the right to acquire up to a 49% equity interest in the joint venture.

Given the increasing amount of renewable power projects coming on line in Ontario, the demand for transmission infrastructure to support this increase in generation has prompted the Ontario Energy Board (OEB) to issue a Framework for Transmission Project Development Plans, which could encourage new transmission investment in Ontario through a formal competitive process for projects identified by the Ontario Power Authority. Although it is still early days, we view this development positively as we believe Fortis'



strong expertise in transmission and its incumbency in Ontario will allow the company to potentially secure transmission project mandates in the province.

**Q1/11 Preview:** We are forecasting Q1/11 EPS of \$0.59, a \$0.03 increase over Q1/10 results largely due to rate base growth at the Company's Regulated Canadian Utilities and a full-quarter contribution from the Vaca hydroelectric generating facility.

## **Valuation**

### **Exhibit 2. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS				P/E				EPS	
								2009A	2010E	2011E	2012E	2009A	2010E	2011E	2012E	For. E	Forward
FTS	\$33.81	188.2	\$6,363	\$1.16	3.4%	\$18.95	1.8	\$1.48	\$1.60	\$1.69	\$1.78	22.8x	21.2x	19.9x	19.0x	\$1.70	19.8x
ACO.X	\$56.88	58.4	\$3,322	\$1.14	2.0%	\$37.23	1.5	\$4.63	\$4.59	\$4.61	\$4.98	12.3x	12.4x	12.3x	11.4x	\$4.65	12.2x
CU	\$51.86	126.0	\$6,534	\$1.61	3.1%	\$25.42	2.0	\$3.26	\$3.15	\$3.28	\$3.62	15.9x	16.5x	15.8x	14.3x	\$3.32	15.6x
CPX	\$24.95	80.6	\$2,011	\$1.26	5.1%	\$22.01	1.1	\$0.60	\$1.25	\$1.26	\$0.86	n.a.	20.0x	19.9x	29.0x	\$1.21	20.6x
EMA	\$31.00	120.3	\$3,729	\$1.30	4.2%	\$14.99	2.1	\$1.52	\$1.63	\$1.82	\$1.86	20.4x	19.1x	17.0x	16.7x	\$1.83	17.0x
ENB	\$57.44	378.0	\$21,712	\$1.96	3.4%	\$19.88	2.9	\$2.30	\$2.63	\$2.80	\$2.98	25.0x	21.8x	20.5x	19.3x	\$2.82	20.3x
TA	\$20.74	220.0	\$4,563	\$1.16	5.6%	\$14.00	1.5	\$0.88	\$0.86	\$0.96	\$0.98	23.5x	24.0x	21.6x	21.2x	\$0.96	21.5x
TRP	\$37.96	693.0	\$26,306	\$1.60	4.2%	\$22.21	1.7	\$2.02	\$1.95	\$2.17	\$2.20	18.8x	19.5x	17.5x	17.3x	\$2.17	17.5x
Avg.					4.1%		1.9x					21.1x	20.3x	18.9x	19.5x		18.9x

Notes:

1) Averages exclude ATCO due to its holding company nature.

2) Capital Power's 2009A is a half-year actual.

Source: Company Reports, Thomson, TD Newcrest.

### **Justification of Target Price**

Our \$36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

### **Key Risks to Target Price**

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

### **Investment Conclusion**

We expect capital investments in the Company's regulated utilities to continue to be the primary driver of EPS growth in the medium term, which we view positively given the low-risk and regulated nature of the assets.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

**February 11, 2011  
Equity Research**

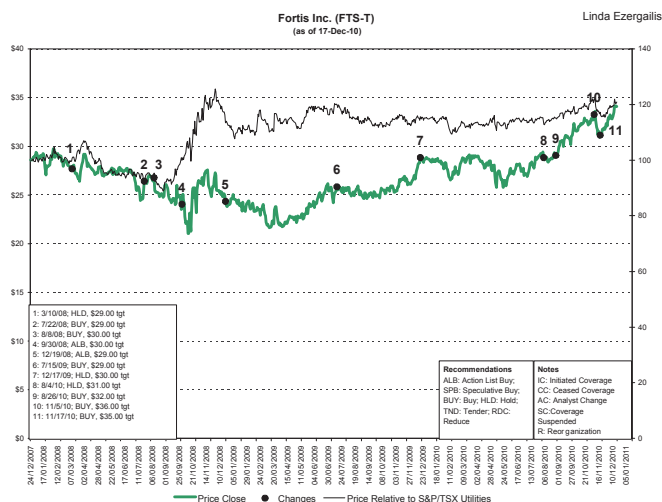
4 of 5

## TD Newcrest Equity Research Disclosures

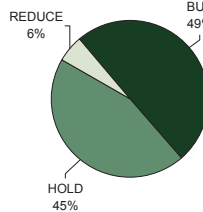
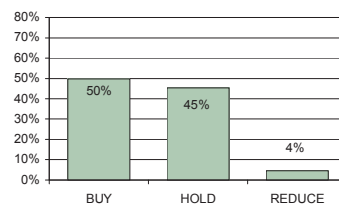
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of February 2, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.3% of coverage universe), Medium (33.3%), High (49.4%), Speculative (10.0%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. The activities of The Toronto-Dominion Bank under its Financial Services Licence are regulated by the Australian Securities and Investment Commission in Australia. Copyright 2011 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.**

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

March 17, 2011  
Equity Research

1 of 4

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **15.1%****Market Data (C\$)**

Current Price	\$32.29
52-Wk Range	\$21.60-\$35.45
Mkt Cap (f.d.)(mm)	\$6,077.0
Dividend per Share	\$1.16
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	481895

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.2
Float Shares (mm)	174.4
Net Debt/Tot Cap	57.8%
BVPS (basic)	\$18.95
ROE	8.6%

**Estimates (C\$)**

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.69	1.79
EPS (basic)(old)	1.50	1.63	1.73	1.82
EPS (f.d.)	1.48	1.60	1.66	1.75
EPS (f.d.)(old)	1.48	1.60	1.69	1.78
CFPS (basic)	3.98	4.25	4.47	4.74
CFPS (basic)(old)	3.98	4.25	4.51	4.78

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.59	--
Q2	0.28	0.32	--	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

**Valuations**

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.8x	20.2x	19.5x	18.5x
P/CFPS (basic)	8.1x	7.6x	7.2x	6.8x
P/DI	31.0x	28.8x	27.8x	26.9x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**

416 983 7784

[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Robert Hope, CFA**

416 983 9717

[robert.hope@tdsecurities.com](mailto:robert.hope@tdsecurities.com)

## Fortis Inc.

**(FTS-T) C\$32.29**

### Belize Electricity Receives Negative Court Decision

**Event**

The Supreme Court of Belize dismissed Belize Electricity Ltd.'s (70% owned by Fortis) appeal regarding the regulator's Final Decision following the 2008 Annual Tariff Review Proceeding.

**Impact****MILDLY NEGATIVE.**

We are reducing each of our 2011 and 2012 EPS estimates by three pennies to reflect lower expected Belize Electricity earnings as a result of the decision.

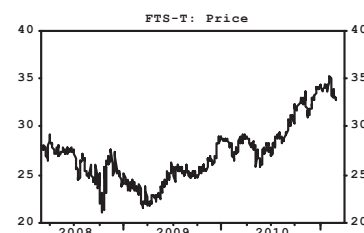
**Details**

**Belize Electricity Ltd. Overview:** An integrated electric utility and the principal distributor of electricity in Belize. The utility has approximately \$0.2 billion of assets and serves more than 77,000 customers. Fortis has a 70% ownership interest in Belize Electricity.

**Regulatory Overview:** Belize Electricity is regulated by the Public Utilities Commission (PUC). The PUC issued a decision in June 2008, which disallowed \$18 million of previously incurred power costs and lowered Belize Electricity's return on assets (ROA) to 10% from 12%. Fortis is of the view that the decision violated established regulatory practices and contractual obligations between the utility and the government. Belize Electricity challenged the decision in several proceedings during which time the PUC has been prohibited from carrying out any rate review proceedings and taking enforcement actions against the utility. We note that Belize Electricity has not been earning its 10% allowed ROA due to the aforementioned regulatory challenges.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**

**Overview of Decision:**

- **Decision:** The Supreme Court dismissed Belize Electricity's appeal of the regulator's Final Decision following the 2008 Annual Tariff Review Proceeding.
- **Earnings Impact:** Moving forward we expect earnings from Belize Electricity to be similar to the \$1.5 million that was generated in 2010. Fortis believes the utility should generate \$10 million of earnings under normal operations. We note that Belize Electricity represented less than 1% of Fortis' consolidated earnings in 2010.
- **Possible Next Steps:** Belize Electricity is reviewing the decision and its options. The company can appeal to the Belize Court of Appeal and following that, if required, the case could be brought to the Caribbean Court of Justice in Trinidad.

**Valuation****Exhibit 1. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS				P/E				EPS For. E	P/E Forward
								2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E		
FTS	\$32.29	188.2	\$6,077	\$1.16	3.6%	\$18.95	1.7	\$1.48	\$1.60	\$1.66	\$1.75	21.8x	20.2x	19.5x	18.5x	\$1.68	19.2x
ACO.X	\$57.11	57.9	\$3,308	\$1.14	2.0%	\$38.22	1.5	\$4.63	\$4.88	\$4.56	\$4.97	12.3x	11.7x	12.5x	11.5x	\$4.65	12.3x
CU	\$49.90	127.5	\$6,361	\$1.61	3.2%	\$26.01	1.9	\$3.26	\$3.28	\$3.19	\$3.58	15.3x	15.2x	15.6x	14.0x	\$3.27	15.3x
EMA	\$30.72	127.6	\$3,920	\$1.30	4.2%	\$16.33	1.9	\$1.52	\$1.65	\$1.74	\$1.81	20.2x	18.6x	17.7x	17.0x	\$1.75	17.5x
ENB	\$57.71	378.0	\$21,814	\$1.96	3.4%	\$19.88	2.9	\$2.30	\$2.63	\$2.80	\$2.98	25.1x	21.9x	20.6x	19.4x	\$2.84	20.3x
TA	\$20.06	220.3	\$4,419	\$1.16	5.8%	\$13.09	1.5	\$0.88	\$0.88	\$1.06	\$1.04	22.8x	22.8x	18.9x	19.3x	\$1.06	19.0x
TRP	\$37.90	696.0	\$26,378	\$1.68	4.4%	\$22.27	1.7	\$2.02	\$1.97	\$2.14	\$2.22	18.7x	19.2x	17.7x	17.1x	\$2.16	17.6x
Avg.					4.2%		1.8x					20.7x	19.7x	18.0x	17.5x		17.9x

Notes:

1) Averages exclude ATCO due to its holding company nature.

Source: Company Reports, Thomson, TD Newcrest.

**Justification of Target Price**

Our \$36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

We expect Belize Electricity to continue to challenge the decision. The decision, while mildly negative is largely immaterial to the company, although it does highlight the higher risk nature of Fortis' Caribbean investments relative to its Canadian regulated businesses.

We expect capital investments in the Company's regulated utilities to continue to be the primary driver of EPS growth in the medium term, which we view positively given the low-risk and regulated nature of the assets. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.



**Newcrest**

A Division of TD Securities Inc.

# Action Notes

**March 17, 2011  
Equity Research**

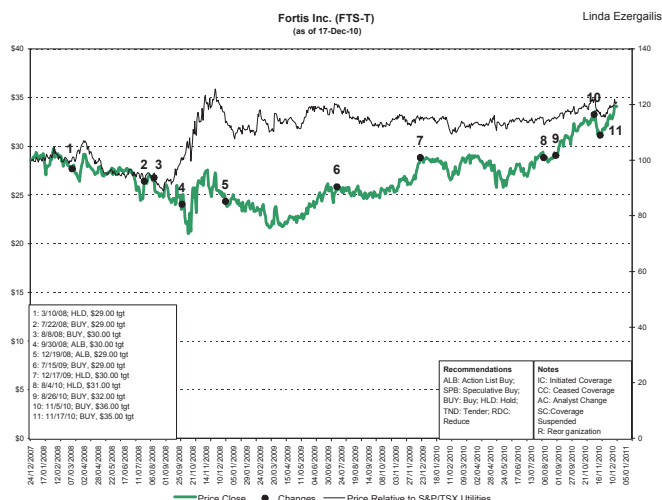
3 of 4

## TD Newcrest Equity Research Disclosures

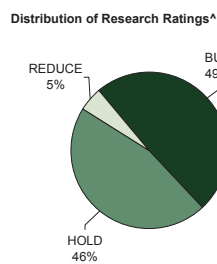
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

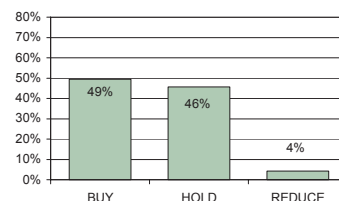
## Additional Important Disclosures



## Distribution of Research Ratings



## Investment Banking Services Provided<sup>\*</sup>



Current as of March 1, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>



**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.3% of coverage universe), Medium (33.3%), High (49.4%), Speculative (10.0%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. The activities of The Toronto-Dominion Bank under its Financial Services Licence are regulated by the Australian Securities and Investment Commission in Australia. Copyright 2011 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.**

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

May 5, 2011  
Equity Research

1 of 5

## Pipelines, Power & Utilities

**Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **14.9%**

### Market Data (C\$)

Current Price	\$32.35
52-Wk Range	\$21.60-\$35.45
Mkt Cap (f.d.)(mm)	\$6,072.1
Dividend per Share	\$1.16
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	424169

### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	187.7
Float Shares (mm)	175.4
Net Debt/Tot Cap	56.1%
BVPS (basic)	\$19.36
ROE	8.6%

### Estimates (C\$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.70	1.83
EPS (basic)(old)	1.50	1.63	1.69	1.79
EPS (f.d.)	1.48	1.60	1.67	1.78
EPS (f.d.)(old)	1.48	1.60	1.66	1.75
AFFO/Shr	2.01	2.15	2.57	2.60
AFFO/Shr (old)	2.01	1.94	2.23	2.55

### EPS (f.d.) Quarterly Estimates (C\$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.64	--
Q2	0.28	0.32	0.36	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

### Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.9x	20.2x	19.4x	18.2x
P/AFFO	16.1x	15.0x	12.6x	12.4x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Robert Hope, CFA**  
416 983 9717  
[robert.hope@tdsecurities.com](mailto:robert.hope@tdsecurities.com)

## Fortis Inc. (FTS-T) C\$32.35

### Regulated Canadian Utilities Drive Q1 Results

#### Event

Fortis reported Q1/11 normalized EPS (f.d.) of \$0.64, higher than our \$0.59 estimate, recent consensus of \$0.62, and Q1/10 EPS (f.d.) of \$0.56.

#### Impact

**SLIGHTLY POSITIVE.** We have made several changes to our model, the largest of which includes adjusting our FortisAlberta rate base model for increased capital spend in 2011-2013, along with refining our overall maintenance expenditure forecasts. Our estimates increase slightly as a result of these changes. We are maintaining our \$36.00 target price and BUY recommendation.

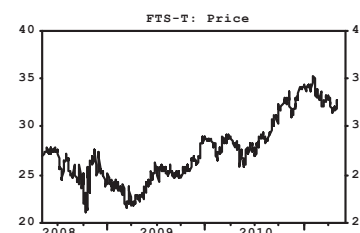
#### Details

**Regulated Gas Utilities** Q1/11 earnings of \$76 million were \$3 million above Q1/10 results (Exhibit 1). The increase was largely due to rate base growth from continued utility investments, the timing of the recorded impact of a rate decision received back in 2010, and lower amortization costs from retired assets.**Regulated Electric Utilities – Canadian** Q1/11 normalized earnings of \$52 million increased by \$12 million year over year.

- **FortisAlberta** normalized earnings of \$20 million increased by \$6 million versus Q1/10 results, primarily due to rate base growth from continued utility investments and the timing of the recorded impact of a rate decision received back in 2010.
- **FortisBC** earnings of \$19 million increased by \$5 million year over year, driven largely by increased electricity sales and rate base growth from capital investments.
- **Newfoundland Power** earnings of \$7 million were flat year over year.
- **Other Canadian Electric Utilities** earnings of \$6 million were \$1 million higher than Q1/10 results, largely due to an increase in ROE at Algoma Power and increased electricity sales.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

**Please see the final pages of this document for important disclosure information.**



**Regulated Utilities – Caribbean** earnings of \$4 million were unchanged from Q1/10 results.

**Fortis Generation** earnings of \$3 million were \$1 million higher than Q1/10 results, largely from increased generation production in Belize and higher average energy sales in Ontario.

**Fortis Properties** normalized earnings of \$1 million were \$1 million below Q1/10 results, primarily due to the impact of the economic downturn on hotel operations and increased amortization expenses from capital investments.

**Corporate** expenses decreased by \$1 million to \$20 million in Q1/11, largely due to lower operating and financing costs.

**Exhibit 1. Segmented Earnings Analysis (\$mm unless stated otherwise)**

	Q1/11	Q1/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	\$76	\$73	\$3	4%
FortisAlberta <sup>1</sup>	20	14	6	43%
FortisBC	19	14	5	36%
Newfoundland Power	7	7	-	0%
Other Canadian	6	5	1	20%
Regulated Electric Utilities - Canadian	52	40	12	30%
Regulated Utilities - Caribbean	4	4	-	0%
<b>Total Regulated Utilities</b>	<b>132</b>	<b>117</b>	<b>15</b>	<b>13%</b>
<b>Non-Regulated Fortis Generation</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>25%</b>
<b>Non-Regulated Fortis Properties<sup>2</sup></b>	<b>1</b>	<b>2</b>	<b>(1)</b>	<b>-50%</b>
<b>Corporate</b>	<b>(20)</b>	<b>(21)</b>	<b>1</b>	<b>-5%</b>
<b>Operating Earnings</b>	<b>116</b>	<b>100</b>	<b>16</b>	<b>16%</b>
Adjustments	1	-	1	n.a.
<b>Reported Earnings</b>	<b>117</b>	<b>100</b>	<b>17</b>	<b>17%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.64</b>	<b>\$0.56</b>	<b>\$0.08</b>	<b>14%</b>
Reported EPS (f.d)	\$0.65	\$0.56	\$0.09	15%

Notes: Reported earnings have been normalized for the following items:

1) Q1/11 excludes a \$1.0 million (after-tax) gain related to the sale of property.

2) Q1/11 excludes a \$0.5 million (pre-tax) gain related to the sale of the Viking Mall in Newfoundland.

Source: Company Reports, TD Newcrest.

## **Outlook**

### **Regulatory Updates:**

- **FortisAlberta:** In March 2011, FortisAlberta filed its 2012 and 2013 Distribution Tariff Application, which also included approximately \$776 million in forecasted gross capital expenditures over the two-year period. A final decision by the regulator is expected in Q1/12.
- **FortisBC:** FortisBC Electric intends to file a 2012-2013 Revenue Requirements Application (RRA) in the summer of 2011. Similarly, FortisBC Energy (previously known as the Terasen companies) expects to file a 2012-2013 RRA in May 2011.
- **Newfoundland Power:** A customer rate application is expected to be filed in May 2011, which proposes an increase in rates by approximately 8%, effective July 1, 2011.



**Future Acquisitions a Possibility:** Our growth outlook for Fortis incorporates an estimated \$5.5 billion capital program over the next five years. Management is also actively pursuing regulated electric and natural gas distribution utilities, and an acquisition could occur first in the U.S. over Canada, given our view of the potential candidates. We would not expect Fortis to form a joint venture with or take a partial interest in a smaller, high-cash yielding corporate affiliate, although, for a very large acquisition, a purely financial partner could play a role.

**Q2/11 Preview:** We are forecasting Q2/11 EPS of \$0.36, a \$0.04 increase over Q2/10 results, largely due to rate base growth at the Company's FortisAlberta and FortisBC regulated utilities.

## **Valuation**

### **Exhibit 2. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS				P/E				EPS	
								2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	\$32.35	187.7	\$6,072	\$1.16	3.6%	\$19.36	1.7	\$1.48	\$1.60	\$1.67	\$1.78	21.8x	20.2x	19.4x	18.2x	\$1.71	18.9x
ACO.X	\$60.27	57.8	\$3,484	\$1.14	1.9%	\$35.49	1.7	\$4.63	\$4.88	\$5.00	\$5.28	13.0x	12.4x	12.0x	11.4x	\$5.10	11.8x
CU	\$55.21	127.5	\$7,038	\$1.61	2.9%	\$23.95	2.3	\$3.26	\$3.28	\$3.37	\$3.63	17.0x	16.8x	16.4x	15.2x	\$3.46	16.0x
CPX	\$25.48	87.8	\$2,237	\$1.26	4.9%	\$22.53	1.1	\$0.60	\$1.38	\$1.54	\$1.54	n.a.	18.5x	16.5x	16.6x	\$1.54	16.5x
EMA	\$31.67	126.7	\$4,013	\$1.30	4.1%	\$13.65	2.3	\$1.52	\$1.65	\$1.73	\$1.81	20.8x	19.2x	18.3x	17.5x	\$1.76	18.0x
ENB	\$61.44	378.0	\$23,224	\$1.96	3.2%	\$19.88	3.1	\$2.30	\$2.63	\$2.80	\$2.98	26.8x	23.4x	21.9x	20.6x	\$2.86	21.4x
TA	\$21.25	222.0	\$4,718	\$1.16	5.5%	\$12.84	1.7	\$0.88	\$0.88	\$1.09	\$1.10	24.1x	24.1x	19.5x	19.3x	\$1.09	19.4x
TRP	\$41.29	699.0	\$28,862	\$1.68	4.1%	\$24.15	1.7	\$2.02	\$1.97	\$2.25	\$2.29	20.4x	21.0x	18.3x	18.0x	\$2.27	18.2x
Avg.					4.0%		2.0x					21.8x	20.5x	18.6x	17.9x		18.4x

Notes:

1) Averages exclude ATCO due to its holding company nature.

2) Capital Power's 2009A is a half-year actual.

Source: Company Reports, Thomson, TD Newcrest.

### **Justification of Target Price**

Our \$36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.

### **Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

### **Investment Conclusion**

Fortis' Q1/11 results were a strong start to the year. We expect capital investments in the Company's regulated utilities to continue to be the primary driver of EPS growth in the medium term, which we view positively given the low-risk and regulated nature of the assets. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility-dominated business model attractive. Long term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the U.S., Canada, and the Caribbean.

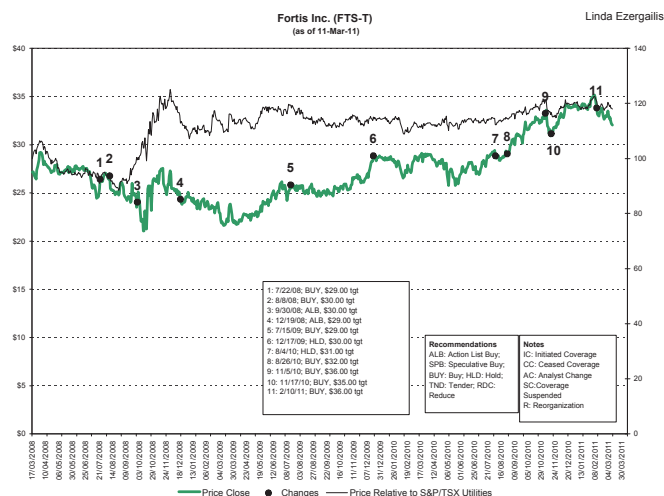


## TD Newcrest Equity Research Disclosures

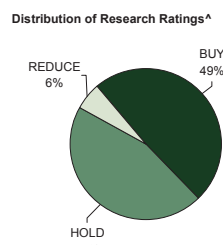
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

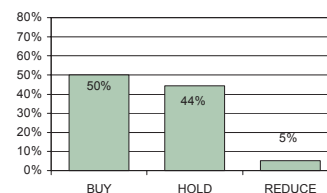
## Additional Important Disclosures



## Distribution of Research Ratings



## Investment Banking Services Provided<sup>\*</sup>



Current as of May 2, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.



**Newcrest**

A Division of TD Securities Inc.

# Action Notes

June 15, 2011  
Equity Research

1 of 6

## Pipelines, Power & Utilities

**Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **17.0%**

### Market Data (C\$)

Current Price	\$31.77
52-Wk Range	\$26.80-\$35.45
Mkt Cap (f.d.)(mm)	\$6,252.3
Dividend per Share	\$1.16
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	641893

### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	196.8
Float Shares (mm)	184.5
Net Debt/Tot Cap	54.5%
BVPS (basic)	\$20.04
ROE	8.6%

### Estimates (C\$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.69	1.88
EPS (basic)(old)	1.50	1.63	1.70	1.83
EPS (f.d.)	1.48	1.60	1.65	1.83
EPS (f.d.)(old)	1.48	1.60	1.67	1.78
AFFO/Shr	2.01	2.15	2.53	2.56
AFFO/Shr (old)	2.01	2.15	2.57	2.60

### EPS (f.d.) Quarterly Estimates (C\$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.64	--
Q2	0.28	0.32	0.36	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

### Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.5x	19.9x	19.3x	17.4x
P/AFFO	15.8x	14.8x	12.6x	12.4x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc. (FTS-T) C\$31.77

### Resuming Coverage: Acquisition of Vermont Utility Announced

#### Event

- We are resuming coverage of Fortis after the completion of a \$300 million equity offering.
- On May 30, 2011, Fortis announced that it entered into an agreement to acquire Central Vermont Public Service Corporation (CVPS) for an aggregate purchase price of approximately US\$700 million.
- On June 10, 2011, the Government of Belize issued a statement announcing its interest in assuming control of Belize Electricity Ltd. (BEL).

#### Impact

**MIXED.** We have revised our estimates to include the successful acquisition of CVPS along with updating our financing assumptions, which includes the recent equity offering. However, given that Fortis has not received any formal offer from the Belize Government for its investment in BEL we are not incorporating a sale of the asset in our model. Our target remains \$36.00.

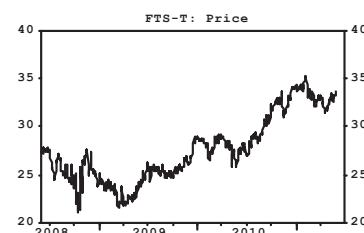
#### Details

##### CVPS Acquisition:

- Description:** CVPS is the largest integrated electric utility in Vermont, and consists of approximately 9,000 miles of distribution lines and over 600 miles of sub-transmission lines. CVPS also holds directly and indirectly approximately 41% of Vermont Transco LLC (Velco), which owns and operates the high-voltage transmission system in Vermont. CVPS serves approximately 160,000 customers in about two-thirds of the cities and towns in Vermont.
- Price:** US\$35.10 per share in cash for an aggregate purchase price of approximately US\$700 million, which includes approximately US\$230 million of debt. This represents a 1.4x price-to-total rate base multiple when including CVPS' total interest in Velco.
- Favourable Regulatory Framework:** For CVPS, the allowed rate of return on common equity for 2011 has been set at 9.45% and the equity thickness is currently 57%.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

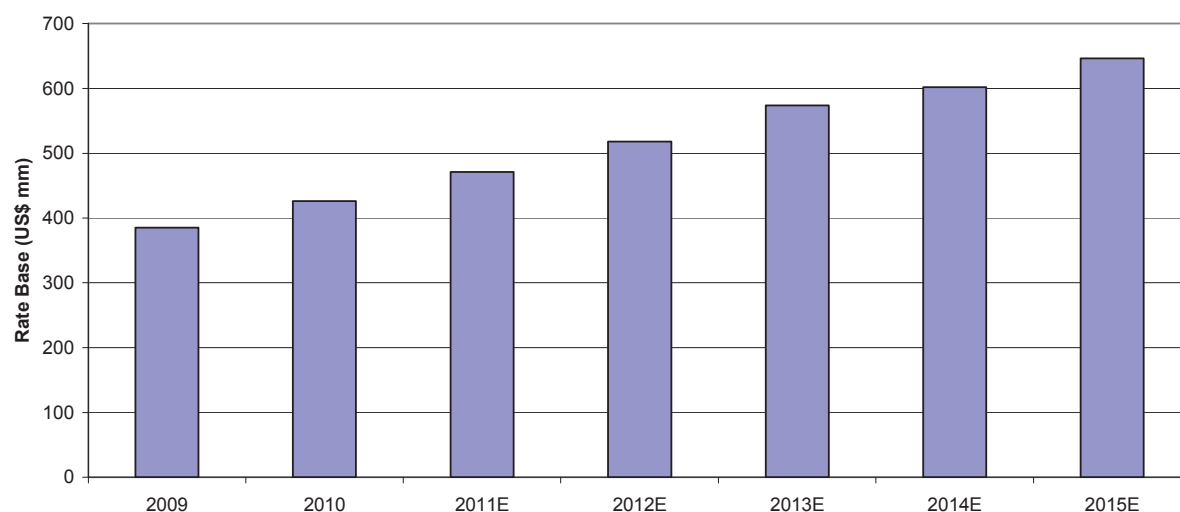


Please see the final pages of this document for important disclosure information.





- **Rate Base Growth:** CVPS expects its rate base investment to reach approximately US\$650 million by 2015, representing a compound average annual growth rate of 8.7% from 2010 to 2015 (Exhibit 1). In 2010, total assets and rate base assets of CVPS were approximately US\$711 million and US\$426 million, respectively.
- **EPS Accretive:** The acquisition is expected to be accretive to Fortis' EPS in the first full year of ownership. Based on our assumptions we estimate an annual EPS accretion of \$0.04 in 2012.
- **Financing:** Upon the transaction close, Fortis expects to fund the acquisition by drawing on its committed term credit facility.
- **Higher Bid Unlikely:** Given our understanding that the sale process was thoroughly conducted (by Lazard Ltd.), we do not foresee a higher bid. The transaction break fee is \$17.5 million plus expenses (capped at \$2 million).
- **Approvals and Timing:** The transaction is subject to the receipt of approvals from CVPS shareholders, regulatory and other approvals, including those of the Vermont Public Service Board and the U.S. FERC, and customary closing conditions. Fortis expects to close the acquisition within 6 to 12 months. We have assumed an early 2012 closing.
- **In-Line With Strategy and Creates Further Opportunities in the U.S. Northeast:** We view the foray into the U.S. Northeast positively as it could build on Fortis' strategy of growing earnings through its regulated rate base investments, and potentially provide it with the foundation for growing its asset base in the U.S. Northeast. It is our understanding that Fortis sees other similar opportunities in the U.S., and a successful acquisition of CVPS could provide Fortis with the impetus to acquire other electric utilities in the region, in our view.

**Exhibit 1. CVPS Estimated Rate Base Growth (2009–2015)**

Note:

1) Includes Velco investments and VT Marble acquisition, net of stimulus funding.

Source: Company Reports, TD Newcrest.



## Equity Offering:

- On May 30, 2011, Fortis entered into an agreement to sell 9.1 million common shares on a bought deal basis at \$33.00 per share, for gross proceeds of approximately \$300 million (\$345.3 million with over-allotment). The underwriters have an option to purchase up to an additional 1.365 million common shares at the same price up to 30 days after the offering close.
- The net proceeds are expected to be used to repay the company's outstanding credit facility, finance additional equity injections into the company's western Canadian regulated utilities and the Waneta Expansion, and general corporate purposes.

## Government of Belize Announcement:

- On June 10, 2011, the Government of Belize issued a statement announcing its interest in assuming control of BEL through the purchase of a majority stake of its shares. The Government of Belize currently owns approximately 25% of BEL while Fortis owns approximately 70%.
- Offer Not Official:** No official offer has been made by the Belize Government for BEL but if a proposal is announced we would expect Fortis to prefer to sell either all or none of its stake in BEL.
- BEL Investment Largely Immaterial:** In 2010, BEL contributed approximately \$2 million of net earnings to Fortis (less than 1% of 2010 consolidated operating earnings) and the company's net investment in BEL is approximately C\$125 million.
- BECOL Investment Unaffected:** It is our understanding that the Government of Belize is not interested in Fortis' investment in Belize Electric Company Limited (BECOL), which operates three non-regulated generation assets in Belize and sells output to BEL under 50-year power purchase agreements (PPAs). We believe that the Belize Government intends to honour the PPAs with BECOL, and that there are strong mechanisms in place to ensure that those contracts are honoured.
- Timing:** It is our understanding that BEL has the cash to purchase electricity for just under a month using a cash advance from the Belize Government, and that the Government would like to reach a deal prior to this deadline.

## Valuation

### Exhibit 2. Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS (f.d.)				P/E				EPS For. E	P/E Forward
								2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E		
FTS	\$31.77	196.8	\$6,252	\$1.16	3.7%	\$20.04	1.6	\$1.48	\$1.60	\$1.65	\$1.83	21.4x	19.9x	19.2x	17.3x	\$1.74	18.3x
ACO.X	\$60.80	57.8	\$3,514	\$1.14	1.9%	\$35.49	1.7	\$4.63	\$4.88	\$5.00	\$5.28	13.1x	12.5x	12.2x	11.5x	\$5.13	11.9x
CU	\$56.40	127.5	\$7,190	\$1.61	2.9%	\$23.95	2.4	\$3.26	\$3.28	\$3.37	\$3.63	17.3x	17.2x	16.7x	15.6x	\$3.49	16.2x
CPX	\$26.40	87.8	\$2,318	\$1.26	4.8%	\$22.53	1.2	\$0.60	\$1.38	\$1.54	\$1.54	n.a.	19.1x	17.1x	17.2x	\$1.54	17.1x
EMA	\$31.66	126.7	\$4,011	\$1.30	4.1%	\$13.65	2.3	\$1.52	\$1.65	\$1.73	\$1.81	20.8x	19.2x	18.3x	17.5x	\$1.77	17.9x
ENB	\$30.89	758.0	\$23,415	\$0.98	3.2%	\$20.48	1.5	\$1.15	\$1.32	\$1.42	\$1.52	26.8x	23.5x	21.8x	20.4x	\$1.46	21.1x
TA	\$21.00	222.0	\$4,662	\$1.16	5.5%	\$12.84	1.6	\$0.88	\$0.88	\$1.09	\$1.10	23.8x	23.9x	19.3x	19.0x	\$1.10	19.2x
TRP	\$41.46	699.0	\$28,981	\$1.68	4.1%	\$24.15	1.7	\$2.02	\$1.97	\$2.25	\$2.29	20.5x	21.1x	18.4x	18.1x	\$2.27	18.3x
Avg.					4.0%		1.8x					21.8x	20.5x	18.7x	17.9x		18.3x

Notes:

1) Averages exclude ATCO due to its holding company nature.

Source: Company Reports, Thomson, TD Newcrest.

## Justification of Target Price

Our \$36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.

## Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

If successful, we view the CVPS acquisition positively as we believe it would be mutually beneficial for both companies. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction with the potential to expand the company's footprint into the U.S. Northeast. CVPS is expected to gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility-dominated business model attractive. Long term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the U.S. and Canada.

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

**June 15, 2011**  
**Equity Research**

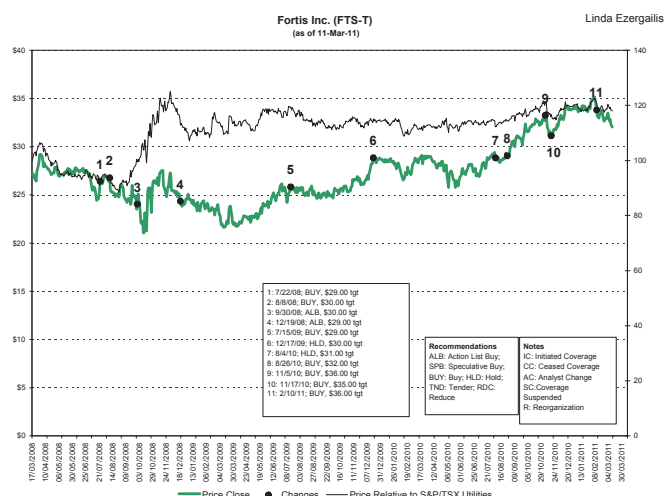
5 of 6

## TD Newcrest Equity Research Disclosures

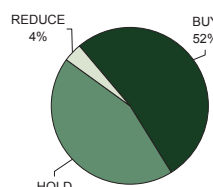
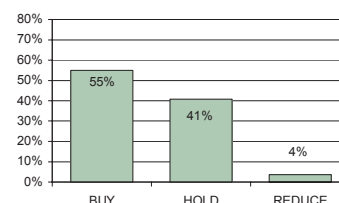
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of June 1, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDFform on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

June 22, 2011  
Equity Research

1 of 5

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **16.1%****Market Data (C\$)**

Current Price	\$32.01
52-Wk Range	\$26.80-\$35.45
Mkt Cap (f.d.)(mm)	\$6,299.6
Dividend per Share	\$1.16
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	476948

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	196.8
Float Shares (mm)	184.5
Net Debt/Tot Cap	54.5%
BVPS (basic)	\$20.04
ROE	8.6%

**Estimates (C\$)**

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.67	1.87
EPS (basic)(old)	1.50	1.63	1.69	1.88
EPS (f.d.)	1.48	1.60	1.64	1.82
EPS (f.d.)(old)	1.48	1.60	1.65	1.83
AFFO/Shr	2.01	2.15	2.48	2.51
AFFO/Shr (old)	2.01	2.15	2.53	2.56

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.64	--
Q2	0.28	0.32	0.36	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

**Valuations**

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.6x	20.0x	19.5x	17.6x
P/AFFO	15.9x	14.9x	12.9x	12.8x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$32.01****Fortis' Electric Utility in Belize to be Expropriated****Event**

The Government of Belize has passed a legislation and issued an order to expropriate Fortis' 70% ownership interest in Belize Electricity Limited (BEL). Compensation for Fortis' interest remains to be determined.

**Impact****MILDLY NEGATIVE.**

We have updated our forecasts to remove the earnings contribution from BEL (approximately \$2 million per year, versus a fair return level of \$10 million). At this point, however, we have not written down the net investment from the company's balance sheet, as the final payment could take over a year to resolve.

While there is some risk to the earnings contribution from Fortis' non-regulated hydro generation assets in the country (BECOL), which we estimate to be \$12-13 million annually (approximately 4% of consolidated earnings), we believe that the contractual provisions in place are sufficient to protect the investment's value and cash flow.

We would view any weakness in the stock price, as a result of this announcement, to be a buying opportunity.

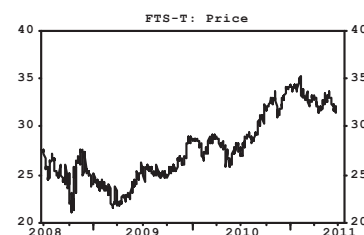
**Details**

- BEL Overview:** Fortis owned approximately 70% of BEL, which is the main distributor of electricity in the country. Prior to the expropriation, the Government effectively owned 25% of BEL, with the balance being held by approximately 1,100 Belizeans.
- BEL Investment Largely Immaterial to Fortis:** In 2010, BEL contributed approximately \$2 million of net earnings to Fortis (less than 1% of 2010 consolidated operating earnings) and the company's net investment in BEL was approximately \$125 million (less than 2% of Fortis' assets).

**Please see the final pages of this document for important disclosure information.**

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.







- **Expropriation was a Known Risk:** BEL had been unsuccessfully seeking a fair return for years through the courts of appeal as the regulator had kept electricity rates too low to allow direct operating costs to be recovered and the debt to be serviced. Last week, our understanding was that BEL had sufficient cash to purchase electricity for just under a month using a cash advance from the Belize Government, and that the Government was interested in purchasing a majority interest in BEL prior to the cash running out.
- **Foreign Investment Exiting Belize:** We continue to be hopeful that Fortis will be able to recover its net investment in BEL, although there is some risk to that scenario. Our understanding is that the water and telephone companies have already been taken over by the Government, with the water company acquired but the phone company expropriated.
- **Government Has No Plans to Nationalize BECOL:** Fortis also owns and operates three non-regulated hydro dams in Belize that sell electricity to BEL under 50-year power purchase agreements (PPAs). We estimate Fortis' investment in Belize Electric Company Limited (BECOL) to be \$160-175 million and the assets to generate \$12-13 million of earnings per year. We believe that the Belize Government intends to honour the PPAs with BECOL, and that there are strong mechanisms in place to ensure that those contracts are honoured. Local media has quoted Prime Minister Barrow as stating that *"...because BECOL is functioning well and there is no difficulty in its generation of electricity, there can be no reason to interfere with BECOL and Fortis' ownership...except for compelling, unavoidable public interest reasons, this Government observes the sanctity of contracts"*.
- **Other Caribbean Investments Appear Stable:** Other than potentially consolidating utilities in Turks & Caicos and the Cayman Islands in the future, we would not expect Fortis to expand its presence to new countries in the Caribbean. As Fortis has been growing, the Caribbean has continued to shrink as a percentage of the consolidated company, which we have always viewed to be a positive trend. Last year Utilities earnings in the Caribbean region contributed 8% to Fortis' operating earnings, versus 18% in 2007.

## Outlook

**Timing Could Take Years to Fully Resolve:** Our understanding is that while Fortis is required to file a claim within 30 days of expropriation, and have all final claims submitted within 12 months from expropriation. The Legislation does not set a timeline for actually paying out the claim beyond effectively stating that the reasonable payment is to be made in a reasonable time. Given our view of the weak financial state of the Government, it could take some time for any payment to be made. While Fortis could appeal the level of payment the Government establishes in the court system, to date Fortis has been unsuccessful in obtaining a fair return for BEL through the appeals process, suggesting that a significant write down of Fortis' BEL investment is a real risk. The Government does not appear to put much weight on the negative investment signal to foreigners that this move makes, especially since this is not the first infrastructure to be nationalized, increasing the risk of an investment write down for Fortis.

## Valuation

### Exhibit 1. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS (f.d.)				P/E				EPS For. E	P/E Forward
								2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E		
FTS	\$32.01	196.8	\$6,300	\$1.16	3.6%	\$20.04	1.6	\$1.48	\$1.60	\$1.64	\$1.82	21.6x	20.0x	19.5x	17.6x	\$1.73	18.5x
ACO.X	\$60.85	57.8	\$3,517	\$1.14	1.9%	\$35.49	1.7	\$4.63	\$4.88	\$5.00	\$5.28	13.1x	12.5x	12.2x	11.5x	\$5.13	11.9x
CU	\$56.52	127.5	\$7,205	\$1.61	2.8%	\$23.95	2.4	\$3.26	\$3.28	\$3.37	\$3.63	17.4x	17.2x	16.8x	15.6x	\$3.49	16.2x
CPX	\$26.57	87.8	\$2,333	\$1.26	4.7%	\$22.53	1.2	\$0.60	\$1.38	\$1.54	\$1.54	n.a.	19.3x	17.2x	17.3x	\$1.54	17.3x
EMA	\$31.50	126.7	\$3,991	\$1.30	4.1%	\$13.65	2.3	\$1.52	\$1.65	\$1.73	\$1.81	20.7x	19.1x	18.2x	17.4x	\$1.77	17.8x
ENB	\$30.69	758.0	\$23,263	\$0.98	3.2%	\$20.48	1.5	\$1.15	\$1.32	\$1.42	\$1.52	26.7x	23.3x	21.6x	20.2x	\$1.47	20.9x
TA	\$20.74	222.0	\$4,604	\$1.16	5.6%	\$12.84	1.6	\$0.88	\$0.88	\$1.09	\$1.10	23.5x	23.6x	19.0x	18.8x	\$1.10	18.9x
TRP	\$42.10	699.0	\$29,428	\$1.68	4.0%	\$24.15	1.7	\$2.02	\$1.97	\$2.25	\$2.29	20.8x	21.4x	18.7x	18.4x	\$2.27	18.5x
Avg.					4.0%		1.8x					21.8x	20.6x	18.7x	17.9x		18.3x

Notes:

1) Averages exclude ATCO due to its holding company nature.

2) Capital Power's 2009A is a half-year actual.

Source: Company Reports, Thomson, TD Newcrest.



**Justification of Target Price**

Our \$36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free-cash-flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

We view the expropriation of Fortis' 70% interest in BEL as largely immaterial, as its investments in Belize are relatively small and have never been a part of our core investment thesis. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility-dominated business model attractive. Long term, we expect the Company to be well-positioned as an aggregator of regulated gas and electric utilities in the U.S. and Canada. We would view any weakness in the stock price, as a result of this announcement, as a buying opportunity.



**Newcrest**

A Division of TD Securities Inc.

# Action Notes

**June 22, 2011**  
**Equity Research**

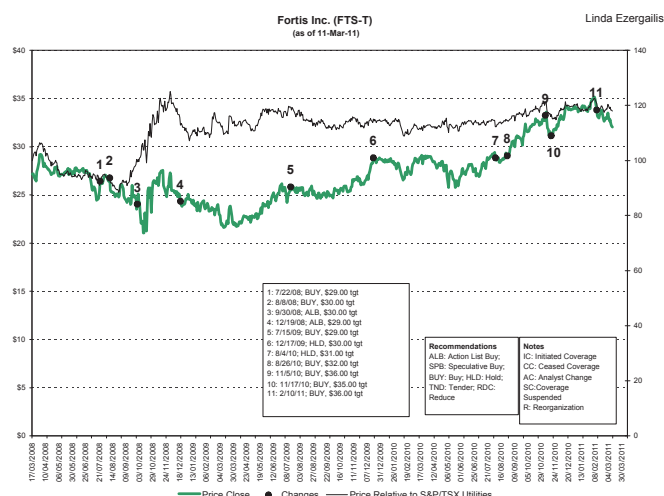
4 of 5

## TD Newcrest Equity Research Disclosures

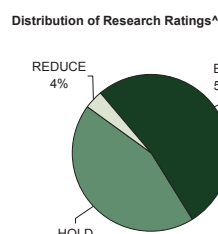
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

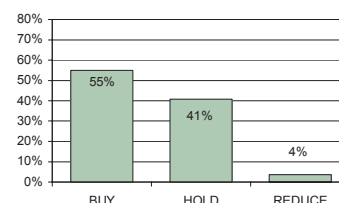
## Additional Important Disclosures



## Distribution of Research Ratings



## Investment Banking Services Provided<sup>\*</sup>



Current as of June 1, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.

## Pipelines, Power & Utilities

**Robert Hope, CFA**

416 983 9717

[robert.hope@tdsecurities.com](mailto:robert.hope@tdsecurities.com)

**Linda Ezergailis, P.Eng.**

416 983 7784

[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**

416 983 9259

[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

All figures in C\$, unless otherwise specified.

## Gaz Metro's Bid for CVPS is Slightly Higher than Fortis'

### Event

Gaz Metro Limited Partnership has submitted an unsolicited bid to acquire all of the common shares of Central Vermont Public Service Corporation (CVPS) for US\$35.25 per share, in cash. This bid is slightly higher than the US\$35.10 per share, in cash offer included in Fortis' and CVPS' merger agreement, which was announced on May 30, 2011.

CVPS commented that its board of directors would review the offer in due course based on its fiduciary responsibilities and contractual commitments to Fortis.

As a reminder, Valener has a 29% ownership interest in Gaz Metro LP.

### Impact for Valener (VNR-T)

#### **POTENTIALLY POSITIVE.**

Given Gaz Metro's existing electric distribution utility operations in Vermont (Green Mountain Power), we believe the acquisition would make strategic sense. Based on our calculations, the acquisition of CVPS – as proposed – could add three cents of accretion to our Valener EPS estimates. However, due to the uncertainty surrounding the situation, we are leaving our estimates unchanged at this point.

### Impact for Fortis (FTS-T)

#### **POTENTIALLY NEGATIVE.**

The CVPS acquisition is included in our Fortis forecasts and we estimate the transaction would be four cents accretive to our EPS estimates. At this point, our Fortis forecasts remain unchanged and continue to include the contribution from CVPS.

For further details on Fortis' offer please refer to our June 15, 2011 Action Note titled, *Resuming Coverage: Acquisition of Vermont Utility Announced*

### Overview of CVPS

CVPS is the largest integrated electric utility in Vermont, and consists of approximately 9,000 miles of distribution lines and over 600 miles of sub-transmission lines. CVPS also holds directly and indirectly approximately 41% of Vermont Transco LLC (Velco), which owns and operates the high-voltage transmission system in Vermont. CVPS serves approximately 160,000 customers in about two-thirds of the cities and towns in Vermont.

CVPS is regulated by the Vermont Public Services Board (VPSB) and, for 2011, the allowed rate of return on common equity has been set at 9.45% and the equity thickness is currently 57%. CVPS expects its rate base investment to reach approximately US\$650 million by 2015, representing a compound average annual growth rate of 8.7% from 2010 to 2015. In 2010, total assets and rate base assets of CVPS were approximately US\$711 million and US\$426 million, respectively.

**Please see the final pages of this document for important disclosure information.**

**Overview of Gaz Metro's Offer**

- **Price:** US\$35.25 per share in cash for an aggregate purchase price of US\$702 million, which includes approximately US\$230 million in debt. This represents a 1.5x price-to-total rate base multiple when including CVPS' total interest in Velco in addition to the break fee payable by CVPS to Fortis.
- **Dividends:** Shareholders will continue to receive the current quarterly dividend of US\$0.23 per share. We note that under Fortis' offer, shareholders would receive dividends of US\$0.23 per share for two quarters followed by US\$0.01 per share for the remaining quarters until the transaction closes (Exhibit 1).

**Exhibit 1: Comparison of Gaz Metro's and Fortis' Offers (US\$)**

	<b>Gaz Metro</b>	<b>Fortis</b>	<b>% Delta</b>
Cash Offer Price	35.25	35.10	0.4%
Total Consideration - Dec 31, 2011 Closing	35.71	35.56	0.4%
Total Consideration - March 31, 2012 Closing	35.94	35.57	1.0%
Total Consideration - June 30, 2012 Closing	36.17	35.58	1.7%

Note: Total consideration includes dividends received.

Source: Company Reports, TD Newcrest.

- **Timing:** Management expects the transaction to close in 8-12 months, based on prior transactions (including its purchase of Green Mountain Power in 2007).
- **Approvals:** The transaction is subject to approval by CVPS shareholders, then regulatory and other approvals including the US FERC and VPSB. We note that Gaz Metro has significant experience in dealing with the Vermont regulator, due to its existing natural gas and electric distribution utilities in the state. Local Gaz Metro utility manager discussed an offer with regulators prior to making the offer public.
- **Gaz Metro Financing:** Gaz Metro expects to fund a purchase of CVPS' shares with 50% debt and 50% equity. The debt and equity would be in-place prior to closing, although the company does have a bridge facility available.
- **Valener Financing:** We expect Valener to participate in any equity offering by Gaz Metro to maintain its 29% ownership interest. We believe Valener would finance its acquisition of Gaz Metro shares through an equity offering of approximately \$70 million.
- **Strategic Rationale:** Gaz Metro has a sizable existing presence in Vermont including its ownership of Green Mountain Power, which is the second largest electric distribution utility in Vermont (next to CVPS). The company had stated in the past that it would be interested in consolidation opportunities in the state.

**Overview of Fortis' Offer**

- **Price:** US\$35.10 per share in cash for an aggregate purchase price of US\$700 million, which includes approximately US\$230 million of assumed debt. This represents a 1.4x price-to-total rate base multiple when including CVPS' total interest in Velco.
- **Dividends:** Shareholders would receive the current quarterly dividend of US\$0.23 per share for the next two quarters followed by \$0.01 per share for each subsequent quarter until closing.
- **Merger Agreement and Break Fee:** Fortis previously has entered into a merger agreement with CVPS. The agreement includes a break fee of US\$17.5 million, in addition to expenses which are capped at US\$2.0 million. Included in the agreement is a clause which allows Fortis to counter any superior offer.
- **Timing:** Fortis expects the transaction to close in 6-12 months.
- **Financing:** Upon the transaction close, Fortis expects to fund the acquisition by drawing on its committed term credit facility.
- **Strategic Rationale:** The acquisition would be Fortis' first foray into the U.S. Northeast. It is our understanding that Fortis sees other similar opportunities in the U.S., and a successful acquisition of CVPS could provide Fortis with the impetus to acquire other electric utilities in the region, in our view.

**Investment Conclusion**

Gaz Metro's offer was a surprise to us as it was our understanding that CVPS' merger agreement with Fortis was the result of a thorough sale process. We also point out that unsolicited bids for utility assets are a rare event given the importance and length of time required for regulatory approvals. Given the \$17.5 million break fee with Fortis, we do not believe that Gaz Metro's offer is high enough for CVPS' board to recommend the offer, as the cost of the break fee would be borne by CVPS shareholders in the event that the regulator does not approve a takeover. At this point, we believe that a likely scenario is that Fortis increases its bid slightly.

**Exhibit 2. Overview of Estimates**

Stock Name	Symbol	Curr. Price	Market Cap (mm)	Ind. Div.	Yield	EPS			P/E			12-Month Target	Total Return	Rating	Risk Rating
						2010A	2011E	2012E	2010A	2011E	2012E				
ATCO Ltd.	ACO.X	\$61.15	\$3,534.5	\$1.14	1.9%	\$4.88	\$5.00	\$5.28	12.5x	12.2x	11.6x	\$69.00	14.7%	AL BUY	LOW
Canadian Utilities Ltd.	CU	\$55.90	\$7,127.3	\$1.61	2.9%	\$3.28	\$3.37	\$3.63	17.0x	16.6x	15.4x	\$60.00	10.2%	AL BUY	LOW
Fortis Inc.	FTS	\$31.64	\$6,226.8	\$1.16	3.7%	\$1.60	\$1.64	\$1.82	19.8x	19.3x	17.4x	\$36.00	17.4%	BUY	LOW
TransCanada Corp.	TRP	\$42.29	\$29,560.7	\$1.68	4.0%	\$1.97	\$2.25	\$2.29	21.5x	18.8x	18.5x	\$43.00	5.7%	BUY	LOW
Capital Power Corp.	CPX	\$27.06	\$2,375.9	\$1.26	4.7%	\$1.38	\$1.54	\$1.54	19.6x	17.5x	17.6x	\$27.00	4.4%	HOLD	MEDIUM
Emera Inc.	EMA	\$31.23	\$3,956.8	\$1.30	4.2%	\$1.65	\$1.73	\$1.81	18.9x	18.1x	17.3x	\$32.00	6.6%	HOLD	LOW
Enbridge Inc.	ENB	\$30.68	\$23,194.1	\$0.98	3.2%	\$1.32	\$1.42	\$1.52	23.3x	21.6x	20.2x	\$30.00	1.0%	HOLD	LOW
TransAlta Corp.	TA, TAC	\$20.59	\$4,529.8	\$1.16	5.6%	\$0.88	\$1.09	\$1.10	23.4x	18.9x	18.7x	\$20.00	2.8%	HOLD	MEDIUM
Average					4.0%				20.5x	18.7x	17.9x				

Stock Name	Symbol	Curr. Price	Market Cap (mm)	Ind. Div.	Yield	AFFO Per Shr (f.d.)			P/AFFO			12-Month Target	Total Return	Rating	Risk Rating
						2010A	2011E	2012E	2010A	2011E	2012E				
AltaGas Ltd.	ALA	\$25.83	\$2,185.2	\$1.32	5.1%	\$2.17	\$2.23	\$2.53	11.9x	11.6x	10.2x	\$26.00	5.8%	BUY	MEDIUM
Inter Pipeline Fund	IPL.UN	\$15.51	\$4,009.3	\$0.96	6.2%	\$1.23	\$1.37	\$1.44	12.6x	11.4x	10.7x	\$15.50	6.1%	HOLD	MEDIUM
Provident Energy Ltd.	PVE, PVX	\$8.18	\$2,205.3	\$0.54	6.6%	\$0.68	\$0.74	\$0.83	12.0x	11.1x	9.9x	\$8.50	10.5%	HOLD	MEDIUM
Valener Inc.	VNR	\$16.29	\$607.5	\$1.00	6.1%	\$2.28	\$2.06	\$2.09	7.1x	7.9x	7.8x	\$16.50	7.4%	HOLD	LOW
Veresen Inc.	VSN	\$13.91	\$2,303.5	\$1.00	7.2%	\$1.23	\$1.21	\$1.32	11.4x	11.5x	10.5x	\$13.50	4.2%	HOLD	MEDIUM
Enbridge Income Fund Holdings Inc.	ENF	\$18.50	\$640.1	\$1.15	6.2%	\$1.38	\$1.36	\$1.43	13.4x	13.6x	12.9x	\$16.00	-7.3%	REDUCE	MEDIUM
Keyera Corp.	KEY	\$42.64	\$3,057.3	\$ 1.92	4.5%	\$2.98	\$2.94	\$2.90	14.3x	14.5x	14.7x	\$32.00	-20.5%	REDUCE	MEDIUM
Pembina Pipeline Corp.	PPL	\$24.71	\$4,141.4	\$1.56	6.3%	\$1.57	\$1.63	\$1.68	15.8x	15.2x	14.7x	\$18.00	-20.8%	REDUCE	MEDIUM
Average					6.0%				12.3x	12.1x	11.4x				

Source: Company Reports, Thomson, TD Newcrest.



**Exhibit 3. Justification of Target Prices**

Stock Name	Ticker	Exch.	Rating	Target Price	Justification of Target Price
ATCO Ltd.	ACO.X	T	AL BUY	\$69.00	predicated on ATCO's estimated one-year forward NAV and applying a 20% discount to NAV. The company's estimated one-year forward NAV depends on our \$60.00 CU target price. Our target price implies a 1.8% dividend yield and a price-to-earnings ratio of 13.1x, based on our 2012 financial estimates.
Canadian Utilities Ltd.	CU	T	AL BUY	\$60.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 9.5x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Capital Power Corp.	CPX	T	HOLD	\$27.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 9.0x, 2) 25% relative dividend yield of 170%, and 3) 50% free-cash-flow yield of 10.5%. Our target incorporates a 3.5% 10-year Government of Canada bond yield.
Emera Inc.	EMA	T	HOLD	\$32.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Enbridge Inc.	ENB	T, N	HOLD	\$30.00	predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 130%, and 3) 50% free cash flow yield of 8.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Fortis Inc.	FTS	T	BUY	\$36.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
TransAlta Corp.	TA, TAC	T, N	HOLD	\$20.00	predicated on our financial estimates as follows: 1) 25% EV to 2012E EBITDA multiple of 9.0x, 2) 25% relative 2012E dividend yield of 160%, and 3) 50% 2011E free cash flow yield of 10.0%. Given the unusually high maintenance capital scheduled for 2012, at this point we believe a 2011 free cash flow metric is more representative of a more normal business operation and, therefore, is the input to our target price derivation. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
TransCanada Corp.	TRP	T, N	BUY	\$43.00	predicated on 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 9.5x, 2) 25% relative dividend yield of 140%, and 3) 50% free cash flow yield of 9.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
AltaGas Ltd.	ALA	T	BUY	\$26.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 150%, and 3) 50% free cash flow yield of 9.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Enbridge Income Fund Holdings Inc.	ENF	T	REDUCE	\$16.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 180%, and 3) 50% free-cash-flow yield of 10.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Veresen Inc.	VSN	T	HOLD	\$13.50	predicated on 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 190%, and 3) 50% free-cash-flow yield of 10.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Valener Inc.	VNR	T	HOLD	\$16.50	predicated on 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 9.0x, 2) 25% relative dividend yield of 175%, and 3) 50% free cash flow yield of 13.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Inter Pipeline Fund	IPL.UN	T	HOLD	\$15.50	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 140%, and 3) 50% free-cash-flow yield of 9.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Keyera Corp.	KEY	T	REDUCE	\$32.00	predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 140%, and 3) 50% free cash flow yield of 10.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Pembina Pipeline Corp.	PPL	T	REDUCE	\$18.00	predicated on 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 180%, and 3) 50% free cash flow yield of 10.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Provident Energy Ltd.	PVE	T	HOLD	\$8.50	predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 9.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free cash flow yield of 10.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

Source: Company Reports, Thomson, TD Newcrest.



**Exhibit 4. Key Risks to Target Prices**

Stock Name	Ticker	Exch.	Risk	Key Risks to Target Price
ATCO Ltd.	ACO.X	T	LOW	1) Higher than expected long bond yields, 2) regulatory surprises, 3) commodity price risk, 4) corporate governance considerations, 5) lack of disclosure, 6) as with all companies where voting control is not in the market, the controlling shareholder (Mr. Ron Southern controls approximately 84% of the voting shares) and minority shareholders may not agree on issues that could affect the value of shares held by the minority 7) operational disruptions, 8) cyclical nature of industrial business, and 9) share price of Canadian Utilities.
Canadian Utilities Ltd.	CU	T	LOW	1) Higher than expected long bond yields, 2) regulatory surprises, 3) commodity price risk, 4) corporate governance considerations, 5) lack of disclosure, 6) as with all companies where voting control is not in the market, the controlling shareholder (ATCO Ltd. owns 82% of the voting shares) and minority shareholders may not agree on issues that could affect the value of shares held by the minority and 7) operational disruptions.
Capital Power Corp.	CPX	T	MEDIUM	1) Materially different than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) materially different than expected power price environment, 5) unanticipated changes to environmental laws and regulations, and 6) escalating construction costs.
Emera Inc.	EMA	T	LOW	1) higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) higher than expected fuel costs, 5) regulatory surprises, 6) sovereign risk, and 7) escalating construction costs.
Enbridge Inc.	ENB	T, N	LOW	1) higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) potential reduction in historical valuation premium to sector, 5) tougher-than-expected competition for new oil transmission pipeline capacity, 6) regulatory surprises, 7) substantial delays and/or cancellations of oil sands projects, and 8) WCSB risk
Fortis Inc.	FTS	T	LOW	1) higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.
TransAlta Corp.	TA, TAC	T, N	MEDIUM	1) Materially different than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) materially different than expected power and coal price environments, and 5) unanticipated changes to environmental laws and regulations.
TransCanada Corp.	TRP	T, N	LOW	1) Higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) surprise regulatory decisions, 5) materially different power prices & fuel costs versus our forecast, 6) higher than expected debt and equity capital costs, 7) capital project cost overruns, and 8) WCSB risk.
AltaGas Ltd.	ALA	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity price risk; 5) unanticipated changes to environmental laws and regulations; 6) surprise industry regulation; 7) WCSB risk; 8) unfavourable regulatory decisions; and 9) escalating construction costs.
Enbridge Income Fund Holdings Inc.	ENF	T	MEDIUM	1) Higher-than-expected bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) weaker-than-expected volumes in Saskatchewan System, 5) toll disputes, 6) WCSB risk, 7) recontracting risk on the Alliance Pipeline, and 8) unfavourable tax legislation.
Veresen Inc.	VSN	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) weaker-than-expected fractionation spreads at Aux Sable; 5) stronger-than-expected C\$ versus US\$; 6) toll disputes; 7) WCSB risk; 8) capital project cost overruns and 9) re-contracting risk on the Alliance Pipeline.
Valener Inc.	VNR	T	LOW	1) Unfavourable regulatory decisions; 2) higher than expected interest rates; 3) currency risk; 4) financing risk; 5) weakness in general economic conditions; 6) control by Gaz Metro inc.; 7) operational disruptions and environmental incidents; 8) acquisitions that do not create unitholder value; and 9) weather and wind which are significantly different than normal.
Inter Pipeline Fund	IPL.UN	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity prices; 5) toll disputes; 6) changes in production volumes of natural gas and crude oil in Western Canada; 7) L.P. lack of voting control; 8) unfavourable regulatory decisions; and 9) foreign exchange movement.
Keyera Corp.	KEY	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity price risk; 5) unanticipated changes to environmental laws and regulations; 6) surprise industry regulation; 7) WCSB risk; 8) economic dependence on key customers; and 9) unfavourable regulatory decisions
Pembina Pipeline Corp.	PPL	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity price risk; 5) toll disputes; 6) substantial delays and/or cancellations of oil sands projects; and 7) WCSB risk
Provident Energy Ltd.	PVE	T	MEDIUM	1) Commodity price risk, 2) regulatory risk, 3) rising interest rates, 4) financing risk, 5) operational disruptions and environmental incidents, 6) changes in production and export volumes of natural gas in Western Canada, 7) reliance on key customers.

Source: Company Reports, Thomson, TD Newcrest.

**TD Newcrest Equity Research Disclosures**

Company	Ticker	Disclosures
ATCO Ltd.	ACO.X-T	14
AltaGas Ltd.	ALA-T	1, 2, 4, 9
Canadian Utilities Ltd.	CU-T	1, 2, 4, 9, 14
Capital Power Corp.	CPX-T	1, 2, 4, 9, 16
Emera Inc.	EMA-T	1, 2, 4, 9, 10
Enbridge Inc.	ENB-T	1, 2, 4, 9, 10
Enbridge Income Fund Holdings Inc.	ENF-T	1, 2, 4
Fortis Inc.	FTS-T	1, 2, 4, 9, 10
Inter Pipeline Fund	IPL.UN-T	1, 2, 4
Keyera Corp.	KEY-T	2, 4
Pembina Pipeline Corp.	PPL-T	1, 2, 4, 9
Provident Energy Ltd.	PVE-T	1, 2, 4, 9
TransAlta Corp.	TA-T	1, 2, 4, 9, 10
TransCanada Corp.	TRP-T	2, 4, 9, 10
Valener Inc.	VNR-T	2, 4

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

**Additional Important Disclosures**

Capital Power Corporation -- William E. Bennett, a Director of Capital Power Corporation, is a member of the board of directors of The Toronto-Dominion Bank. TD Securities Inc. is a wholly owned subsidiary of The Toronto-Dominion Bank.

Hugh J. Bolton, a Director of Capital Power Corporation, is a member of the board of directors of The Toronto-Dominion Bank. TD Securities Inc. is a wholly owned subsidiary of The Toronto-Dominion Bank.

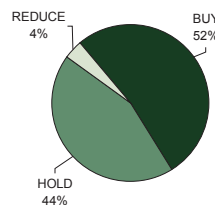
TransCanada Corp. - Wendy K. Dobson, a Director of TransCanada Corp., is a member of the board of directors of The Toronto-Dominion Bank. TD Securities Inc. is a wholly owned subsidiary of The Toronto-Dominion Bank.



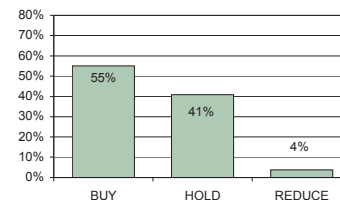
Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.

## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>



Investment Banking Services Provided<sup>\*</sup>



Current as of June 1, 2011

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com>

## Research Ratings

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

## Analyst Certification

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

## Disclaimer

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned

**Newcrest**

A Division of TD Securities Inc.

## Action Notes

**June 24, 2011**  
**Equity Research**

8 of 8

subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

July 13, 2011  
Equity Research

1 of 4

## Pipelines, Power & Utilities

**Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **13.4%**

### Market Data (C\$)

Current Price	\$32.76
52-Wk Range	\$27.65-\$35.45
Mkt Cap (f.d.)(mm)	\$6,447.2
Dividend per Share	\$1.16
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	495520

### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	196.8
Float Shares (mm)	184.5
Net Debt/Tot Cap	54.5%
BVPS (basic)	\$20.04
ROE	8.6%

### Estimates (C\$)

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.67	1.81	1.89
EPS (basic)(old)	1.63	1.67	1.87	--
EPS (f.d.)	1.60	1.64	1.77	1.84
EPS (f.d.)(old)	1.60	1.64	1.82	--
AFFO/Shr	2.15	2.59	2.32	2.94
AFFO/Shr (old)	2.15	2.48	2.51	--

### EPS (f.d.) Quarterly Estimates (C\$)

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	--	--
Q2	0.32	0.36	--	--
Q3	0.24	--	--	--
Q4	0.47	--	--	--

### Valuations

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	20.5x	20.0x	18.5x	17.8x
P/AFFO	15.2x	12.6x	14.1x	11.1x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc. (FTS-T) C\$32.76

### Fortis Walks Away from CVPS Bid

#### Event

- Central Vermont Public Service Corporation (CVPS) and Gaz Metro Limited Partnership (Gaz Metro) announced a definitive agreement for the sale of CVPS to Gaz Metro.
- Fortis has effectively terminated its Merger Agreement with CVPS.

#### Impact

**SLIGHTLY NEGATIVE.** We have removed CVPS' contribution from our forecasts and added Fortis' receipt of the termination fee. We are also introducing our 2013 forecasts and rolling forward our target to be based 50% on each of our 2012 and 2013 estimates.

#### Details

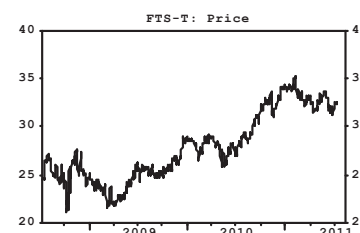
- Timeline:** Fortis management received notice yesterday that the Board of Directors of CVPS deemed Gaz Metro's bid a superior proposal. Fortis waived its right to enter into further discussions with CVPS in exchange for the prompt payment of the break fee, which resulted in the termination of its Merger Agreement with CVPS.
- CVPS Contribution:** Our Fortis EPS forecasts previously included an accretion of approximately four cents from an assumed CVPS acquisition.
- Break-Fee Proceeds:** Fortis will receive a US\$17.5 million termination fee in addition to US\$2.0 million in expenses.
- Disciplined Management:** We believe an unwillingness to put in a higher bid demonstrates Fortis' disciplined approach to acquisitions.

Please see our July 13, 2011 Action Note on Valener titled, **Gaz Metro Wins Bid for CVPS** for more details on Gaz Metro's bid for CVPS.

**Please see the final pages of this document for important disclosure information.**

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Valuation****Exhibit 1. Comparables**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS (f.d.)				P/E				EPS	
								2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	\$32.76	196.8	\$6,447	\$1.16	3.5%	\$20.04	1.6	\$1.48	\$1.60	\$1.64	\$1.77	22.1x	20.5x	19.9x	18.6x	\$1.71	19.2x
ACO.X	\$62.78	57.8	\$3,629	\$1.14	1.8%	\$35.49	1.8	\$4.63	\$4.88	\$5.10	\$5.56	13.6x	12.9x	12.3x	11.3x	\$5.34	11.8x
CU	\$56.75	127.5	\$7,234	\$1.61	2.8%	\$23.95	2.4	\$3.26	\$3.28	\$3.47	\$3.86	17.4x	17.3x	16.3x	14.7x	\$3.68	15.4x
CPX	\$25.08	95.8	\$2,403	\$1.26	5.0%	\$22.94	1.1	\$0.60	\$1.38	\$1.53	\$1.51	n.a.	18.2x	16.4x	16.7x	\$1.52	16.5x
EMA	\$32.31	126.7	\$4,094	\$1.30	4.0%	\$13.65	2.4	\$1.52	\$1.65	\$1.73	\$1.81	21.3x	19.6x	18.7x	17.9x	\$1.77	18.2x
ENB	\$31.28	758.0	\$23,710	\$0.98	3.1%	\$20.48	1.5	\$1.15	\$1.32	\$1.42	\$1.52	27.2x	23.8x	22.0x	20.6x	\$1.47	21.3x
TA	\$20.68	222.0	\$4,591	\$1.16	5.6%	\$12.84	1.6	\$0.88	\$0.88	\$1.09	\$1.10	23.5x	23.5x	19.0x	18.7x	\$1.10	18.9x
TRP	\$40.04	699.0	\$27,988	\$1.68	4.2%	\$24.15	1.7	\$2.02	\$1.97	\$2.25	\$2.29	19.8x	20.4x	17.8x	17.5x	\$2.27	17.6x
Avg.					4.1%		1.8x					21.9x	20.5x	18.6x	17.8x		18.2x

Notes:

1) Averages exclude ATCO due to its holding company nature.

2) Capital Power's 2009A is a half-year actual.

Source: Thomson, TD Newcrest.

**Justification of Target Price**

Our \$36.00 target is predicated on 50% of each of our 2012 and 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 90%, and 3) 50% free-cash-flow yield of 7.0%. Our target incorporates a 3.5% 10-year Government of Canada bond yield.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

Fortis demonstrated discipline in its decision not to make a counter offer for CVPS, in our view. Management has indicated that it is working on a few other opportunities, and we believe that Fortis is well-positioned to make future acquisitions, as any smaller utility the Company might acquire would likely gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low-risk, utility-dominated business model attractive.

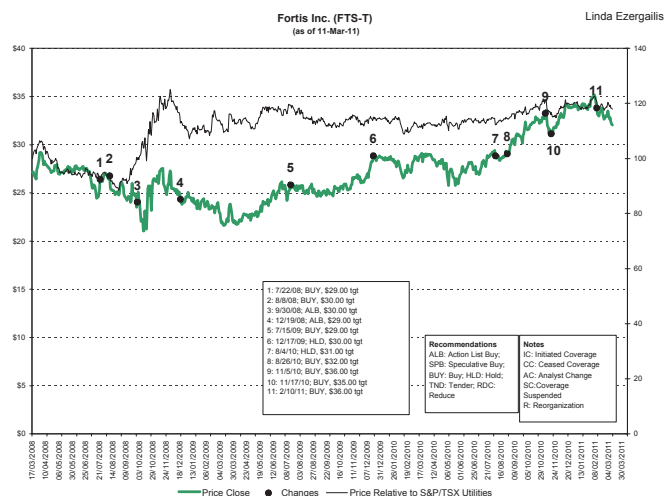


## TD Newcrest Equity Research Disclosures

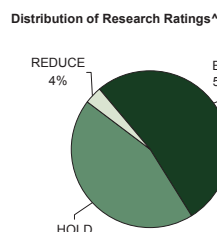
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

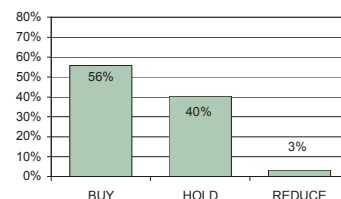
## Additional Important Disclosures



## Distribution of Research Ratings



## Investment Banking Services Provided<sup>\*</sup>



Current as of July 5, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>



**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

August 3, 2011  
Equity Research

1 of 6

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00***Unchanged***12-Month Total Return:** **21.4%****Market Data (C\$)**

Current Price	\$30.60
52-Wk Range	\$28.25-\$35.45
Mkt Cap (f.d.)(mm)	\$5,700.8
Dividend per Share	\$1.16
Dividend Yield	3.8%
Avg. Daily Trading Vol. (3mths)	487040

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	186.3
Float Shares (mm)	186.3
Net Debt/Tot Cap	52.0%
BVPS (basic)	\$20.20
ROE	8.6%

**Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.66	1.79	1.86
EPS (f.d.)	1.60	1.63	1.75	1.82
EPS (f.d.)(old)	1.60	1.64	1.77	1.84
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.60	2.56	2.87
AFFO/Shr (old)	2.15	2.59	2.32	2.94

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	--	--
Q2	0.32	0.33	--	--
Q3	0.24	0.23	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	19.1x	18.8x	17.5x	16.8x
P/AFFO	14.2x	11.8x	12.0x	10.7x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

Linda Ezergailis, P.Eng.  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)Avery Haw (Associate)  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$30.60****Q2/11 Results Slightly Miss - Favourable Outlook Remains****Event**

Fortis reported Q2/11 EPS (f.d.) of \$0.33, which was slightly below our \$0.36 estimate, recent consensus of \$0.35, but above Q2/10 EPS (f.d.) of \$0.32.

**Impact****NEUTRAL.**

We have made numerous changes to our financial model, primarily to reflect recent regulatory filings as well as more muted non-regulated generation and properties margins. The net result of these changes is that our 2011 EPS (f.d.) estimate decreases by a penny, while our 2012 and 2013 estimates each decrease by two pennies (Exhibit 1).

**Exhibit 1. Overview of Changes to Estimates**

	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.66	1.79	1.86
EPS (basic) (old)	1.63	1.67	1.81	1.89
EPS (f.d)	1.60	1.63	1.75	1.82
EPS (f.d) (old)	1.60	1.64	1.77	1.84
Free Cash Flow per Share (AFFO/Shr)	2.17	2.60	2.56	2.87
Free Cash Flow per Share (old)	2.15	2.59	2.32	2.94
Dividends per Share (DI)	1.12	1.16	1.20	1.26

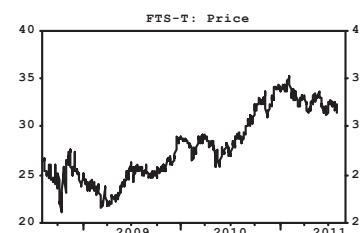
Source: Company Reports, TD Newcrest.

**Details**

**Regulated Gas Utilities** Q2/11 earnings of \$15 million were \$2 million below Q2/10 results (Exhibit 2). The decline was mainly attributable to the timing of operating expenses during the year partially offset by rate base growth from continued utility investments.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**



**Regulated Electric Utilities – Canadian** Q2/11 earnings of \$45 million increased by \$5 million year over year.

- **FortisAlberta** earnings of \$19 million increased \$2 million versus Q2/10 results, primarily due to rate base growth from continued utility investments. The increase was partially offset by lower transmission revenue as well as lower than expected customer growth and energy deliveries.
- **FortisBC** earnings of \$9 million increased by \$1 million year over year, driven largely by rate base growth from capital investments as well as lower than expected power costs.
- **Newfoundland Power** earnings of \$11 million were flat year over year. The effects of a lower allowed ROE and higher costs were offset by increased electricity sales growth and a lower effective tax rate.
- **Other Canadian Electric Utilities** earnings of \$6 million were \$2 million higher than Q2/10 results. The increase was largely due to Algoma Power ROE, increased electricity sales, the timing of costs during the year as well as a lower effective tax rate.

**Regulated Utilities – Caribbean** earnings of \$7 million were unchanged from Q2/10 results.

**Fortis Generation** earnings of \$2 million were \$1 million higher than Q2/10 results. The decrease was mainly attributable to lower production in Belize due to lower rainfall. Partially offsetting this was increased production in New York and Ontario due to higher rainfall.

**Fortis Properties** earnings of \$7 million were \$1 million below Q2/10 results, primarily due to the impact of the economic downturn on hotel operations as well as increased operating and amortization costs.

**Corporate** expenses decreased by \$2 million to \$18 million in Q2/11, largely due to lower business development and financing costs.

## **Exhibit 2. Segmented Earnings Analysis (\$mm unless stated otherwise)**

	Q2/11	Q2/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	\$15	\$17	(\$2)	-12%
FortisAlberta <sup>1</sup>	19	17	2	12%
FortisBC	9	8	1	13%
Newfoundland Power	11	11	-	0%
Other Canadian	6	4	2	50%
Regulated Electric Utilities - Canadian	45	40	5	13%
Regulated Utilities - Caribbean	7	7	-	0%
<b>Total Regulated Utilities</b>	<b>67</b>	<b>64</b>	<b>3</b>	<b>5%</b>
<b>Non-Regulated Fortis Generation</b>	<b>2</b>	<b>3</b>	<b>(1)</b>	<b>-33%</b>
<b>Non-Regulated Fortis Properties<sup>2</sup></b>	<b>7</b>	<b>8</b>	<b>(1)</b>	<b>-13%</b>
<b>Corporate</b>	<b>(18)</b>	<b>(20)</b>	<b>2</b>	<b>-10%</b>
<b>Operating Earnings</b>	<b>58</b>	<b>55</b>	<b>3</b>	<b>5%</b>
Adjustments	-	-	-	n.a.
<b>Reported Earnings</b>	<b>58</b>	<b>55</b>	<b>3</b>	<b>5%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.33</b>	<b>\$0.32</b>	<b>\$0.01</b>	<b>3%</b>
Reported EPS (f.d)	\$0.33	\$0.32	\$0.01	3%

Source: Company Reports, TD Newcrest.

## **Outlook**

**Belize Update:** In late July Fortis initiated legal proceedings for compensation from the Government of Belize for the value of its previous investment in Belize Electricity, which recently had a book value of be \$112 million. As a reminder, on June 20, 2011 the Government of Belize expropriated Fortis' 70% ownership interest in Belize Electricity. For more information please refer to our June 22, 2011 note titled, "*Fortis' Electric Utility in Belize to be Expropriated.*" Fortis' non-regulated generating assets (BECOL) in the country have not been impacted, although Belize Electricity recently had US\$6.5 million of overdue energy purchases outstanding to BECOL.

**Regulatory Updates:**

- **FortisBC Energy Companies (Terasen Gas):** In May 2011 the FortisBC Energy companies filed their 2012-2013 Revenue Requirement Applications. FortisBC Energy's application includes forecast average rate bases of \$2,737 million and \$2,788 million for 2012 and 2013, respectively. The FortisBC Energy (Vancouver Island) application includes forecast average rate bases of \$788 million and \$814 million for 2012 and 2013, respectively.
- **FortisBC Electric:** In June 2011 FortisBC Electric filed a rate application that includes forecast average rate bases of \$1,145 million and \$1,212 million for 2012 and 2013, respectively.
- **FortisAlberta:** The Alberta regulator recently held a generic cost of capital hearing, which concluded on July 5, 2011. A decision is not expected until Q4/11 at the earliest. As a reminder, a number of Alberta utilities filed a joint submission in which they request: 1) an average ROE of 10.375% for 2011 and 2012, 2) a two percentage point increase to equity thickness, and 3) that a formula approach to establish the ROE not be implemented at this time.
- **Newfoundland Power:** In July 2011 the utility filed an application with the regulator requesting approval of its 2012 capital expenditures plan of \$77 million.
- **Fortis Turks and Caicos:** The Government plans to implement a carbon tax effective September 2011. The utility may not be permitted to pass the costs along to customers, which if implemented could affect earnings by \$2-3 million annually.

**Q3/11 Preview:** We are forecasting Q3/2011 EPS of \$0.23, a penny below comparable Q3/2010 EPS. We expect rate base growth in the Canadian regulated utilities segment to be more than offset by lower contribution from the regulated Caribbean utilities, continued softness in hotel revenues, and a higher number of shares outstanding.

**Valuation****Exhibit 3. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS (f.d.)				P/E				EPS	
								2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	\$30.60	186.3	\$5,701	\$1.16	3.8%	\$20.20	1.5	\$1.48	\$1.60	\$1.63	\$1.75	20.6x	19.1x	18.8x	17.5x	\$1.70	18.0x
ACO.X	\$61.04	57.7	\$3,522	\$1.14	1.9%	\$36.43	1.7	\$4.63	\$4.88	\$5.07	\$5.56	13.2x	12.5x	12.0x	11.0x	\$5.36	11.4x
CU	\$56.00	127.5	\$7,139	\$1.61	2.9%	\$24.43	2.3	\$3.26	\$3.28	\$3.45	\$3.86	17.2x	17.1x	16.2x	14.5x	\$3.69	15.2x
CPX	\$23.94	96.9	\$2,320	\$1.26	5.3%	\$21.63	1.1	\$0.60	\$1.38	\$1.27	\$1.50	n.a.	17.4x	18.9x	16.0x	\$1.40	17.1x
EMA	\$31.04	126.7	\$3,933	\$1.30	4.2%	\$13.65	2.3	\$1.52	\$1.65	\$1.73	\$1.81	20.4x	18.8x	17.9x	17.1x	\$1.78	17.5x
ENB	\$30.74	758.0	\$23,301	\$0.98	3.2%	\$20.48	1.5	\$1.15	\$1.32	\$1.42	\$1.52	26.7x	23.4x	21.7x	20.3x	\$1.48	20.8x
TA	\$20.82	222.0	\$4,622	\$1.16	5.6%	\$12.49	1.7	\$0.88	\$0.88	\$1.12	\$1.13	23.6x	23.6x	18.6x	18.5x	\$1.13	18.5x
TRP	\$39.00	703.0	\$27,417	\$1.68	4.3%	\$22.54	1.7	\$2.02	\$1.97	\$2.20	\$2.30	19.3x	19.8x	17.7x	17.0x	\$2.26	17.3x
Avg.					4.2%		1.7x					21.3x	19.9x	18.5x	17.3x		17.8x

Source: Thomson, TD Newcrest.

**Justification of Target Price**

Our \$36.00 target price is predicated on 50% of our 2012 and 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

The quarter was slightly below our expectations, mainly as a result of weaker than expected earnings at the company's regulated gas utility, mainly as a result of the timing of expenses during the year, as well as lower hospitality earnings. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that Fortis is well-positioned to make future acquisitions, as any smaller utility the Company might acquire would likely gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and

**Newcrest**

A Division of TD Securities Inc.

## Action Notes

**August 3, 2011**  
**Equity Research**

4 of 6

keep its operations autonomous in the Fortis fold. We believe that in the current environment, investors will find the Company's low-risk, utility-dominated business model attractive.

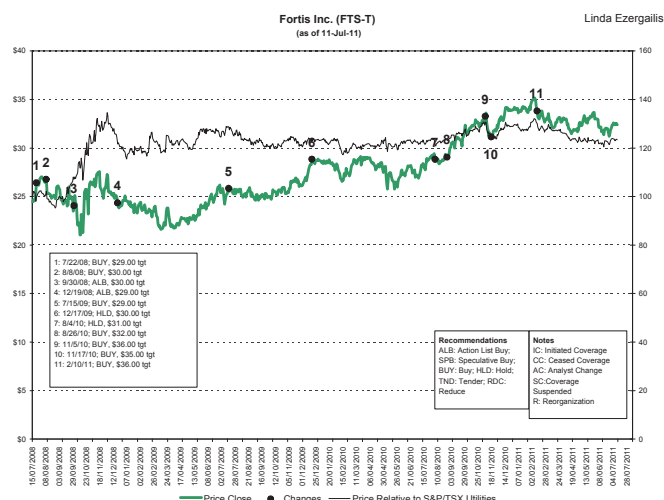


## TD Newcrest Equity Research Disclosures

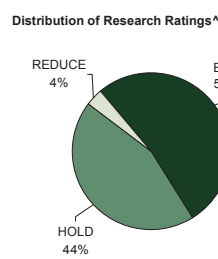
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

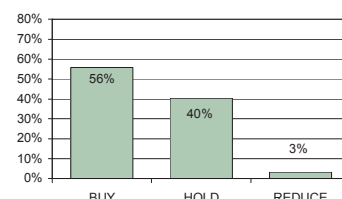
## Additional Important Disclosures



## Distribution of Research Ratings



## Investment Banking Services Provided\*



Current as of July 5, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Newcrest makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at

<https://www.tdsresearch.com>



**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Newcrest is the trade name that TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited use to market their institutional equity services. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

Full disclosures for all companies covered by TD Newcrest can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Newcrest's institutional equity clients.



**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **12.0%****Market Data (C\$)**

Current Price	\$34.06
52-Wk Range	\$28.24-\$35.45
Mkt Cap (f.d.)(mm)	\$6,386.3
Dividend per Share	\$1.16
Dividend Yield	3.4%
Avg. Daily Trading Vol. (3mths)	532613

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	187.5
Float Shares (mm)	186.9
Net Debt/Tot Cap	53.2%
BVPS (basic)	\$20.38
ROE	8.6%

**Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.70	1.75	1.82
EPS (basic)(old)	1.63	1.66	1.79	1.86
EPS (f.d.)	1.60	1.66	1.71	1.78
EPS (f.d.)(old)	1.60	1.63	1.75	1.82
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.62	2.69	2.77

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	--	--
Q2	0.32	0.33	--	--
Q3	0.24	0.25	--	--
Q4	0.47	0.47	--	--

**Valuations**

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	21.3x	20.5x	19.9x	19.1x
P/AFFO	15.8x	13.0x	12.7x	12.3x

Notes: 2011-2013 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$34.06****Q3/11 Results Slightly Above Expectations****Event**

Fortis reported normalized Q3/11 EPS (f.d.) of \$0.25, slightly above our \$0.23 estimate, recent consensus of \$0.24, and normalized Q3/10 EPS (f.d.) of \$0.24.

**Impact****NEUTRAL.**

The results were better than our expectations largely due to timing of operating expenses in the Gas Distribution Utility in B.C. Corporate expenses were also lower than we were forecasting, partially a result of a favourable foreign exchange gain. We have updated our financial model primarily to reflect slightly lower returns in the unregulated businesses partially offset by increased earnings in Other Canadian Electric Utilities (Exhibit 1). We have also adjusted our maintenance capital assumptions.

We are rolling forward our target to be based 25% on our 2012 and 75% on our 2013 forecasts, and are maintaining our BUY recommendation and \$37 target price.

**Exhibit 1. Overview of Changes to Estimates**

	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.70	1.75	1.82
EPS (basic) (old)	1.63	1.66	1.79	1.86
EPS (f.d.)	1.60	1.66	1.71	1.78
EPS (f.d.) (old)	1.60	1.63	1.75	1.82
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.69	2.77
Free Cash Flow per Share (old)	2.15	2.60	2.56	2.87
Dividends per Share (DI)	1.12	1.16	1.20	1.26

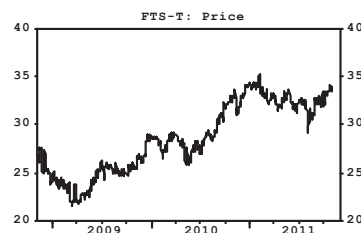
Source: Company Reports, TD Securities.

**Details**

**Regulated Gas Utilities** Q3/11 losses of \$3 million were \$6 million lower than Q3/10 results due to rate base growth from continued utility investments, lower than expected operating expenses from the timing of spending and capitalization of operating costs during the year, and lower effective income taxes.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**

**Regulated Electric Utilities – Canadian** Q3/11 earnings of \$43 million were flat year over year.

- **FortisAlberta** earnings of \$19 million were comparable to Q3/10 results. Rate base growth from continued utility investments along with higher customer growth and energy deliveries were offset by a positive 2010 revenue requirements decision, which was recorded in Q3/10.
- **FortisBC** earnings of \$10 million decreased by \$1 million year over year driven by lower capitalized allowance for funds used during construction (AFUDC) from fewer assets under construction, and higher effective income taxes.
- **Newfoundland Power** earnings of \$8 million were flat year over year. The effects of increased electricity sales, a lower effective tax rate, and hurricane costs recorded back in Q3/10 were offset by a lower allowed ROE and higher employee-related costs.
- **Other Canadian Electric Utilities** earnings of \$6 million were \$1 million higher than Q3/10 results. The increase was due to a higher Algoma Power ROE, increased electricity sales, and a lower effective tax rate at FortisOntario.

**Regulated Utilities – Caribbean** earnings of \$6 million were \$2 million lower year over year largely from lower electricity sales, and no earnings contribution from Belize Electricity.

**Fortis Generation** earnings of \$8 million were \$1 million lower than Q3/10 results. The decrease was mainly attributable to lower production in Belize due to lower rainfall and lower Upper New York State generation from a plant outage.

**Fortis Properties** earnings of \$9 million were flat year over year. Increased administrative expenses were offset by increased revenues at the hospitality division as a result of higher average room rates and hotel occupancy.

**Corporate** normalized expenses decreased by \$3 million to \$16 million in Q3/11, largely due to foreign exchange gains.

**Exhibit 2. Segmented Earnings Analysis (\$mm unless stated otherwise)**

	Q3/11	Q3/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian <sup>1</sup>	(\$3)	(\$9)	\$6	-67%
FortisAlberta	19	19	-	0%
FortisBC	10	11	(1)	-9%
Newfoundland Power	8	8	-	0%
Other Canadian	6	5	1	20%
Regulated Electric Utilities - Canadian	43	43	-	0%
Regulated Utilities - Caribbean	6	8	(2)	-25%
<b>Total Regulated Utilities</b>	<b>46</b>	<b>42</b>	<b>4</b>	<b>10%</b>
<b>Non-Regulated Fortis Generation</b>	<b>8</b>	<b>9</b>	<b>(1)</b>	<b>-11%</b>
<b>Non-Regulated Fortis Properties</b>	<b>9</b>	<b>9</b>	<b>-</b>	<b>0%</b>
<b>Corporate<sup>2</sup></b>	<b>(16)</b>	<b>(19)</b>	<b>3</b>	<b>-16%</b>
<b>Operating Earnings</b>	<b>47</b>	<b>41</b>	<b>6</b>	<b>15%</b>
Adjustments	11	4	7	175%
<b>Reported Earnings</b>	<b>58</b>	<b>45</b>	<b>13</b>	<b>29%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.25</b>	<b>\$0.24</b>	<b>\$0.02</b>	<b>7%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.31</b>	<b>\$0.26</b>	<b>\$0.05</b>	<b>20%</b>

Notes: Earnings have been normalized for the following items:

1) In Q3/10, a \$4mm (after-tax) reversal of operating expenses related to project cost overruns previously expensed related to the Whistler conversion project.

2) In Q3/11, an \$11mm (after-tax) gain from the Central Vermont Public Service merger termination fee.

Source: Company Reports, TD Securities.

**Outlook****Belize Electricity Update:**

- On October 21, 2011, Fortis initiated actions in the Belize Supreme Court to challenge the expropriation of its investment in Belize Electricity. An independent valuation of Fortis' previous investment in Belize Electricity has been commissioned and Fortis expects to submit its claim to the Government of Belize (GOB) in Q4/11.
- On October 25, 2011, the GOB amended the Constitution of Belize to require majority government ownership of three public utilities, including Belize Electricity, but excluding Fortis' non-regulated Belizean generating assets (BECOL). The Prime Minister of Belize has stated that it is not the GOB's intention to expropriate BECOL.
- At September 30, 2011, the book values of Fortis' investments in Belize Electricity and BECOL were \$120 million and \$159 million, respectively. In addition, Belize Electricity recently had US\$8.0 million of overdue energy purchases outstanding to BECOL. It is our understanding that there are agreements in place such that the GOB guarantees the payment of Belize Electricity's obligations to BECOL.

**Regulatory Updates:**

- FortisBC Energy Companies:** In September 2011, the FortisBC Energy companies filed an update to their 2012-2013 Revenue Requirement Applications. FortisBC Energy Inc.'s application includes forecast average rate bases of \$2,754 million and \$2,811 million for 2012 and 2013, respectively. The FortisBC Energy (Vancouver Island) application includes forecast average rate bases of \$788 million and \$816 million for 2012 and 2013, respectively. The FortisBC Energy (Whistler) application includes forecast average rate bases of \$42 million and \$41 million for 2012 and 2013, respectively.
- FortisOntario:** In September 2011, Algoma Power filed its first Third-Generation IRM application for customer electricity distribution rates, effective January 1, 2012, which maintains the allowed ROE at 9.85% for 2012. During Q4/11, FortisOntario expects to file a Third-Generation IRM application for its operations in Port Colborne and a similar application for its Fort Erie and Gananoque operations, maintaining an allowed ROE at 8.01% for 2012.

**Continued Investment in Utilities:** Management's five-year capital expenditure plan to the end of 2015 has increased by \$0.2 billion to \$5.7 billion. The higher outlook for capital expenditures is largely in the FortisBC Energy companies in Canada, which supports our view that Fortis' growth outlook will be driven by strong utility investment in Canada.

**Q4/11 Preview:** We are forecasting Q4/11 EPS of \$0.47, in-line with Q4/10 results. We expect rate base growth in the Canadian regulated utilities to be offset by lower contribution from the regulated Caribbean utilities and a higher number of shares outstanding.

**Valuation****Exhibit 3. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)				P/E				EPS	
						2010A	2011E	2012E	2013E	2010A	2011E	2012E	2013E	For. E	Forward
FTS	\$34.06	187.5	\$6,386	\$1.16	3.4%	\$1.60	\$1.66	\$1.71	\$1.78	21.3x	20.5x	19.9x	19.1x	\$1.71	20.0x
ACO.X	\$61.33	57.8	\$3,545	\$1.14	1.9%	\$4.88	\$5.47	\$5.92	\$6.02	12.6x	11.2x	10.4x	10.2x	\$5.85	10.5x
CU	\$62.32	127.5	\$7,944	\$1.61	2.6%	\$3.28	\$3.72	\$4.09	\$4.24	19.0x	16.8x	15.2x	14.7x	\$4.03	15.5x
EMA	\$32.64	123.2	\$4,021	\$1.35	4.1%	\$1.65	\$1.63	\$1.72	\$1.82	19.8x	20.0x	18.9x	17.9x	\$1.71	19.1x
ENB	\$35.21	760.0	\$26,760	\$0.98	2.8%	\$1.32	\$1.45	\$1.53	\$1.65	26.8x	24.3x	22.9x	21.3x	\$1.52	23.1x
TA	\$21.83	222.9	\$4,866	\$1.16	5.3%	\$0.88	\$1.25	\$1.28	\$1.37	24.8x	17.4x	17.0x	16.0x	\$1.28	17.1x
TRP	\$42.68	704.0	\$30,047	\$1.68	3.9%	\$1.97	\$2.20	\$2.36	\$2.48	21.7x	19.4x	18.1x	17.2x	\$2.34	18.3x
Avg.					3.9%					21.6x	19.7x	18.4x	17.3x		18.5x

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated on 25% of our 2012 and 75% of our 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 95%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.75% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

The quarter was slightly ahead of our expectations largely related to the timing of operating expenses in the Gas Distribution Utility.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. The Company's future growth is largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the Company might acquire would likely gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold. We believe that in the current environment, investors will find the Company's low-risk, utility-dominated business model attractive.

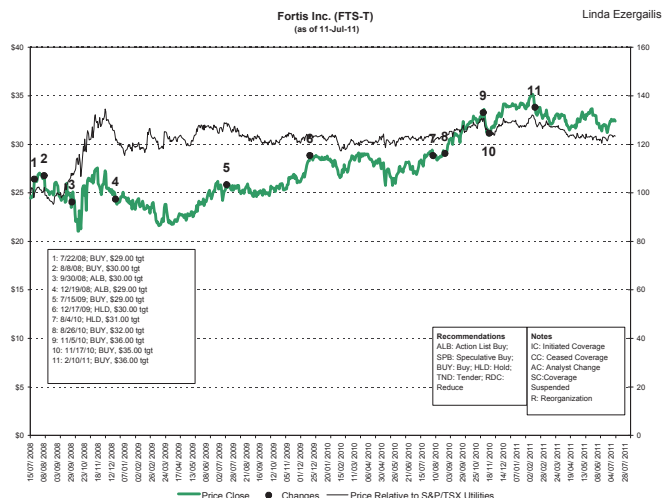


## TD Securities Equity Research Disclosures

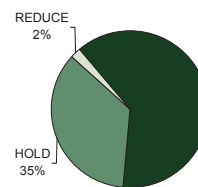
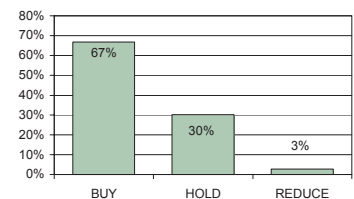
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Common/variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of November 2, 2011

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2011 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**



**Pipelines, Power & Utilities**

**Recommendation:** **HOLD↓**  
**Prior:** **BUY**  
**Risk:** **LOW**  
**12-Month Target Price:** **C\$35.00↓**  
**Prior:** **C\$36.00**  
**12-Month Total Return:** **6.8%**

**Market Data (C\$)**

Current Price \$33.89  
 52-Wk Range \$28.24-\$35.21  
 Mkt Cap (f.d.)(mm) \$6,398.4  
 Dividend per Share \$1.20  
 Dividend Yield 3.5%  
 Avg. Daily Trading Vol. (3mths) 570808

**Financial Data (C\$)**

Fiscal Y-E December  
 Shares O/S (f.d.)(mm) 188.8  
 Float Shares (mm) 188.8  
 Net Debt/Tot Cap 55.4%  
 BVPS (basic) \$20.53  
 ROE 8.5%

**Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.76
EPS (basic)(old)	1.63	1.68	1.73	1.81
EPS (f.d.)	1.60	1.67	1.67	1.74
EPS (f.d.)(old)	1.60	1.65	1.69	1.77
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.62	2.54	2.62

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	0.64	--
Q2	0.32	0.33	--	--
Q3	0.24	0.25	--	--
Q4	0.47	0.46	--	--

**Valuations**

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	21.2x	20.3x	20.3x	19.5x
P/AFFO	15.8x	12.9x	13.3x	12.9x

Notes: 2012-2013 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
 416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
 416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$33.89

### Q4/11 In-Line; Downgrading to HOLD on Valuation

#### Event

Fortis reported normalized Q4/11 EPS (f.d.) of \$0.46, which was in line with our estimate, recent consensus, and normalized Q4/10 EPS (f.d.) of \$0.47.

#### Impact

#### SLIGHTLY NEGATIVE.

Our 2012 and 2013 EPS (f.d.) estimates decline by \$0.02 and \$0.03, respectively, primarily to reflect lower expected returns from Fortis' non-regulated properties. Our target price declines \$1 to \$35 commensurate with our lower growth outlook.

#### Exhibit 1. Overview of Changes to Estimates

	2010A	2011A	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.76
EPS (basic) (old)	1.63	1.68	1.73	1.81
EPS (f.d)	1.60	1.67	1.67	1.74
EPS (f.d) (old)	1.60	1.65	1.69	1.77
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.54	2.62
Free Cash Flow per Share (old)	2.15	2.61	2.67	2.75
Dividends per Share (DI)	1.12	1.16	1.20	1.26

Source: Company Reports, TD Securities.

#### Details

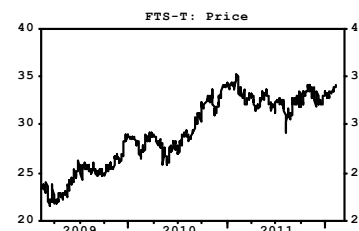
**Regulated Gas Utilities** Q4/11 earnings of \$51 million were \$6 million higher than Q4/10 results due to rate base growth from continued utility investments, lower-than-expected taxes and finance charges, and higher gas transportation volumes related to the forestry and mining sectors (Exhibit 2).

**Regulated Electric Utilities – Canadian** Q4/11 earnings of \$42 million increased slightly year over year.

- **FortisAlberta** normalized earnings of \$19 million increased \$2 million versus Q4/10 results as rate base growth from continued utility investments was partially offset by a lower allowed ROE.
- **FortisBC Electric** earnings of \$11 million increased by \$1 million year over year driven by rate base growth, lower-than-expected energy supply costs and increased non-regulated income.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.



- **Newfoundland Power** earnings of \$8 million were \$1 million lower year over year. The effects a lower allowed ROE, decreased earnings from a joint-use pole arrangement, higher effective tax rate and higher operating expenses were partially offset by electricity sales growth and lower energy supply costs.
- **Other Canadian Electric Utilities** earnings of \$5 million were \$1 million lower than Q4/10 results. The decrease was due to lower FortisOntario electricity sales, a \$2 million rate of return adjustment at Maritime Electric due to higher-than-expected electricity sales and higher operating expenses.

**Regulated Utilities – Caribbean** earnings of \$3 million were \$2 million lower year over year largely from higher operating expenses at Turks & Caicos related to inflationary pressures and consulting fees associated with ongoing regulatory matters.

**Fortis Generation** earnings of \$5 million were comparable with Q4/10. Lower New York energy prices, decreased interest income and higher business development costs were offset by increased production in Belize.

**Fortis Properties** earnings of \$5 million declined \$2 million versus Q4/10 primarily to reflect higher corporate income taxes partially offset by the incremental contribution from the Hilton Suites Winnipeg Airport hotel, which was acquired in October 2011.

**Corporate** expenses were flat year over year.

#### Exhibit 2. Segmented Earnings Analysis (\$mm unless stated otherwise)

	Q4/11	Q4/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	\$51	\$45	\$6	13%
FortisAlberta <sup>1</sup>	19	17	2	9%
FortisBC Electric	11	10	1	10%
Newfoundland Power	8	9	(1)	-11%
Other Canadian	4	5	(1)	-20%
Regulated Electric Utilities - Canadian	42	41	1	1%
Regulated Utilities - Caribbean	3	5	(2)	-40%
<b>Total Regulated Utilities</b>	<b>96</b>	<b>91</b>	<b>5</b>	<b>5%</b>
<b>Non-Regulated Fortis Generation</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>0%</b>
<b>Non-Regulated Fortis Properties</b>	<b>5</b>	<b>7</b>	<b>(2)</b>	<b>-29%</b>
<b>Corporate</b>	<b>(18)</b>	<b>(18)</b>	<b>-</b>	<b>0%</b>
<b>Operating Earnings</b>	<b>88</b>	<b>85</b>	<b>3</b>	<b>3%</b>
Adjustments	(2)	-	(2)	n.a.
<b>Reported Earnings</b>	<b>86</b>	<b>85</b>	<b>1</b>	<b>1%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.46</b>	<b>\$0.47</b>	<b>(\$0.01)</b>	<b>-2%</b>
Reported EPS (f.d)	\$0.45	\$0.47	(\$0.02)	-4%

Notes: Earnings have been normalized for the following items:

1) (\$1.5) million of earnings in Q4/11 related to a retroactive decision by the AUC in December 2011, which lowered FortisAlberta's allowed ROE to 8.75% from 9.00% for 2011.

Source: Company Reports, TD Securities.

Outlook**Belize Update:**

- **Belize Expropriation Update:** In June 2011, the Government of Belize (GOB) enacted legislation leading to the expropriation of Belize Electricity. The book value of Fortis' investment in Belize Electricity at the end of 2011 was \$106 million. In November 2011, Fortis commissioned an independent valuation of its investment and submitted its claim for compensation to the GOB. The GOB also commissioned an independent valuation and its estimated fair value was significantly below the Fortis' estimate. Fortis continues to pursue alternative options for obtaining fair compensation from the GOB.
- **BECOL Update:** At December 31, 2011, the book value of Fortis' investment in BECOL (non-regulated Belizean generating assets) was \$154 million. In addition, Belize Electricity recently had US\$7.4 million of overdue energy purchases outstanding to BECOL. It is our understanding that there are agreements in place such that the GOB is highly motivated to guarantee the payment of Belize Electricity's obligations to BECOL.

**Regulatory Updates:**

- **BC Generic Cost of Capital Proceeding:** The British Columbia Utilities Commission gave preliminary notice of its intention to initiate a Generic Cost of Capital proceeding in early 2012. Items to be reviewed include: 1) setting an appropriate cost of capital for a low-risk utility, 2) establishing an automatic ROE adjustment mechanism, and 3) establishing deemed capital structure and cost of capital methodology.
- **FortisAlberta:** Fortis and other utilities in Alberta have appealed an element of the regulator's December 2011 cost of capital decision related to the wording around unused assets, asking clarification about treatment of such assets in rate base, which we expect will ultimately be resolved in the utilities' favour (to uphold the regulatory compact).
- **FortisBC Electric:** In November 2011, the FortisBC Electric filed an updated 2012-2013 Revenue Requirement, which includes forecast average rate bases of \$1,146 million and \$1,215 million for 2012 and 2013, respectively.
- **Newfoundland Power:** In November 2011 the utility's allowed 2012 ROE was calculated to be 7.85% under the automatic adjustment formula, down from 8.38% in 2011. Use of the automatic formula has been suspended and a full cost of capital review is expected in 2012.

**Strong Capital Program:** In 2012, management expects capital expenditures of approximately \$1.3 billion. The company's five-year plan (2012-2016) forecasts gross capital expenditures of \$5.5 billion. Of this amount, 63% is expected to be related to regulated electric utilities, 23% to regulated gas utilities and 13% to non-regulated operations. The strong outlook for capital expenditures supports our view that Fortis' growth outlook will be driven by utility investment in Canada.

**Q1/12 Preview:** We are forecasting Q1/12 EPS of \$0.64, in line with Q1/11 results. We expect rate base growth in the Canadian regulated utilities to be offset by a higher number of shares outstanding.

Valuation**Exhibit 3. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)				P/E				EPS	
						2010A	2011E	2012E	2013E	2010A	2011E	2012E	2013E	For. E	Forward
FTS	\$33.89	188.8	\$6,398	\$1.20	3.5%	\$1.60	\$1.67	\$1.67	\$1.74	21.2x	20.3x	20.3x	19.5x	\$1.67	20.3x
ACO.X	\$61.55	57.8	\$3,558	\$1.31	2.1%	\$4.88	\$5.44	\$5.91	\$5.99	12.6x	11.3x	10.4x	10.3x	\$5.96	10.3x
CU	\$62.07	127.5	\$7,913	\$1.77	2.9%	\$3.28	\$3.69	\$4.07	\$4.19	18.9x	16.8x	15.3x	14.8x	\$4.11	15.1x
CPX	\$25.00	97.1	\$2,429	\$1.26	5.0%	\$1.38	\$1.22	\$1.56	\$1.75	18.1x	20.5x	16.0x	14.3x	\$1.60	15.7x
EMA	\$33.37	123.6	\$4,125	\$1.35	4.0%	\$1.65	\$1.58	\$1.66	\$1.82	20.2x	21.2x	20.0x	18.3x	\$1.67	19.9x
ENB	\$39.13	761.0	\$29,778	\$1.13	2.9%	\$1.32	\$1.51	\$1.58	\$1.88	29.7x	26.0x	24.7x	20.9x	\$1.59	24.6x
TRP	\$41.78	704.0	\$29,413	\$1.68	4.0%	\$1.97	\$2.20	\$2.35	\$2.39	21.2x	19.0x	17.8x	17.5x	\$2.37	17.6x
TA	\$20.42	222.9	\$4,552	\$1.16	5.7%	\$0.88	\$1.11	\$1.28	\$1.21	23.2x	18.3x	15.9x	16.8x	\$1.30	15.7x
Avg.					4.0%					21.8x	20.3x	18.6x	17.4x		18.4x

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$35.00 target price is predicated on our 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

The quarter was largely in line with our expectations as stronger-than-expected Canadian Utilities earnings were offset by a weaker Properties contribution. During 2012, we expect Fortis to continue to benefit from strong growth from its regulated utilities, partially offset by continued Properties weakness.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely gain the financial backing of a strong parent to help fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive. Given the relatively less compelling potential returns versus other investments in the sector, we are downgrading the shares to HOLD.

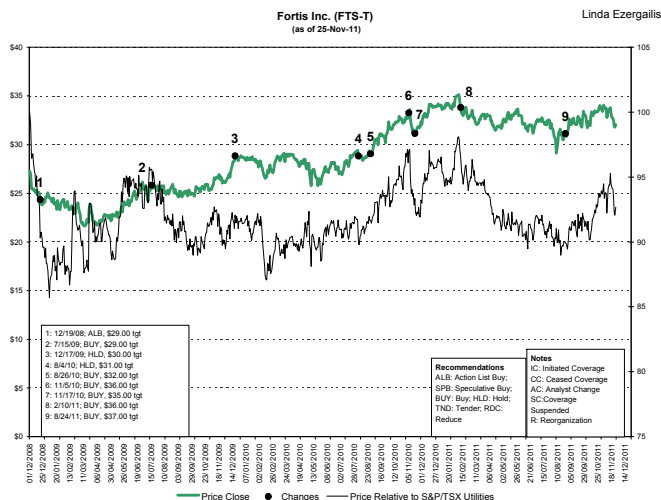


## TD Securities Equity Research Disclosures

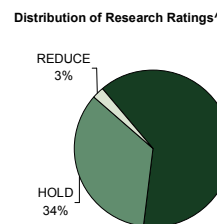
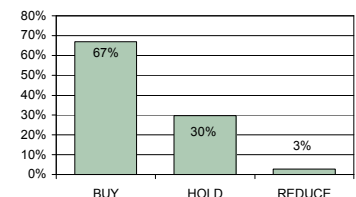
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of February 2, 2012

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.8% of coverage universe), Medium (32.2%), High (48.7%), Speculative (12.3%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2012 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **HOLD**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$35.00**  
*Unchanged***12-Month Total Return:** **11.8%****Market Data (C\$)**

Current Price	\$32.38
52-Wk Range	\$28.24-\$34.39
Mkt Cap (f.d.)(mm)	\$6,113.3
Dividend per Share	\$1.20
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	569630

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.8
Float Shares (mm)	188.8
Net Debt/Tot Cap	55.4%
BVPS (basic)	\$20.53
ROE	8.5%

**Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.82
EPS (basic)(old)	1.63	1.68	1.69	1.76
EPS (f.d.)	1.60	1.67	1.67	1.79
EPS (f.d.)(old)	1.60	1.67	1.67	1.74
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.62	2.54	2.55

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	0.64	--
Q2	0.32	0.33	--	--
Q3	0.24	0.25	--	--
Q4	0.47	0.46	--	--

**Valuations**

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	20.2x	19.4x	19.4x	18.1x
P/AFFO	15.1x	12.4x	12.7x	12.7x

Notes: 2012-2013 forecasts are presented under Canadian GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$32.38****Fortis Enters into Agreement to Acquire CH Energy****Event**

Fortis has entered into an agreement to acquire CH Energy Group (CHG-N) for US\$65.00 per common share in cash, for an aggregate purchase price of US\$1.5 billion, including the assumption of approximately US\$500 million of debt.

**Impact****POSITIVE.**

The acquisition is expected to be immediately accretive to Fortis' EPS (excluding one-time transaction costs of \$20 million-\$25 million). We calculate the acquisition to be approximately \$0.04 accretive to EPS on an annual basis, assuming that it is ultimately financed with approximately \$150 million of preferred shares, \$450 million of common equity and the remainder with debt. We have updated our financial model to assume the transaction closes at the end of February 2013 and to reflect other fine-tuning. (Exhibit 1). We note that our 2013 free cash flow estimate declines to reflect the on-time transactions costs associated with the acquisition. While we believe that this will add ballpark a dollar of value to Fortis' shares, this is dependent on the outcome of the regulatory approval process (e.g. concessions made to customers) and assumes no competing bids surface.

**Exhibit 1. Estimate Changes**

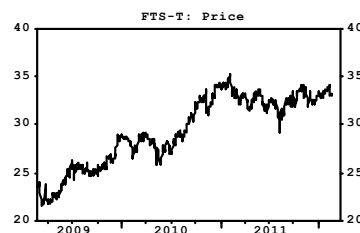
	2010A	2011A	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.82
EPS (basic) (old)	1.63	1.68	1.69	1.76
EPS (f.d.)	1.60	1.67	1.67	1.79
EPS (f.d) (old)	1.60	1.67	1.67	1.74
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.54	2.55
Free Cash Flow per Share (old)	2.15	2.62	2.54	2.62
Dividends per Share (DI)	1.12	1.16	1.20	1.26

Source: Thomson, TD Securities.

**Please see the final pages of this document for important disclosure information.**

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Details

- **Description:** CH Energy's main business (93% of total assets, 97% of 2011 net income) is a regulated transmission and distribution (T&D) utility, Central Hudson, serving approximately 300,000 electric and 75,000 natural gas customers in New York State's Mid-Hudson River Valley region. CH Energy also has a non-regulated subsidiary primarily involved in fuel delivery to 56,000 customers in the Mid-Atlantic Region.
- **Acquisition Price Appears Reasonable:** The US\$65.00 per share offer represents an approximate 10.5% premium above CH Energy's closing price on February 17, a 13% premium above the 20-day average share price of US\$57.49, and approximately 10.4x 2011 EBITDA. On a 2013E basis, we calculate the EV/EBITDA to be 9.4x, P/E to be 19.4x and price-to-total rate base to be 1.5x.
- **Timing:** Fortis expects to close the acquisition within 12 months.
- **Competing Offers Possible, but Unlikely:** The merger agreement was a result of negotiations, rather than an auction process. Given what we view to be a fair price, we do not expect any higher competing offers. We note, however, that CH Energy shares have traded through the offer price. The transaction includes a break fee of US\$19.7 million (US\$1.32 per CHG share) plus expenses that are capped at US\$4 million (US\$0.27 per CHG share).
- **Financing:** Fortis expects to use its multi-year committed credit facility to finance the purchase in the short term. Long term, Management intends to finance the acquisition consistent with the corporation's current capital structure.
- **Favourable Regulatory Environment:** Central Hudson is regulated by the New York Public Service Commission (NYPSC) under a traditional cost of service model. Current rates are based on a three-year settlement, expiring mid-2013 that includes an allowed rate of return on common equity of 10% and an equity thickness of 48%.
- **Rate Base Growth:** Management expects annual capital expenditures to exceed US\$100 million on average through 2016, which should result in rate base and earnings growth, in our view.
- **Regulatory approval risk Appears Low:** The transaction is subject to the receipt of approvals from CH Energy shareholders, the NYPSC, the U.S. FERC and Hart-Scott-Rodino, as well as customary closing conditions. We expect the NYPSC to approve the acquisition given Fortis' reputation and track record of successful utility acquisitions, and the potential customer benefits that could include any or all of the following: offsetting or deferring future rate increases, enhancing the quality of service to customers or making that service more affordable. Fortis will operate CH Energy as a standalone utility, keep the headquarters in Poughkeepsie, NY, and is also committed to maintaining existing wages and benefits to CH Energy employees.
- **Significant Strategic Thrust into U.S.:** We view the foray into the U.S. Northeast positively as it furthers Fortis' strategy of entering into the U.S. regulated electric and gas distribution business with what we view to be a good sized utility (material in size but not too large). Fortis has been looking for U.S. acquisitions for a number of years. We note that the company has a successful track record in acquiring utilities including Aquila Canada for \$1.5 billion in 2004 and Terasen Gas for \$3.7 billion in 2007.

Valuation**Exhibit 2. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)				P/E				EPS	
						2010A	2011E	2012E	2013E	2010A	2011E	2012E	2013E	For. E	Forward
FTS	\$32.38	188.8	\$6,113	\$1.20	3.7%	\$1.60	\$1.67	\$1.67	\$1.79	20.3x	19.4x	19.4x	18.1x	\$1.67	19.4x
ACO.X	\$63.55	57.8	\$3,673	\$1.31	2.1%	\$4.88	\$5.44	\$5.91	\$5.99	13.0x	11.7x	10.8x	10.6x	\$5.98	10.6x
CU	\$62.98	127.5	\$8,029	\$1.77	2.8%	\$3.28	\$3.69	\$4.07	\$4.19	19.2x	17.1x	15.5x	15.0x	\$4.12	15.3x
CPX	\$25.20	97.1	\$2,448	\$1.26	5.0%	\$1.38	\$1.22	\$1.56	\$1.75	18.3x	20.6x	16.2x	14.4x	\$1.61	15.7x
EMA	\$33.18	124.1	\$4,118	\$1.35	4.1%	\$1.65	\$1.64	\$1.70	\$1.80	20.1x	20.2x	19.5x	18.5x	\$1.70	19.5x
ENB	\$38.52	765.0	\$29,468	\$1.13	2.9%	\$1.32	\$1.46	\$1.60	\$1.87	29.3x	26.4x	24.1x	20.6x	\$1.62	23.8x
TA	\$20.89	222.9	\$4,656	\$1.16	5.6%	\$0.88	\$1.11	\$1.28	\$1.21	23.7x	18.7x	16.3x	17.2x	\$1.31	16.0x
TRP	\$42.26	704.0	\$29,751	\$1.76	4.2%	\$1.97	\$2.23	\$2.35	\$2.39	21.5x	19.0x	18.0x	17.7x	\$2.37	17.8x
Avg.					4.0%					21.8x	20.2x	18.4x	17.3x		18.2x

Source: Thomson, TD Securities.



**Justification of Target Price**

Our \$35.00 target price is predicated on our 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

**Investment Conclusion**

If successful, we view the CH Energy acquisition positively as we believe that it will be mutually beneficial for both companies. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction with the potential to expand the company's footprint into the U.S. Northeast. CH Energy is expected to gain the financial backing of a strong parent to help fund its future growth, benefit from sharing of best practices across the Fortis group of utilities, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely gain the financial backing of a strong parent to help fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive.

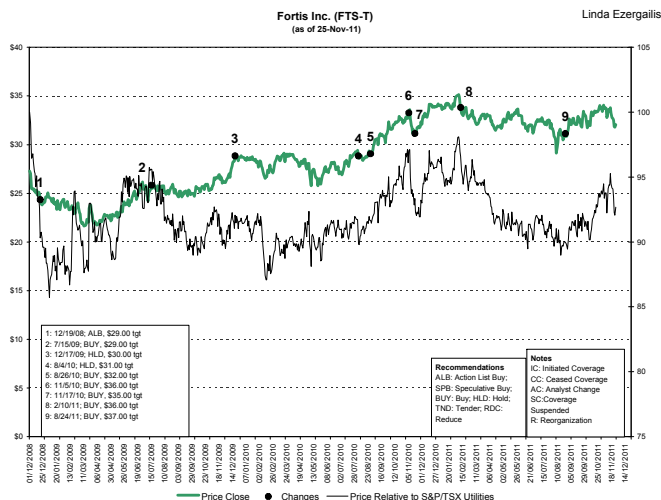


## TD Securities Equity Research Disclosures

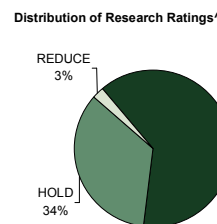
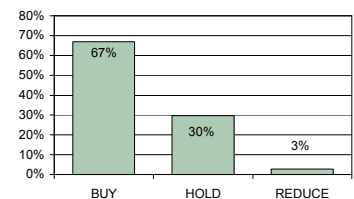
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of February 2, 2012

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.8% of coverage universe), Medium (32.2%), High (48.7%), Speculative (12.3%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2012 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** BUY↑**Prior:** HOLD**Risk:** LOW**12-Month Target Price:** C\$37.00↑**Prior:** C\$35.00**12-Month Total Return:** 10.6%**Market Data (C\$)**

Current Price	\$34.55
52-Wk Range	\$28.24-\$34.39
Mkt Cap (f.d.)(mm)	\$6,920.4
Dividend per Share	\$1.20
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	613914

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	200.3
Float Shares (mm)	189.3
Net Debt/Tot Cap	53.2%
BVPS (basic)	\$20.61
ROE	8.5%

**Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.69	1.81	1.89
EPS (basic)(old)	1.68	1.69	1.82	--
EPS (f.d.)	1.67	1.67	1.79	1.86
EPS (f.d.)(old)	1.67	1.67	1.79	--
DI	1.16	1.20	1.26	1.32
AFFO/Shr	2.62	2.54	2.54	2.86

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.33	--	--
Q3	0.25	--	--	--
Q4	0.46	--	--	--

**Valuations**

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	20.7x	20.7x	19.3x	18.6x
P/AFFO	13.2x	13.6x	13.6x	12.1x

Notes: Forecasts are based on US GAAP.

All figures in C\$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

**Linda Ezergailis, P.Eng.**

416 983 7784

[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**

416 983 9259

[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$34.55

### Q1 Results In-Line With Expectations; Upgrading to BUY

**Event**

Fortis reported normalized Q1/12 EPS (f.d.) of \$0.64, in line with our \$0.64 estimate and Q1/11 EPS (f.d.) of \$0.64 but slightly below recent consensus estimates of \$0.66.

**Impact****SLIGHTLY POSITIVE.**

We have updated our model and our estimates remain largely unchanged. Effective Q1/12, Fortis also began reporting under U.S. GAAP. The adoption of U.S. GAAP does not materially change our earnings estimates.

We are also rolling forward our target price to be based 75% on our 2013 and 25% on our 2014 estimates and, as a result, we are increasing our target by \$2 to \$37. Given the implied total returns to our target, we are upgrading the stock to BUY (from Hold).

**Exhibit 1. Estimate Changes**

	2010A	2011A	2012E	2013E	2014E
EPS (basic)	1.63	1.68	1.69	1.81	1.89
EPS (basic) (old)	1.63	1.68	1.69	1.82	-
EPS (f.d.)	1.60	1.67	1.67	1.79	1.86
EPS (f.d.) (old)	1.60	1.67	1.67	1.79	-
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.54	2.54	2.86
Free Cash Flow per Share (old)	2.15	2.62	2.54	2.55	-
Dividends per Share	1.12	1.16	1.20	1.26	1.32
Dividends per Share (old)	1.12	1.16	1.20	1.26	-

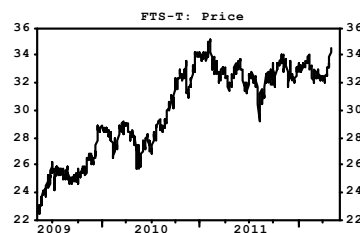
Source: TD Securities.

**Details**

**Regulated Gas Utilities** Q1/12 earnings of \$82 million were \$7 million higher than Q1/11 results, largely due to rate base growth from utility investments, and higher gas transportation volumes to both the forestry and mining industries (Exhibit 2).

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Regulated Electric Utilities – Canadian** Q1/12 earnings of \$51 million were comparable year over year.

- **FortisAlberta** earnings of \$21 million increased by \$1 million versus Q1/11 results as rate base growth from utility investments was partially offset by decreased energy consumption by residential customers and a lower allowed ROE.
- **FortisBC Electric** earnings of \$16 million decreased by \$3 million year over year, largely due to the expiration of the performance-based rate-setting (PBR) mechanism in December 2011. The decline was partially offset by rate base growth.
- **Newfoundland Power** earnings of \$7 million were \$1 million higher year over year as a result of increased electricity sales and lower effective income taxes. The increase was partially offset by decreased earnings from a joint-use pole arrangement that ended in October 2011.
- **Other Canadian Electric Utilities** earnings of \$7 million were \$1 million higher than Q1/11 results, largely from lower effective income taxes and increased electricity sales in PEI.

**Regulated Utilities – Caribbean** earnings of \$3 million were \$1 million lower year over year, largely from the expropriation of Belize Electricity.

**Fortis Generation** earnings of \$5 million were \$2 million higher year over year due to increased generation in Belize resulting from higher rainfall.

**Fortis Properties** earnings of \$1 million were comparable year over year.

**Corporate and Other** expenses decreased by \$2 million year over year, primarily due to increased capitalized interest related to the Waneta Expansion.

**Exhibit 2. Segmented Earnings Analysis (\$mm unless stated otherwise)**

	Q1/12	Q1/11	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	\$82	\$75	\$7	9%
FortisAlberta <sup>1</sup>	21	20	1	5%
FortisBC Electric	16	19	(3)	-16%
Newfoundland Power	7	6	1	17%
Other Canadian	7	6	1	17%
Regulated Electric Utilities - Canadian	51	51	-	0%
Regulated Utilities - Caribbean	3	4	(1)	-25%
<b>Total Regulated Utilities</b>	<b>136</b>	<b>130</b>	<b>6</b>	<b>5%</b>
<b>Non-Regulated Fortis Generation</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>67%</b>
<b>Non-Regulated Fortis Properties<sup>2</sup></b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>100%</b>
<b>Corporate<sup>3</sup></b>	<b>(17)</b>	<b>(19)</b>	<b>2</b>	<b>-11%</b>
<b>Operating Earnings</b>	<b>125</b>	<b>115</b>	<b>11</b>	<b>9%</b>
Adjustments	(4)	2	(6)	-367%
<b>Reported Earnings</b>	<b>121</b>	<b>116</b>	<b>5</b>	<b>4%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.64</b>	<b>\$0.64</b>	<b>\$0.00</b>	<b>1%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.62</b>	<b>\$0.64</b>	<b>(\$0.02)</b>	<b>-4%</b>

Notes: Earnings have been normalized for the following items:

1) Q1/11 excludes a \$1.0 million gain related to the sale of property.

2) Q1/11 excludes a \$0.5 million gain related to the sale of the Viking Mall in Newfoundland.

3) Q1/12 excludes \$4.0 million of costs related to the pending CH Energy acquisition.

Source: Company Reports, TD Securities.

Outlook**Regulatory Updates:**

- **B.C. Generic Cost of Capital Proceeding:** The British Columbia Utilities Commission gave a final notice of the items to be reviewed in the Generic Cost of Capital proceeding, which include 1) setting an appropriate cost of capital for a low-risk utility, including capital structure, ROE and debt interest; 2) establishing whether an automatic ROE adjustment mechanism is warranted; and 3) establishing a generic methodology for each utility's cost of capital in reference to the benchmark low-risk utility.
- **FortisAlberta:** In April 2012 the AUC approved a negotiated settlement with respect to 2012 distribution revenue requirements using a forecast mid-year rate base of \$2.025 billion. The discussions regarding the PBR initiative for utilities in Alberta continues and a decision is expected by year-end.
- **Newfoundland Power:** In March 2012 Newfoundland Power filed a cost of capital application to discontinue the use of the current ROE adjustment mechanism and to approve a reasonable rate of return on rate base for 2012. A public hearing on the application is scheduled for June 2012.

**CH Energy Update:** In April 2012, applications were filed with the New York State Public Service Commission and FERC seeking approval of Fortis' acquisition of CH Energy. The CH Energy Group shareholder vote on the transaction is expected to occur in mid-2012, and management expects to close the acquisition by the end of Q1/13.

**Organic Capital Program Remains Unchanged:** In 2012, management expects gross capital expenditures of approximately \$1.3 billion. The company's five-year plan (2012-2016) forecasts gross capital expenditures of \$5.5 billion. Of this amount, 64% is expected to be related to regulated electric utilities, 23% to regulated gas utilities, and 13% to non-regulated operations. The B.C. Waneta Expansion project remains on track and has completed the intake, powerhouse, and power tunnel construction with \$290 million spent to date.

**Publishing Our 2014 Estimates and Q2/12 Preview:** Our 2014 EPS (f.d.) estimate increases by \$0.07 year over year to \$1.86, largely due to growth at the Canadian regulated utilities in addition to a full-year contribution from CH Energy. We are also forecasting Q2/12 EPS of \$0.33, in line with Q2/11 results. We expect rate base growth in the Canadian regulated utilities to be offset by the expiration of the PBR mechanism at FortisBC Electric and a higher number of shares outstanding.

Valuation**Exhibit 3. Peer Group Valuation**

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)				P/E				EPS For. E	P/E Forward
						2010A	2011A	2012E	2013E	2010A	2011A	2012E	2013E		
FTS	\$34.55	200.3	\$6,920	\$1.20	3.5%	\$1.60	\$1.67	\$1.67	\$1.79	21.6x	20.7x	20.7x	19.3x	\$1.71	20.2x
ACO.X	\$74.89	57.7	\$4,321	\$1.31	1.7%	\$4.88	\$5.70	\$6.15	\$6.23	15.4x	13.1x	12.2x	12.0x	\$6.17	12.1x
CU	\$71.16	127.6	\$9,080	\$1.77	2.5%	\$3.28	\$3.69	\$4.02	\$4.18	21.7x	19.3x	17.7x	17.0x	\$4.08	17.4x
CPX	\$23.59	97.4	\$2,298	\$1.26	5.3%	\$1.38	\$1.24	\$1.44	\$1.63	17.1x	19.0x	16.4x	14.5x	\$1.50	15.7x
EMA	\$35.00	124.1	\$4,344	\$1.35	3.9%	\$1.65	\$1.64	\$1.70	\$1.80	21.2x	21.3x	20.6x	19.5x	\$1.73	20.2x
ENB	\$40.94	765.0	\$31,319	\$1.13	2.8%	\$1.32	\$1.46	\$1.60	\$1.87	31.1x	28.1x	25.6x	21.9x	\$1.69	24.3x
TA	\$16.49	224.6	\$3,704	\$1.16	7.0%	\$0.88	\$1.04	\$0.98	\$0.96	18.7x	15.9x	16.8x	17.2x	\$0.97	16.9x
TRP	\$43.44	705.0	\$30,625	\$1.76	4.1%	\$1.97	\$2.23	\$2.19	\$2.31	22.1x	19.5x	19.8x	18.8x	\$2.23	19.4x
Avg.					4.1%					21.9x	20.5x	19.7x	18.3x		19.2x

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated 75% on our 2013 and 25% on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**Investment Conclusion**

Going forward, we view the pending CH Energy acquisition positively as we believe that it will be mutually beneficial for both companies if successful. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction, with the potential to expand the company's footprint into the U.S. Northeast. CH Energy is expected to gain the financial backing of a strong parent to help fund its future growth, benefit from sharing of best practices across the Fortis group of utilities, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment investors will find the company's low-risk, utility-dominated business model attractive, and given the total potential returns to our target, we are upgrading the stock to BUY.





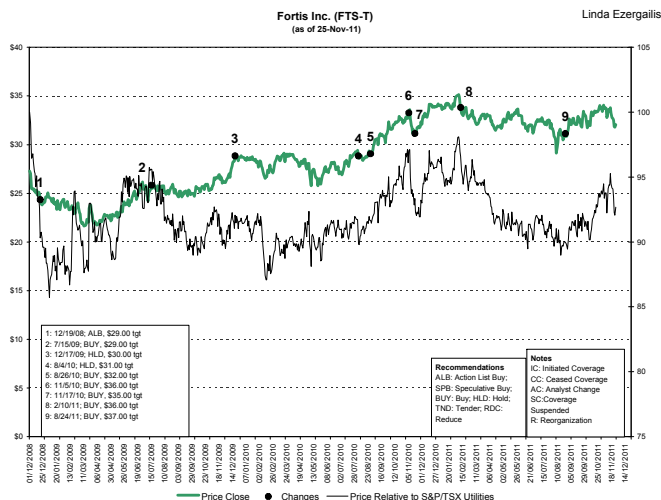


## TD Securities Equity Research Disclosures

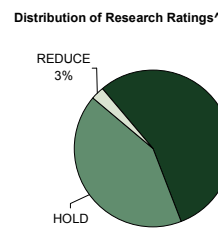
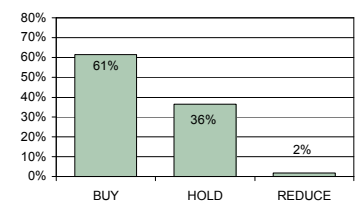
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of April 3, 2012

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.7% of coverage universe), Medium (31.5%), High (49.4%), Speculative (12.4%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2012 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **18.9%****Market Data (C\$)**

Current Price	\$32.14
52-Wk Range	\$28.24-\$34.98
Mkt Cap (f.d.)(mm)	\$6,437.6
Dividend per Share	\$1.20
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	643130

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	200.3
Float Shares (mm)	189.3
Net Debt/Tot Cap	53.2%
BVPS (basic)	\$20.61
ROE	8.5%

**Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.70	1.81	1.89
EPS (basic)(old)	1.68	1.69	1.81	1.89
EPS (f.d.)	1.67	1.68	1.78	1.86
EPS (f.d.)(old)	1.67	1.67	1.79	1.86
DIVIDEND	1.16	1.20	1.26	1.32
AFFO/Shr	2.62	2.55	2.53	2.86

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.33	--	--
Q3	0.25	--	--	--
Q4	0.46	--	--	--

**Valuations**

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	19.2x	19.1x	18.1x	17.3x
P/AFFO	12.3x	12.6x	12.7x	11.2x

Notes: Forecasts are based on US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$32.14****Resuming Coverage Post Sub Receipt Offering****Event**

- We are resuming coverage of Fortis Inc. following the close of an 18.5 million subscription receipt offering for gross proceeds of \$601 million.
- On June 19, 2012, CH Energy Group (CH Energy) shareholders voted 92% in favour of the acquisition of the company by Fortis for US\$65.00 per common share in cash (US\$1.5 billion in aggregate).

For additional details on the CH Energy acquisition, please refer to our February 22, 2012, Action Note titled, "**Fortis Enters into Agreement to Acquire CH Energy**".

**Impact****SLIGHTLY POSITIVE.**

We view both the subscription receipt closing and the CH Energy shareholder approval as positive steps towards closing the acquisition. Given the recent volatility in the capital markets, we believe that the use of subscription receipts reduces the financing risk associated with the acquisition. However, the offering was slightly larger than we were modeling and as a result our 2013 forecasts decline slightly, partially offset by a positive regulatory decision at Newfoundland Power, which saw its regulated ROE increase slightly to 8.80% (from 8.38%).

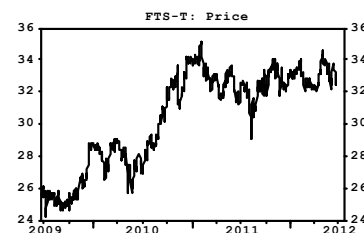
**Exhibit 1. Estimate Changes**

	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.70	1.81	1.89
EPS (basic) (old)	1.68	1.69	1.81	1.89
EPS (f.d.)	1.67	1.68	1.78	1.86
EPS (f.d) (old)	1.67	1.67	1.79	1.86
Free Cash Flow per Share (AFFO/Shr)	2.62	2.55	2.53	2.86
Free Cash Flow per Share (old)	2.62	2.54	2.54	2.86
Dividends per Share	1.16	1.20	1.26	1.32
Dividends per Share (old)	1.16	1.20	1.26	1.32

Source: TD Securities.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**

**Details**

- **Approvals and Timing:** Regulatory approval is required from the New York State Public Service Commission (NYPSC), the U.S. FERC, and Hart-Scott-Rodino. In April 2012, Fortis and Central Hudson (the regulated electric utility owned by CH Energy) filed a joint petition to launch the regulatory review for approval of the acquisition. We expect the NYPSC to approve the acquisition given Fortis' reputation and track record of successful utility acquisitions, and the potential for customer benefits. The acquisition is expected to close by the end of Q1/13.
- **Favourable Regulatory Environment:** Central Hudson is regulated by the NYPSC under a traditional cost of service model. Current rates are based on a three-year settlement, expiring mid-2013 that includes an allowed ROE of 10% and an equity thickness of 48%. In our view, this compares favourably with Fortis' other large utilities as CH Energy offers slightly higher returns with a similar risk profile (Exhibit 2). CH Energy also has favourable regulatory mechanisms similar to those of Fortis' other large utilities (Exhibit 3).

**Exhibit 2. Comparison of Fortis' Large Utilities**

Utility	Customers (#000s) <sup>1</sup>	Rate Base (\$B) <sup>2</sup>	2012 Equity Thickness (%)	2012 Allowed ROE (%)
FortisBC Energy	939	3.6	40%	9.50% <sup>3</sup>
FortisBC (Electric)	162	1.1	40%	9.90%
FortisAlberta	501	2.0	41%	8.75%
Newfoundland Power	248	0.9	45%	8.80%
<b>Central Hudson<sup>4</sup></b>	<b>375</b>	<b>1.0</b>	<b>48%</b>	<b>10.00%</b>

Notes:

1) As at March 31, 2012.

2) Forecast mid-year 2012.

3) ROE is for FortisBC Energy Inc. ROE for FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. is 50 bps higher.

4) CHEG acquisition announced on February 21, 2012. CHEG owns Central Hudson Gas &amp; Electric. Transaction is expected to close by March 31, 2013.

Source: Company Reports, TD Securities.

**Exhibit 3. Regulatory Mechanisms for Fortis' Large Utilities**

Utility	FortisBC Energy	FortisBC (Electric)	FortisAlberta	Newfoundland Power	Central Hudson (1)
Cost of service regulation	✓	✓	✓	✓	✓
Forward test year/Negotiated rate settlement	✓	✓	✓	✓	✓
Commodity/Energy supply cost trackers (2)	✓	(3) (4)	N/A (5)	✓	✓
Advance approval required for capital expenditures	✓	✓	✓	✓	✓
Weather (volume) normalization	✓	(4)	N/A (5)	✓	✓
Pension cost tracker (2)	✓	✓	N/A (6)	✓	✓
Interest expense tracker (2)	✓	✓	X	X	✓
Property tax tracker (2)	✓	✓	X	✓	✓
Relief typically granted for major non-controllable expenses (including taxes, storm damage and accounting changes)	✓	✓	✓	✓	✓

Notes:

1) CHEG acquisition announced on February 21, 2012. CHEG owns Central Hudson Gas &amp; Electric. Transaction is expected to close by March 31, 2013.

2) Deferral for future recovery from (refund to) customers of certain variances between actual and that forecast for rate setting.

3) Majority of power requirements met through the utility's own generation and long-term fixed-price contracts.

4) FortisBC Electric has requested commodity/energy supply cost and sales variance trackers for 2012 and 2013, subject to regulator approval.

5) Distribution utility only. No commodity or purchase power exposure.

6) Primarily has defined contribution pension plan.

Source: Company Reports, TD Securities.

- **Significant Strategic Thrust into the U.S.:** We view the pending foray into the U.S. Northeast as positive as it would further Fortis' strategy of entering into the U.S. regulated electric and gas distribution business with what we view to be a good-sized utility. Fortis has been looking for U.S. acquisitions for a number of years and we believe management has been disciplined in the process. For example, Fortis walked away from Central Vermont Public Service back in 2011 instead of increasing its original bid for the utility. We note that the company has a successful track record of acquiring utilities including Aquila Canada for \$1.5 billion in 2004 and Terasen Gas for \$3.7 billion in 2007.
- **Description of CH Energy Group:** CH Energy's main business (93% of total assets, 97% of 2011 net income) is a regulated transmission and distribution utility, Central Hudson, serving approximately 300,000 electric and 75,000 natural gas customers in New York State's Mid-Hudson River Valley region. CH Energy also has a non-regulated subsidiary primarily involved in fuel delivery to 56,000 customers in the Mid-Atlantic Region.

### Outlook

- **Highest Degree of Regulation and Lowest Risk Large-Cap Name in our Sector:** We expect Fortis will continue to have the highest degree of regulation of other power and utility companies under our coverage and we view it as the lowest risk, best defensive large-cap play in our universe (Exhibit 4).

### Exhibit 4. Degree of Regulation and Business Mix

	Fortis	ATCO	Canadian Utilities	Capital Power	Emera	TransAlta	Average
<b>Degree of Regulation</b>							
High	89%	39%	53%		62%		41%
Loose		12%	16%	36%	32%	13%	18%
Unregulated	11%	49%	31%	64%	6%	87%	41%
<b>Business Mix</b>							
Long-Haul Oil Transmission							
Long-Haul Natural Gas Transmission		7%	10%		11%		5%
Natural Gas Distribution	34%	11%	15%				10%
Electricity Transmission & Distribution	55%	21%	28%		73%		30%
Power Generation	5%	24%	33%	99%	12%	85%	43%
Oil Related Midstream							
Natural Gas Related Midstream		3%	4%				1%
Marketing and Other	6%	33%	10%	1%	4%	15%	12%

Notes:

1) Degree of regulation and business mix percentages are based off 2011A data, except for Fortis, which is based off 2013E.

2) ATCO and Canadian Utilities' debt values are adjusted for the companies' large cash balances.

Source: Company Reports, TD Securities.

- **Steady EPS and DPS Growth; No Further Need for Common Equity:** We are forecasting mid-single digit EPS and dividend per share CAGRs out to the end of 2014, largely on the back of rate base growth at the regulated utilities and the CH Energy acquisition. We believe Fortis could raise approximately \$250 million of preferred shares but we do not forecast any additional common equity financings out to 2015 (Exhibits 5-8).
- **Continued Appetite for Acquisitions:** We believe that Fortis' management will remain acquisitive and will continue to look at utility acquisitions. Our understanding is that there are some European based utility owners in New York and given the uncertainty surrounding the current situation in Europe, there is the possibility for these European players to shed assets in order to raise capital and strengthen their balance sheets. We believe that Fortis would be a potential bidder for any asset divestitures by these entities. That being said, given Fortis' utility acquisition strategy of keeping its subsidiaries autonomous and self-functioning, we believe that Fortis has the capability to acquire regulated utilities throughout the U.S. and would not limit itself to existing regions.

**Exhibit 5. Segmented Income Statement**

Income Statement (\$mm)	2009	2010	2011	2012E	2013E	2014E
FortisBC Energy Companies	120	126	139	146	149	147
FortisAlberta	57	68	74	82	89	93
FortisBC Electric	37	42	48	47	50	52
Newfoundland Power	32	35	34	35	36	37
Other Canadian Electric Utilities	17	19	22	21	22	23
CH Energy Group	-	-	-	-	40	48
Regulated Electric Utilities - Caribbean	25	23	20	24	25	26
Fortis Properties	24	26	23	23	26	30
Fortis Generation	16	20	18	21	23	27
Corporate and Other	(72)	(78)	(72)	(75)	(90)	(89)
<b>Operating Earnings</b>	<b>256</b>	<b>281</b>	<b>306</b>	<b>324</b>	<b>369</b>	<b>394</b>
Non-recurring, Unusual, Discontinued Items	6	4	12	-	(23)	-
<b>Reported Earnings</b>	<b>262</b>	<b>285</b>	<b>318</b>	<b>324</b>	<b>347</b>	<b>394</b>

Source: TD Securities.

**Exhibit 6. Cash Flows**

Cash Flow (\$mm)	2009	2010	2011	2012E	2013E	2014E
<b>Cash Flow Operations</b>	<b>637</b>	<b>783</b>	<b>904</b>	<b>836</b>	<b>931</b>	<b>1,022</b>
<b>Cash Flow Investing</b>	<b>(1,052)</b>	<b>(991)</b>	<b>(1,125)</b>	<b>(1,216)</b>	<b>(2,507)</b>	<b>(1,108)</b>
<b>Cash Flow Financing</b>	<b>438</b>	<b>232</b>	<b>201</b>	<b>328</b>	<b>1,565</b>	<b>93</b>
Issuance of Equity & Prefs (Net)	46	322	345	330	667	82
Increase/(Decrease) in Debt (Net)	551	146	(36)	269	1,203	333
Common & Pref Dividends	(159)	(236)	(108)	(271)	(305)	(322)
Change in Cash (incl. F/X)	19	24	(20)	(52)	(11)	7
Beg. Period Cash and Equivalents	66	85	109	89	37	26
<b>End Period Cash and Equivalents</b>	<b>85</b>	<b>109</b>	<b>89</b>	<b>37</b>	<b>26</b>	<b>33</b>

Source: TD Securities.

**Exhibit 7. Balance Sheet**

Balance Sheet (\$mm)	2009	2010	2011	2012E	2013E	2014E
Current Assets	1,126	1,204	1,120	1,044	1,033	1,040
Capital Assets	9,004	9,593	10,266	11,140	13,236	13,888
Other Long-Term Assets	2,030	2,106	2,176	2,219	3,333	2,120
<b>Total Assets</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,402</b>	<b>17,601</b>	<b>17,048</b>
Current Liabilities	1,594	1,517	1,320	1,083	2,643	1,603
Long-Term Debt and Capital Lease Obligations	5,276	5,609	5,679	6,282	6,530	7,353
Other Long-Term Liabilities	1,750	1,880	2,094	2,094	2,094	2,094
<b>Total Liabilities</b>	<b>8,620</b>	<b>9,006</b>	<b>9,093</b>	<b>9,459</b>	<b>11,267</b>	<b>11,050</b>
Preferred Shares (Equity Classified)	347	592	592	842	842	842
Shareholders' Equity	3,193	3,305	3,877	4,101	5,492	5,156
<b>Total Liabilities and Shareholders' Equity</b>	<b>12,160</b>	<b>12,903</b>	<b>13,562</b>	<b>14,402</b>	<b>17,601</b>	<b>17,048</b>

Source: TD Securities.



**Exhibit 8. Capitalization**

Capital Structure (\$mm)	2009	2010	2011	2012E	2013E	2014E
Total Debt	5,915	6,023	5,944	6,213	7,416	7,749
	60%	58%	54%	53%	54%	54%
Non-Controlling Interest	123	162	208	208	208	208
	1%	2%	2%	2%	2%	1%
Preferred Shares	667	912	912	1,162	1,162	1,162
	7%	9%	8%	10%	8%	8%
Common Equity	3,193	3,305	3,877	4,095	4,899	5,148
	32%	32%	35%	35%	36%	36%
<b>Total Capitalization</b>	<b>9,898</b>	<b>10,402</b>	<b>10,941</b>	<b>11,678</b>	<b>13,685</b>	<b>14,267</b>

Source: TD Securities.

**Valuation****Exhibit 9. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S(mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2011A	2012E	2013E	2011A	2012E	2013E	2012E	2013E	2012E	2013E
Fortis Inc.	FTS	\$32.14	200.3	\$6,438	\$1.20	3.7%	\$1.67	\$1.68	\$1.78	\$2.62	\$2.55	\$2.53	19.1x	18.1x	7.9%	7.9%
ATCO Ltd.	ACO.X	\$72.31	57.7	\$4,172	\$1.31	1.8%	\$5.70	\$6.15	\$6.23	\$8.38	\$7.97	\$7.75	11.8x	11.6x	11.0%	10.7%
Canadian Utilities Ltd.	CU	\$66.40	127.6	\$8,473	\$1.77	2.7%	\$3.69	\$4.02	\$4.18	\$5.32	\$4.77	\$4.62	16.5x	15.9x	7.2%	7.0%
Capital Power Corp.	CPX	\$23.79	97.4	\$2,317	\$1.26	5.3%	\$1.24	\$1.44	\$1.64	\$2.78	\$2.50	\$3.02	16.5x	14.5x	10.5%	12.7%
Emera Inc.	EMA	\$32.74	128.5	\$4,207	\$1.35	4.1%	\$1.64	\$1.68	\$1.78	\$2.06	\$2.13	\$1.95	19.5x	18.4x	6.5%	5.9%
TransAlta Corp.	TA, TAC	\$16.97	224.6	\$3,811	\$1.16	6.8%	\$1.04	\$0.98	\$0.96	\$1.68	\$1.01	\$1.81	17.3x	17.7x	6.0%	10.7%
Valener Inc.	VNR	\$15.06	37.5	\$565	\$1.00	6.6%	\$0.82	\$0.80	\$0.89	\$2.04	\$2.10	\$2.10	18.9x	16.9x	13.9%	13.9%
Average (1)						4.9%							18.0x	16.9x	8.7%	9.7%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated 75% on our 2013 and 25% on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) closing of pending acquisitions, and 8) access to capital markets.

**Investment Conclusion**

Going forward, we view the pending CH Energy acquisition positively as we believe that it will be mutually beneficial for both companies if successful. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction, with the potential to expand the company's footprint into the U.S. Northeast. CH Energy is expected to gain the financial backing of a strong parent to help fund its future growth, benefit from sharing of best practices across the Fortis group of utilities, realize customer benefits while maintaining steady rates, and keep its operations autonomous within Fortis.

Fortis is the largest highly-regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment investors will find the company's low-risk, utility-dominated business model attractive, and given the total potential returns to our target, we reiterate our BUY recommendation.

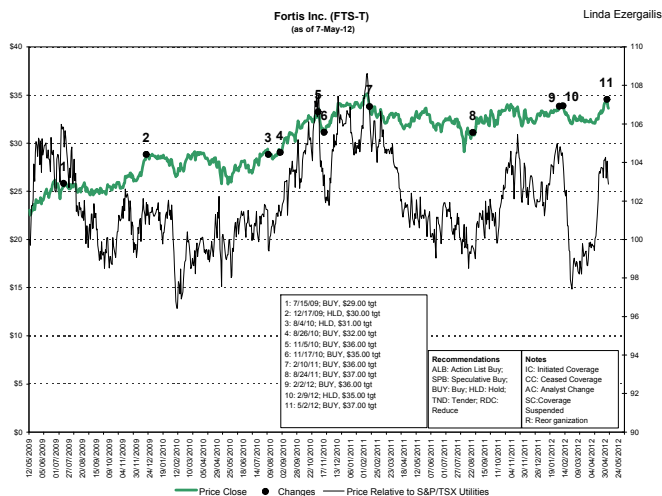


## TD Securities Equity Research Disclosures

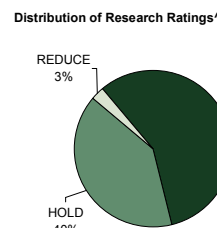
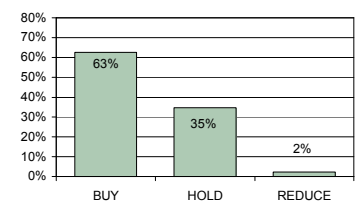
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of June 4, 2012

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.0%), Speculative (12.1%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2012 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **14.3%****Market Data (C\$)**

Current Price	\$33.41
52-Wk Range	\$28.24-\$34.98
Mkt Cap (f.d.)(mm)	\$6,708.7
Dividend per Share	\$1.20
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	480029

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	200.8
Float Shares (mm)	190.0
Net Debt/Tot Cap	52.1%
BVPS (basic)	\$20.68
ROE	8.5%

**Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.72	1.81	1.89
EPS (basic)(old)	1.68	1.70	1.81	1.89
EPS (f.d.)	1.67	1.69	1.78	1.87
EPS (f.d.)(old)	1.67	1.68	1.78	1.86
DIVIDEND	1.16	1.20	1.26	1.32
AFFO/Shr	2.62	2.53	2.53	2.88

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.34	--	--
Q3	0.25	0.26	--	--
Q4	0.46	--	--	--

**Valuations**

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	20.0x	19.8x	18.8x	17.9x
P/AFFO	12.8x	13.2x	13.2x	11.6x

Notes: Forecasts are based on US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$33.41****Solid Q2; CH Energy Acquisition Remains On Track****Event**

Fortis reported adjusted Q2/12 EPS (f.d.) of \$0.34, slightly above our \$0.33 estimate, recent consensus and Q2/11 EPS (f.d.).

**Impact****NEUTRAL.**

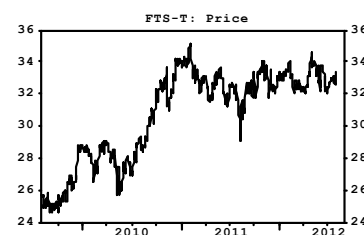
We have revised our estimates slightly to reflect various regulatory updates and financing assumptions. We are rolling forward our target price to be based 50% on each of our 2013 and 2014 estimates. Our target remains \$37.

**Details****Regulated Gas Utilities** Q2/12 earnings of \$13 million declined by \$2 million year over year, largely due to lower-than-expected customer additions and decreased capitalized allowance for funds used during construction (AFUDC) from a lower capital program in 2012.**Regulated Electric Utilities – Canadian** Q2/12 earnings of \$52 million were \$9 million higher year over year.

- **FortisAlberta** earnings of \$26 million increased by \$8 million versus Q2/11 results, largely due to rate base growth from utility investments along with higher transmission revenue and lower depreciation deemed by the regulator. The increase was partially offset by a lower allowed ROE.
- **FortisBC Electric** earnings of \$9 million were comparable year over year, as the expiration of the performance-based rate-setting (PBR) mechanism in December 2011 and lower capitalized AFUDC were offset by rate base growth.
- **Newfoundland Power** earnings of \$12 million were \$2 million higher year over year, largely a result of lower effective income taxes and a higher allowed ROE. The increase was partially offset by lower earnings from a joint-use pole arrangement that ended in October 2011 and increased depreciation from new investments.
- **Other Canadian Electric Utilities** earnings of \$5 million were \$1 million lower than Q2/11 results, mainly from increased operating expenses at FortisOntario resulting from higher employee-related costs and timing of expenses.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

**Please see the final pages of this document for important disclosure information.**



**Regulated Utilities – Caribbean** earnings of \$6 million were in line with Q2/11 results.

**Fortis Generation** earnings of \$5 million were \$3 million higher year over, largely due to increased generation in Belize resulting from higher rainfall.

**Fortis Properties** earnings of \$8 million were comparable year over year.

**Corporate and Other** expenses increased by \$2 million year over year, largely due to lower income tax recovery in Q2/12.

#### **Exhibit 1. Segmented Earnings Analysis (\$mm unless stated otherwise)**

	Q2/12	Q2/11	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	\$13	\$15	(\$2)	-13%
FortisAlberta	26	18	8	44%
FortisBC Electric	9	9	-	0%
Newfoundland Power	12	10	2	20%
Other Canadian	5	6	(1)	-17%
Regulated Electric Utilities - Canadian	52	43	9	21%
Regulated Utilities - Caribbean	6	6	-	0%
<b>Total Regulated Utilities</b>	<b>71</b>	<b>64</b>	<b>7</b>	<b>11%</b>
<b>Non-Regulated Fortis Generation</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>150%</b>
<b>Non-Regulated Fortis Properties</b>	<b>8</b>	<b>8</b>	<b>-</b>	<b>0%</b>
<b>Corporate<sup>1</sup></b>	<b>(19)</b>	<b>(17)</b>	<b>(2)</b>	<b>12%</b>
<b>Operating Earnings</b>	<b>65</b>	<b>57</b>	<b>8</b>	<b>14%</b>
Adjustments	(3)	-	(3)	n.a.
<b>Reported Earnings</b>	<b>62</b>	<b>57</b>	<b>5</b>	<b>9%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.34</b>	<b>\$0.33</b>	<b>\$0.01</b>	<b>4%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.33</b>	<b>\$0.33</b>	<b>\$0.00</b>	<b>0%</b>

Notes: Earnings have been normalized for the following items:

1) \$3mm of costs (after-tax) incurred in Q2/12 related to the pending CH Energy acquisition.

Source: Company Reports, TD Securities.

Outlook**Regulatory Updates:**

- **B.C. Generic Cost of Capital Hearing:** The evidence portion of the proceeding will take place through to early-December 2012 with a potential oral hearing starting December 12, 2012. A decision is expected in early-2013. As a reminder, the British Columbia Utilities Commission gave a final notice of the items to be reviewed in the Generic Cost of Capital proceeding, which included 1) setting an appropriate cost of capital for a low-risk utility, including capital structure, ROE and debt interest; 2) establishing whether an automatic ROE adjustment mechanism is warranted; and 3) establishing a generic methodology for each utility's cost of capital in reference to the benchmark low-risk utility.
- **FortisAlberta:** In April 2012 the AUC approved a negotiated settlement with respect to 2012 distribution revenue requirements using a forecast mid-year rate base of \$2.025 billion. The discussions regarding the PBR initiative for distribution utilities in Alberta continues and a decision is expected in Q4/12.
- **Newfoundland Power:** In June 2012 Newfoundland Power received a positive regulatory decision, which saw its regulated ROE increase slightly to 8.80% from 8.38% for 2011. However, the regulator has requested that Newfoundland Power file a General Rate Application for 2013, which it will do in Q3/12.

**Acquisition and CH Energy Updates:**

- FortisBC Electric is in preliminary discussion to purchase the City of Kelowna's electricity distribution utility for approximately \$50 million-60 million. The utility serves 15,000 customers and FortisBC Electric has operated and maintained the assets since 2000. Both parties are working towards a close by the end of Q1/13.
- In July 2012 Fortis received regulatory approval for the CH Energy acquisition from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the U.S. Currently, the New York State Public Service Commission is reviewing the jointly filed Fortis and CH Energy application, and management remains on track to close the acquisition by the end of Q1/13.

**Organic Capital Program Remains Unchanged:** In 2012 management expects gross capital expenditures of approximately \$1.3 billion. The company's five-year plan (2012-2016) forecasts gross capital expenditures of \$5.5 billion. Of this amount, 65% is expected to be related to regulated electric utilities, 21% to regulated gas utilities, and 14% to non-regulated operations. The \$900-million B.C. Waneta Expansion project remains on schedule and on budget, with the excavation of the intake, powerhouse and power tunnel complete. Approximately \$345 million has been spent to date.

**Q3/12 Preview:** We are forecasting Q3/12 EPS of \$0.26, slightly above Q3/11 results. We expect rate base growth in the Canadian regulated utilities to offset the expiration of the PBR mechanism at FortisBC Electric and a higher number of shares outstanding.

Valuation**Exhibit 2. Valuation**

Power & Utility Companies	Symbol	Curr.	Shares	Market	Ind.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
		Price	O/S(mm)	Cap (mm)	Div.		2011A	2012E	2013E	2011A	2012E	2013E	2012E	2013E	2012E	2013E
Fortis Inc.	FTS	\$33.54	200.8	\$6,735	\$1.20	3.6%	\$1.67	\$1.69	\$1.78	\$2.62	\$2.53	\$2.53	19.8x	18.8x	7.5%	7.5%
ATCO Ltd.	ACO.X	\$73.70	57.6	\$4,243	\$1.31	1.8%	\$5.70	\$6.11	\$6.32	\$8.38	\$8.09	\$8.04	12.1x	11.7x	11.0%	10.9%
Canadian Utilities Ltd.	CU	\$70.00	127.6	\$8,935	\$1.77	2.5%	\$3.69	\$3.94	\$4.20	\$5.32	\$4.77	\$4.67	17.8x	16.7x	6.8%	6.7%
Capital Power Corp.	CPX	\$21.52	97.5	\$2,098	\$1.26	5.9%	\$1.24	\$1.41	\$1.48	\$2.78	\$2.46	\$2.84	15.2x	14.6x	11.4%	13.2%
Emera Inc.	EMA	\$35.32	128.5	\$4,539	\$1.35	3.8%	\$1.64	\$1.68	\$1.78	\$2.06	\$2.13	\$1.95	21.0x	19.9x	6.0%	5.5%
TransAlta Corp.	TA, TAC	\$15.65	227.0	\$3,553	\$1.16	7.4%	\$1.04	\$0.70	\$0.73	\$1.68	\$0.28	\$1.01	22.5x	21.4x	1.8%	6.5%
Valener Inc.	VNR	\$15.89	37.5	\$596	\$1.00	6.3%	\$0.82	\$0.80	\$0.89	\$2.04	\$2.10	\$2.10	20.0x	17.9x	13.2%	13.2%
Average (1)						4.9%							19.4x	18.2x	7.8%	8.8%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated 50% on each of our 2013 and 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**Investment Conclusion**

Fortis is the largest highly-regulated investor-owned gas and electric distribution utility in Canada. The pending CH Energy transaction should also provide Fortis with a source of stable and regulated earnings in a favourable regulatory jurisdiction, with the potential to expand the company's footprint into the U.S. Northeast.

We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well-positioned to make future acquisitions, as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment investors will find Fortis' low-risk, utility-dominated business model attractive and, given the total potential returns to our target, we reiterate our BUY recommendation. We view it as a core holding in the sector.



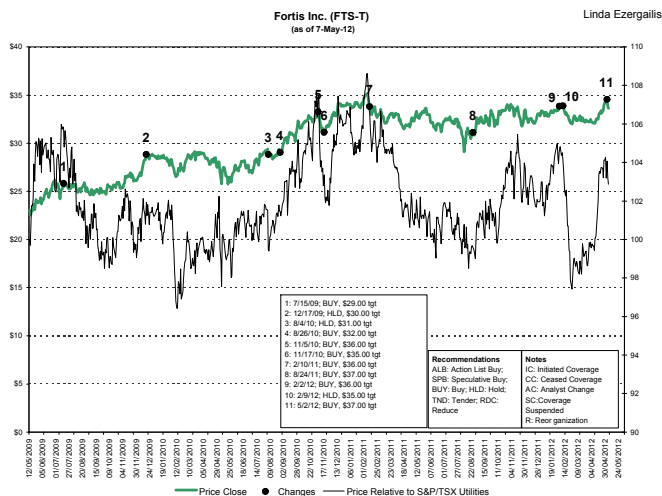


## TD Securities Equity Research Disclosures

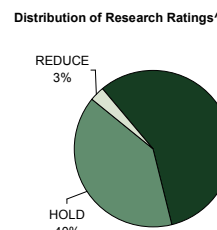
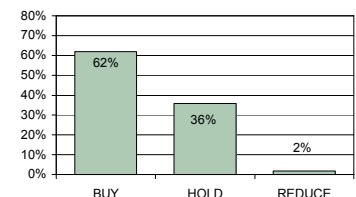
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of July 4, 2012

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.7% of coverage universe), Medium (31.6%), High (49.7%), Speculative (12.0%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2012 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **12.7%****Market Data (C\$)**

Current Price	\$33.90
52-Wk Range	\$31.32-\$34.98
Mkt Cap (f.d.)(mm)	\$6,827.5
Dividend per Share	\$1.20
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	370857

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	201.4
Float Shares (mm)	190.7
Net Debt/Tot Cap	52.7%
BVPS (basic)	\$20.62
ROE	8.5%

**Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.69	1.80	1.88
EPS (basic)(old)	1.68	1.72	1.81	1.89
EPS (f.d.)	1.67	1.67	1.77	1.85
EPS (f.d.)(old)	1.67	1.69	1.78	1.87
AFFO/Shr	2.62	2.50	2.52	2.86
AFFO/Shr (old)	2.62	2.53	2.53	2.88

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.34	--	--
Q3	0.25	0.24	--	--
Q4	0.46	0.44	--	--

**Valuations**

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	20.3x	20.3x	19.2x	18.3x
P/AFFO	12.9x	13.6x	13.5x	11.9x

Notes: Forecasts are based on US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$33.90****Q3 Results a Bit Soft, Partially Due to Timing****Event**

Fortis reported adjusted Q3/12 EPS (f.d.) of \$0.24, slightly below our and consensus estimate of \$0.26, and Q3/11 EPS (f.d.) of \$0.25.

**Impact****NEUTRAL.**

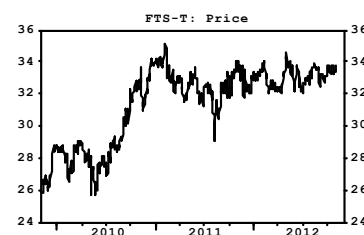
Our forecasts have been updated to reflect several factors, including softer contributions from the regulated Caribbean utilities and Real Estate. We are rolling our target price forward by a quarter to be 75% based off our 2014 forecasts.

**Details****FortisBC Energy** Q3/12 loss of \$6 million increased \$3 million year over year – primarily due to the timing of recognition of revenue and certain expenses as well as lower allowance for funds used during construction, and lower-than-expected customer additions in 2012. This was partially offset by higher gas transportation volumes to industrial customers and the timing of O&M expenses.**Regulated Electric Utilities – Canadian** Q3/12 earnings of \$54 million were \$11 million higher year over year.

- **FortisAlberta** earnings of \$26 million grew \$7 million year over year due to a positive regulatory decision in April 2012, rate base growth and some timing of operating expenses, partially offset by a lower ROE.
- **FortisBC Electric** earnings of \$13 million grew \$3 million year over year, benefiting from rate base growth, higher pole-attachment revenue and lower financing charges.
- **Newfoundland Power** earnings of \$9 million increased from \$8 million in Q3/11 due to a combination of lower effective income taxes, higher allowed ROE and electricity sales growth, partially offset by the sale of joint-use poles with Bell Alliant in October 2011, O&M costs from Tropical Storm Leslie and higher depreciation expense.
- **Other Canadian Electric Utilities** earnings of \$6 million were flat year over year.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

**Please see the final pages of this document for important disclosure information.**

**Regulated Utilities – Caribbean** earnings of \$6 million were flat versus Q3/11 results, as lower finance charges at Caribbean Utilities and increased electricity sales at Fortis Turks and Caicos were offset by higher expenses at Turks and Caicos and decreased electricity sales at Caribbean Utilities.

**Fortis Generation** earnings of \$5 million declined \$3 million year over year, primarily due to lower rainfall affecting production in Belize.

**Fortis Properties** earnings of \$8 million declined \$1 million year over year as a result of decreased occupancy at hotel operations in Atlantic and Central Canada, as well as higher depreciation from capital additions. This was partially offset by a contribution from the Hilton Suites Hotel, which was acquired in October 2011. Excluding the impact of this acquisition, RevPAR in the Hospitality Division was \$80.80 year to date, up 0.3% year over year – driven by a 1.7% increase in average daily room rate, partially offset by a 1.4% decrease in hotel occupancy.

#### Exhibit 1. Segmented Earnings (\$mm unless stated otherwise)

	Q3/12	Q3/11	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	(\$6)	(\$3)	(\$3)	100%
FortisAlberta	26	19	7	37%
FortisBC Electric	13	10	3	30%
Newfoundland Power	9	8	1	13%
Other Canadian	6	6	-	0%
Regulated Electric Utilities - Canadian	54	43	11	26%
Regulated Utilities - Caribbean	6	6	0	6%
<b>Total Regulated Utilities</b>	<b>54</b>	<b>46</b>	<b>8</b>	<b>18%</b>
<b>Non-Regulated Fortis Generation</b>	<b>5</b>	<b>8</b>	<b>(3)</b>	<b>-38%</b>
<b>Non-Regulated Fortis Properties</b>	<b>8</b>	<b>9</b>	<b>(1)</b>	<b>-11%</b>
<b>Corporate<sup>1,2</sup></b>	<b>(23)</b>	<b>(16)</b>	<b>(7)</b>	<b>41%</b>
<b>Operating Earnings</b>	<b>45</b>	<b>47</b>	<b>(2)</b>	<b>-5%</b>
Adjustments	1	11	(11)	-95%
<b>Reported Earnings</b>	<b>45</b>	<b>58</b>	<b>(13)</b>	<b>-22%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.24</b>	<b>\$0.25</b>	<b>(\$0.01)</b>	<b>-5%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.24</b>	<b>\$0.31</b>	<b>(\$0.07)</b>	<b>-23%</b>

Notes: Earnings have been normalized for the following items:

1) \$0.5mm of costs (after-tax) incurred in Q3/12 related to the pending CH Energy acquisition.

2) \$11mm (after-tax) gain in Q3/11 related to the CVPS merger termination fee.

**Outlook****Acquisition and Construction Updates:**

- **CH Energy:** It appears that Fortis' US\$1.5-billion acquisition of CH Energy is on track for a closing prior to the end of Q1/13. In July 2012, the FERC and Committee on Foreign Investments in U.S. approved the transaction. Another condition necessary to close the transaction was met in October 2012, when the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 expired. The main pending regulatory approval is from the New York Public Service Commission. For a complete discussion about CH Energy, please see our company note dated June 28, 2012 titled *Resuming Coverage Post Sub Receipt Offering* and our February 22, 2012 note titled *Fortis Enters into Agreement to Acquire CH Energy*.
- **Waneta Expansion on Track:** Approximately \$380 million has been spent on the \$900-million 335-MW Waneta Expansion in B.C. since construction began late in 2010, and the project is on budget and on schedule for a spring 2015 in-service date. For a complete discussion about the project, please see our company note dated August 27, 2010 titled *Waneta Expansion Hydro Project Announced*.
- **Other:** In August 2012, Fortis Turks & Caicos acquired Turks & Caicos Utilities Limited for US\$13 million. In October 2012, Fortis acquired the StationPark All Suite Hotel in London, Ontario for approximately \$13 million.
- **Five-Year Outlook:** From 2012 to 2016 inclusive, management expects gross capital expenditures to be \$5.5 billion (unchanged), with the addition of CH Energy Group adding approximately \$0.5 billion. Just under two-thirds is expected to be incurred at the regulated electric utilities, subject to regulatory approval.

**Significant Regulatory Updates:**

- **FortisAlberta** has sought leave to appeal the Alberta Utility Commission's (AUC) generic Performance Based Regulation (PBR) Decision, as it is concerned about the uncertainty regarding the treatment of certain capital expenditures. In November 2012, Fortis will also be seeking further clarification in the required compliance application to be filed with the AUC. For a more complete discussion about the PBR Decision, please see our industry note titled *Alberta Regulator Releases PBR Framework*, dated September 14, 2012. Within Alberta, a generic cost-of-capital proceeding is expected to commence in late-2012 or early-2013 to establish an ROE for 2013, which in the interim will continue to be 8.75%. The higher risk associated with the PBR should translate into a higher ROE and equity thickness.
- The **British Columbia Utilities Commission** initiated a Generic Cost of Capital proceeding in early-2012, and the oral hearing is scheduled to commence on December 12, 2012. Our forecasts for FortisBC Energy and FortisBC Electric assume no change in the benchmark ROE, currently set at 9.5%.

**Q4/12 Preview:** We are forecasting Q4/12 EPS of \$0.44, slightly below Q4/11 results. We expect timing of operating expenses to offset rate base growth in the Canadian regulated utilities and some recovery of earnings in the Caribbean regulated electric utilities. We do not forecast much growth in the Properties or Generation segments.

**Valuation****Exhibit 2. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S(mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2011A	2012E	2013E	2011A	2012E	2013E	2012E	2013E	2012E	2013E
Fortis Inc.	FTS	\$33.90	201.4	\$6,827	\$1.20	3.5%	\$1.67	\$1.67	\$1.77	\$2.62	\$2.50	\$2.52	20.4x	19.1x	7.4%	7.4%
ATCO Ltd.	ACO.X	\$74.90	57.5	\$4,306	\$1.31	1.7%	\$5.70	\$6.08	\$6.30	\$8.38	\$8.39	\$8.27	12.3x	11.9x	11.2%	11.0%
Canadian Utilities Ltd.	CU	\$67.03	128.1	\$8,585	\$1.77	2.6%	\$3.69	\$3.84	\$4.16	\$5.32	\$4.96	\$4.79	17.4x	16.1x	7.4%	7.1%
Capital Power Corp.	CPX	\$22.13	98.1	\$2,170	\$1.26	5.7%	\$1.24	\$1.41	\$1.39	\$2.78	\$2.46	\$2.79	15.7x	16.0x	11.1%	12.6%
Emera Inc.	EMA	\$34.85	125.6	\$4,377	\$1.40	4.0%	\$1.64	\$1.67	\$1.78	\$2.06	\$2.13	\$1.97	20.9x	19.6x	6.1%	5.7%
TransAlta Corp.	TA, TAC	\$15.86	254.7	\$4,040	\$1.16	7.3%	\$1.04	\$0.54	\$0.77	\$1.68	\$0.06	\$1.00	29.1x	20.7x	0.4%	6.3%
Valener Inc.	VNR	\$15.97	37.5	\$599	\$1.00	6.3%	\$0.82	\$0.80	\$0.78	\$2.04	\$2.01	\$1.89	20.1x	20.5x	12.6%	11.8%
Average							4.9%						20.6x	18.7x	7.5%	8.5%

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated 25% and 75% on our 2013 and 2014 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**Investment Conclusion**

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well positioned to make future acquisitions in North America as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find Fortis' low-risk, utility-dominated business model attractive and, given the total potential returns to our target, we reiterate our BUY recommendation.

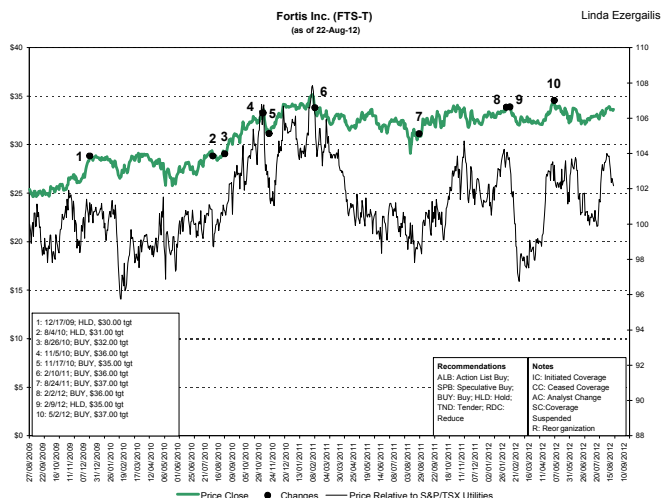


## TD Securities Equity Research Disclosures

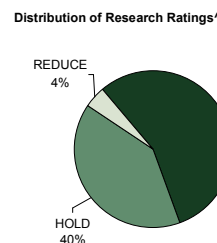
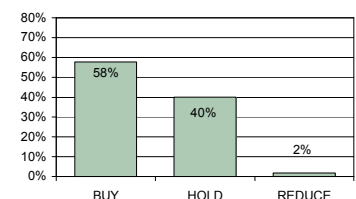
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of October 2, 2012

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>



**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.4%), Speculative (11.6%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2012 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **10.6%****Market Data (C\$)**

Current Price	\$34.58
52-Wk Range	\$31.70-\$34.98
Mkt Cap (f.d.)(mm)	\$6,964.4
Dividend per Share	\$1.24
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	369632

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	201.4
Float Shares (mm)	190.7
Net Debt/Tot Cap	52.7%
BVPS (basic)	\$20.62
ROE	8.5%

**Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.69	1.78	1.88
EPS (basic)(old)	1.68	1.69	1.80	1.88
EPS (f.d.)	1.67	1.67	1.75	1.85
EPS (f.d.)(old)	1.67	1.67	1.77	1.85
AFFO/Shr	2.62	2.50	2.50	2.86
AFFO/Shr (old)	2.62	2.50	2.52	2.86

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.34	--	--
Q3	0.25	0.24	--	--
Q4	0.46	0.44	--	--

**Valuations**

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	20.7x	20.7x	19.8x	18.7x
P/AFFO	13.2x	13.8x	13.8x	12.1x

Notes: Forecasts are based on US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$34.58****Settlement Agreement With Central Hudson Filed****Event**

Fortis and Central Hudson Gas & Electric Corp. (Central Hudson) have filed a Settlement Agreement with the New York State Public Service Commission (the Commission), which recommends that Fortis' acquisition of Central Hudson be approved. As a reminder, Central Hudson is the utility subsidiary of CH Energy Group.

**Impact****SLIGHTLY POSITIVE.**

We have updated our forecasts for the settlement and revised timing of the CH Energy close (now expected in Q2/13 from Q1/13).

**Details**

The terms of the Settlement Agreement include:

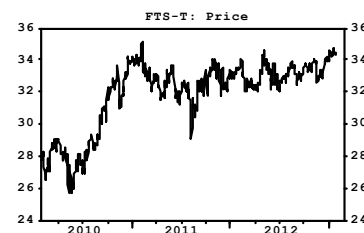
- \$35 million by Fortis to cover expenses that would normally be recovered in customer rates, which include significant restoration expenses related to Superstorm Sandy, the October 2011 snowstorm and Tropical Storm Irene, and other similar expenses.
- \$9.25 million of cost savings over five years resulting from the elimination of costs Central Hudson currently incurs as a public company.
- A rate freeze for customers (both electric and natural gas) until July 1, 2014.
- One-time funding of \$5 million by Fortis to a Customer Benefit Fund for economic development and low income assistance programs within Mid-Hudson Valley.
- Other customer protections, including the continuation of Central Hudson as a stand-alone utility company.

**Closing Slightly Delayed:** Assuming the Commission approves the Settlement Agreement, closing of the transaction has been slightly delayed to Q2/13 (from Q1/13).

**Please see the final pages of this document for important disclosure information.**

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Valuation****Exhibit 1. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S(mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2011A	2012E	2013E	2011A	2012E	2013E	2012E	2013E	2012E	2013E
Fortis Inc.	FTS	\$34.58	201.4	\$6,964	\$1.24	3.6%	\$1.67	\$1.67	\$1.75	\$2.62	\$2.50	\$2.50	20.8x	19.8x	7.2%	7.2%
ATCO Ltd.	ACO.X	\$84.18	57.5	\$4,839	\$1.50	1.8%	\$5.70	\$6.08	\$6.30	\$8.38	\$8.39	\$8.27	13.8x	13.4x	10.0%	9.8%
Canadian Utilities Ltd.	CU	\$74.61	128.1	\$9,555	\$1.94	2.6%	\$3.69	\$3.84	\$4.16	\$5.32	\$4.96	\$4.79	19.4x	17.9x	6.7%	6.4%
Capital Power Corp.	CPX	\$23.22	98.1	\$2,277	\$1.26	5.4%	\$1.24	\$1.40	\$1.42	\$2.78	\$2.55	\$2.90	16.6x	16.3x	11.0%	12.5%
Emera Inc.	EMA	\$36.32	131.0	\$4,758	\$1.40	3.9%	\$1.64	\$1.65	\$1.73	\$2.06	\$2.09	\$2.00	22.0x	21.0x	5.8%	5.5%
TransAlta Corp.	TA, TAC	\$16.34	254.7	\$4,162	\$1.16	7.1%	\$1.04	\$0.55	\$0.77	\$1.68	\$0.25	\$1.08	29.8x	21.2x	1.5%	6.6%
Valener Inc.	VNR	\$16.27	37.5	\$610	\$1.00	6.1%	\$0.82	\$0.81	\$0.72	\$2.04	\$1.89	\$1.86	20.1x	22.6x	11.6%	11.4%
Average						4.8%							21.5x	19.8x	7.3%	8.3%

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated 25% and 75% on our 2013 and 2014 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

**Key Risks to Target Price**

1) higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**Investment Conclusion**

Given the Settlement Agreement is nearly unanimously supported by all stakeholders, Fortis' acquisition of CH Energy Group is likely to be approved by the Commission.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well-positioned to make future acquisitions in North America as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find Fortis' low-risk, utility-dominated business model attractive and, given the total potential returns to our target, we reiterate our BUY recommendation.

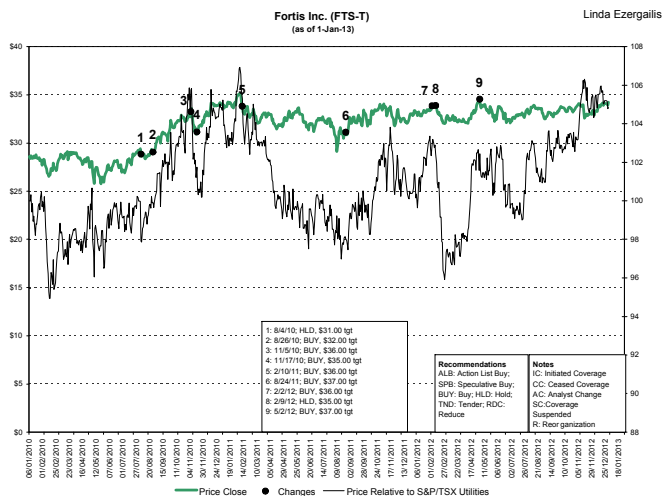


## TD Securities Equity Research Disclosures

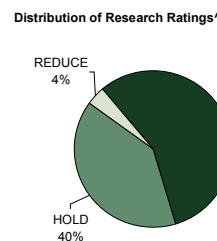
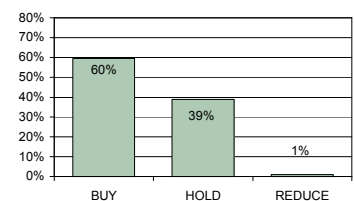
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of January 8, 2013

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **11.7%****Market Data (C\$)**

Current Price	\$34.24
52-Wk Range	\$31.70-\$34.98
Mkt Cap (f.d.)(mm)	\$6,919.9
Dividend per Share	\$1.24
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	369165

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.1
Float Shares (mm)	191.6
Net Debt/Tot Cap	51.4%
BVPS (basic)	\$20.84
ROE	8.3%

**Estimates (C\$)**

Year	2011A	2012A	2013E	2014E
EPS (basic)	1.68	1.71	1.74	1.81
EPS (basic)(old)	1.68	1.69	1.78	1.88
EPS (f.d.)	1.67	1.70	1.73	1.80
EPS (f.d.)(old)	1.67	1.67	1.75	1.85
AFFO/Shr	2.62	2.70	2.47	2.80
AFFO/Shr (old)	2.62	2.50	2.50	2.86

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012A	2013E	2014E
Q1	0.64	0.64	0.65	--
Q2	0.33	0.34	--	--
Q3	0.25	0.24	--	--
Q4	0.46	0.45	--	--

**Valuations**

Year	2011A	2012A	2013E	2014E
P/E (f.d.)	20.5x	20.1x	19.8x	19.0x
P/AFFO	13.1x	12.7x	13.9x	12.2x

All figures in C\$, unless otherwise specified.

**Please see the final pages of this document for important disclosure information.**

**Linda Ezergailis, P.Eng.**

416 983 7784

[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**

416 983 9259

[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.****(FTS-T) C\$34.24****Q4/12 Results In Line; Focus Remains on CH Energy****Event**

Fortis reported adjusted Q4/12 EPS (f.d.) of \$0.45, slightly above our \$0.44 estimate, but below recent consensus of \$0.50. Q4/11 EPS (f.d.) (US GAAP) was \$0.44.

**Impact****NEUTRAL.**

We have updated our forecasts, largely to reflect softer contribution from the regulated Caribbean utilities and FortisBC Energy (Terasen Gas), along with lower unregulated earnings in the Real Estate and Generation segments.

We are rolling our target price forward by a quarter to be based 100% off our 2014 forecasts. We are maintaining our \$37 target and BUY recommendation.

**Details**

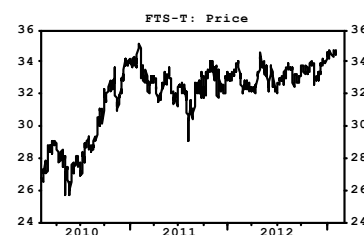
**FortisBC Energy** Q4/12 earnings of \$49 million declined by \$2 million year over year due to both timing of O&M expenses and lower-than-expected customer additions in 2012. The decrease was partially offset by rate base growth, higher gas transportation volumes to industrial customers and lower effective income taxes.

**Regulated Electric Utilities – Canadian** Q4/12 earnings of \$48 million were \$11 million higher year over year.

- **FortisAlberta** earnings of \$22 million grew \$4 million year over year due to rate base growth, a positive regulatory decision received in April 2012, and was partially offset by a lower ROE.
- **FortisBC Electric** earnings of \$12 million grew \$2 million year over year benefiting from rate base growth, lower-than-expected finance charges (which are no longer permitted deferral account treatment), and higher pole-attachment revenue.
- **Newfoundland Power** earnings of \$9 million increased from \$8 million in Q4/11 due to a higher allowed ROE (to 8.8% from 8.38%), electricity sales growth, and lower income tax and operating expenses.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



- **Other Canadian Electric Utilities** earnings of \$6 million increased by \$4 million year over year, largely due to lower effective income taxes at Maritime Electric, timing of certain expenses at FortisOntario, along with higher operating expenses at Maritime Electric in Q4/11 related to retirement costs.

**Regulated Utilities – Caribbean** earnings of \$3 million declined by \$1 million year over year, as a result of F/X impacts and higher depreciation largely at Caribbean Utilities.

**Fortis Generation** earnings of \$2 million declined from \$5 million in Q4/11, primarily due to decreased electricity production in Belize and Upstate New York.

**Fortis Properties** earnings of \$5 million were flat year over year. During the quarter, RevPAR increased slightly to \$73.94 from \$73.66 in Q4/11. The quarter also had contribution from the StationPark Hotel, which was acquired in October 2012.

#### Exhibit 1. Segmented Earnings (\$mm unless stated otherwise)

	Q4/12	Q4/11	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$49	\$51	(\$2)	-4%
FortisAlberta <sup>1,2</sup>	22	18	4	24%
FortisBC Electric	12	10	2	20%
Newfoundland Power	9	8	1	13%
Other Canadian <sup>3</sup>	6	2	4	175%
Regulated Electric Utilities - Canadian	48	38	11	28%
Regulated Utilities - Caribbean	3	4	(1)	-25%
<b>Total Regulated Utilities</b>	<b>100</b>	<b>93</b>	<b>8</b>	<b>8%</b>
<b>Non-Regulated Fortis Generation<sup>4</sup></b>	<b>2</b>	<b>5</b>	<b>(4)</b>	<b>-70%</b>
<b>Non-Regulated Fortis Properties</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>0%</b>
<b>Corporate<sup>5</sup></b>	<b>(19)</b>	<b>(19)</b>	<b>-</b>	<b>0%</b>
<b>Operating Earnings</b>	<b>88</b>	<b>84</b>	<b>4</b>	<b>5%</b>
Adjustments	(1)	(2)	1	-56%
<b>Reported Earnings</b>	<b>87</b>	<b>82</b>	<b>5</b>	<b>6%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.45</b>	<b>\$0.44</b>	<b>\$0.02</b>	<b>4%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.45</b>	<b>\$0.43</b>	<b>\$0.02</b>	<b>5%</b>

Notes: Earnings have been normalized for the following items:

- 1) \$1 million in Q4/12 as a result of a distribution revenue requirements decision received in April 2012 related to other periods.
- 2) (\$1.5) million in Q4/11 related to a retroactive decision by the AUC in December 2011.
- 3) \$0.5 million of earnings earned on capital investments related to prior years.
- 4) \$0.5 million gain recognized in Q4/12 on the disposition of assets.
- 5) \$3 million provision recognized in Q4/12 associated with the company's investment in CWLP.

Source: Company Reports, TD Securities.



**Outlook****Acquisition and Construction Updates:**

- **CH Energy Acquisition Set to Close in Q2/13:** In late January 2013, Fortis and Central Hudson filed a Settlement Agreement with the New York State Public Service Commission recommending the approval of Fortis' acquisition of CH Energy. We view this positively and given the Settlement Agreement is nearly unanimously supported by all stakeholders, Fortis' acquisition of CH Energy Group is likely to be approved by the Commission. For additional details on the Settlement please refer to our January 29, 2013, Action Note titled, *["Settlement Agreement With Central Hudson Filed"](#)*.
- **Waneta Expansion Proceeding Well:** Approximately \$436 million has been spent on the \$900 million 335 MW Waneta Expansion in B. C. since construction began late in 2010. The project is tracking on budget and on schedule for a spring 2015 in-service date.
- **2013 Capital Plan and Five-Year Outlook Remain Robust:** Fortis expects to spend approximately \$1.3 billion for its 2013 capital plan, excluding Central Hudson, which is expected to average more than \$125 million annually. From 2013 to 2017 inclusive, management expects gross capital expenditures to be \$6.0 billion, including expenditures from Central Hudson. This five-year plan is broken down, with 59% expected to be spent at the Canadian regulated electric utilities, 19% at the regulated gas utilities, 11% at Central Hudson, and the remaining 11% in the non-regulated businesses.

**Significant Regulatory Updates:**

- The **British Columbia Utilities Commission (BCUC)** held a public oral hearing for the first phase of the Generic Cost of Capital Proceeding in December 2012. The BCUC has determined that a second phase be added to determine an appropriate ROE and capital structure for all other regulated utilities in B.C. once phase one is completed. A decision for phase one is expected in mid-2013.
- **FortisAlberta** has sought leave to appeal the Alberta Utility Commission's (AUC) generic Performance Based Regulation (PBR) Decision, as it is concerned about the uncertainty regarding the treatment of certain capital expenditures. For a more complete discussion about the PBR Decision, please see our industry note titled, *["Alberta Regulator Releases PBR Framework"](#)*, dated September 14, 2012. Within Alberta, a generic cost-of-capital proceeding has commenced to establish an ROE for 2013, which in the interim will continue to be 8.75%. Our view is that the higher risk associated with the PBR should translate into a higher ROE and equity thickness.

**Q1/13 Preview:** We are forecasting Q1/13 EPS of \$0.65, slightly above Q1/13 results. We expect the increase to be largely generated by earnings growth due to rate base additions in the Canadian regulated electric utilities.

**Valuation****Exhibit 2. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2011A	2012E	2013E	2011A	2012E	2013E	2012E	2013E	2012E	2013E
Fortis Inc.	FTS	\$34.24	202.1	\$6,920	\$1.24	3.6%	\$1.67	\$1.70	\$1.73	\$2.62	\$2.70	\$2.47	20.1x	19.8x	7.9%	7.2%
ATCO Ltd.	ACO.X	\$84.13	57.5	\$4,836	\$1.50	1.8%	\$5.70	\$6.08	\$6.30	\$8.38	\$8.39	\$8.27	13.8x	13.4x	10.0%	9.8%
Canadian Utilities Ltd.	CU	\$74.10	128.1	\$9,490	\$1.94	2.6%	\$3.69	\$3.84	\$4.16	\$5.32	\$4.96	\$4.79	19.3x	17.8x	6.7%	6.5%
Capital Power Corp.	CPX	\$23.18	98.1	\$2,273	\$1.26	5.4%	\$1.24	\$1.40	\$1.42	\$2.78	\$2.55	\$2.90	16.6x	16.3x	11.0%	12.5%
Emera Inc.	EMA	\$36.05	131.0	\$4,723	\$1.40	3.9%	\$1.64	\$1.65	\$1.73	\$2.06	\$2.09	\$2.00	21.9x	20.9x	5.8%	5.6%
TransAlta Corp.	TA, TAC	\$16.34	254.7	\$4,162	\$1.16	7.1%	\$1.04	\$0.55	\$0.77	\$1.68	\$0.25	\$1.08	29.8x	21.2x	1.5%	6.6%
Valener Inc.	VNR	\$16.25	37.5	\$609	\$1.00	6.2%	\$0.82	\$0.81	\$0.72	\$2.04	\$1.89	\$1.86	20.1x	22.6x	11.6%	11.4%
Average						4.8%							21.3x	19.8x	7.4%	8.3%

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**Investment Conclusion**

Fourth quarter results were a solid end to 2012 for Fortis, and we expect the focus in 2013 to be on integrating CH Energy. Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well-positioned to make future acquisitions in North America as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find Fortis' low-risk, utility-dominated business model attractive and, given the total potential returns to our target, we reiterate our BUY recommendation.

**Exhibit 3. Fortis Summary**

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,920	<b>Debt-to-Capitalization</b>	52.8%
<b>Recent Share Price</b>	\$34.24	<b>Net Debt (\$mm)</b>	5,889	<b>BVPS</b>	20.84
<b>52 Week Range</b>	\$31.70-\$34.98	<b>EV (\$mm)</b>	14,227	<b>Ex-div date</b>	02/12/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	202	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.6%	<b>Float O/S (mm)</b>	192		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks, Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2011A	2012A	2013E	2014E	Valuation	2011A	2012A	2013E	2014E
Operating EPS (f.d.)	1.67	1.70	1.73	1.80	P/E	20.5x	20.1x	19.8x	19.1x
Free Cash Flow Per Share (AFFO)	2.62	2.70	2.47	2.80	AFFO Yield	7.6%	7.9%	7.2%	8.2%
Dividend Per Share	1.16	1.20	1.24	1.30	Dividend Yield	3.4%	3.5%	3.6%	3.8%
Income Statement (\$mm)	2011A	2012A	2013E	2014E	Ratios	2011A	2012A	2013E	2014E
FortisBC Energy Companies (Terasen Gas)	139	138	142	146	Payout Ratio (EPS)	69%	71%	72%	72%
FortisAlberta	74	96	97	99	Payout Ratio (AFFO)	44%	44%	50%	46%
FortisBC Electric	48	50	51	51	Debt-to-Capitalization	54%	53%	54%	55%
Newfoundland Power	34	37	37	38					
Other Canadian Electric Utilities	22	24	25	26					
CH Energy	0	0	36	50					
Regulated Electric Utilities - Caribbean	20	19	20	21					
Non-Regulated Properties	23	22	23	25					
Non-Regulated Fortis Generation	18	17	18	21					
Corporate and Other	(72)	(78)	(88)	(89)					
<b>Operating Income</b>	<b>306</b>	<b>325</b>	<b>362</b>	<b>387</b>					
Non-Recurring Items	12	(10)	(23)	0					
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>339</b>	<b>387</b>					
Cash Flow Statement (\$mm)	2011A	2012A	2013E	2014E	Segmented Breakdown ( % of Operating Income)	2011A	2012A	2013E	2014E
Income	356	371	388	438	Terasen Gas	37%	34%	32%	31%
Other Items Not Involving Cash	450	527	549	600	FortisAlberta	20%	24%	22%	21%
Change in Non-cash Working Capital	98	78	0	0	FortisBC	13%	12%	11%	11%
Cash from Operations	904	976	937	1,038	Newfoundland Power	9%	9%	8%	8%
					Other Canadian Electric Utilities	6%	6%	6%	5%
Capital Expenditures & Acquisitions	(1,199)	(1,151)	(2,949)	(1,392)	CH Energy	0%	0%	8%	10%
Other	74	71	68	68	Regulated Electric Utilities - Caribbean	5%	5%	5%	4%
Cash from Investing	(1,125)	(1,080)	(2,881)	(1,324)	Non-Regulated Properties	6%	5%	5%	5%
					Non-Regulated Fortis Generation	5%	4%	4%	5%
Dividends Paid	(189)	(225)	(306)	(329)		100%	100%	100%	100%
Change in Debt	(36)	85	1,353	533					
Common Shares	345	24	667	83					
Preferred Shares	0	194	100	0					
Other	81	93	0	0					
Cash from Financing	201	171	1,814	288					
<b>Total Cash Flow</b>	<b>(20)</b>	<b>67</b>	<b>(130)</b>	<b>2</b>					
Balance Sheet (\$mm)	2011A	2012A	2013E	2014E	Free Cash Flow	2011A	2012A	2013E	2014E
Cash and Cash Equivalents	89	154	24	26	CF from Continuing Operations	806	898	937	1,038
Other Current Assets	1,031	939	923	923	Preferred Dividends & Minority Interest	(38)	(55)	(49)	(51)
Property, Plant and Equipment	10,266	11,764	14,218	15,065	Maintenance Capital Expenditures	(293)	(330)	(376)	(389)
Other Non-Current Assets	2,176	2,093	2,286	1,081	<b>Free Cash Flow</b>	<b>475</b>	<b>513</b>	<b>511</b>	<b>599</b>
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,451</b>	<b>17,094</b>					
Other Liabilities	2,621	3,497	2,447	2,447					
Debt	6,264	6,043	8,125	8,108					
Total Liabilities	8,885	9,540	10,572	10,555					
Non-Controlling Interests	208	310	310	310					
Preferred Shares	592	1,108	1,208	1,208					
Total Shareholders' Equity	3,877	3,992	5,361	5,021					
<b>Total Liabilities &amp; Equity</b>	<b>13,562</b>	<b>14,950</b>	<b>17,451</b>	<b>17,094</b>					

Source: TD Securities.

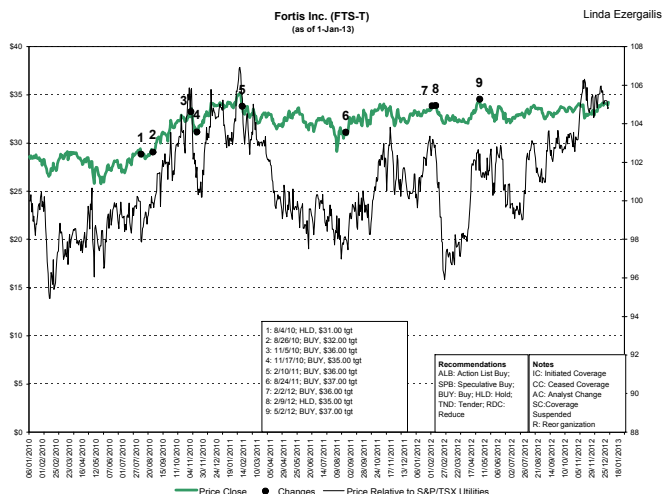


## TD Securities Equity Research Disclosures

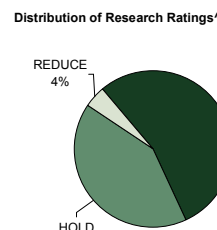
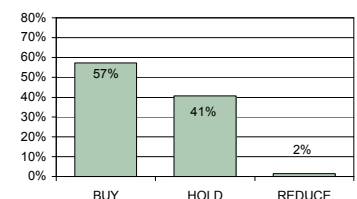
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of February 5, 2013

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.5% of coverage universe), Medium (32.4%), High (50.0%), Speculative (11.1%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Recommendation:****BUY***Unchanged***Risk:****LOW****12-Month Target Price:****C\$37.00***Unchanged***12-Month Total Return:****13.5%****Fortis Inc.  
(FTS-T) C\$33.70****A Utility Tried, Tested and Grew**

**Growth Through Discipline:** Fortis Inc. (FTS-T) is Canada's largest publicly traded highly regulated utility company, with approximately \$15 billion of total assets comprising approximately 90% regulated assets (of which 53% is electric and 37% is gas), 5% hydro generation assets, and 5% real estate (hotels and office buildings). The company's initial utility was Newfoundland Power, and over time it has expanded across Canada as well as the Caribbean to its current size of seven electric and one gas utility (Exhibit 1). With the pending acquisition of CH Energy Group in New York State, Fortis will have executed on its U.S. expansion strategy, and further U.S. acquisitions could become a growth accelerator for the company long term.

**Tried and Tested:** Given the company's size, track record and quality assets, we view it as a core holding. Fortis is well-positioned to continue growing its dividend, in our view. We believe that income-oriented investors especially will find Fortis' low-risk, utility-dominated business model attractive and reiterate our BUY recommendation.

Market Data (C\$)	
Current Price	\$33.70
52-Wk Range	\$31.70-\$34.98
Mkt Cap (f.d.)(mm)	\$6,810.8
Dividend per Share	\$1.24
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	399155

Financial Data (C\$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.1
Float Shares (mm)	191.6
Net Debt/Tot Cap	51.4%
BVPS (basic)	\$20.84
ROE	8.3%

Estimates (C\$)				
Year	2011A	2012A	2013E	2014E
EPS (basic)	1.68	1.71	1.74	1.81
EPS (f.d.)	1.67	1.70	1.73	1.80
AFFO/Shr	2.62	2.70	2.47	2.80

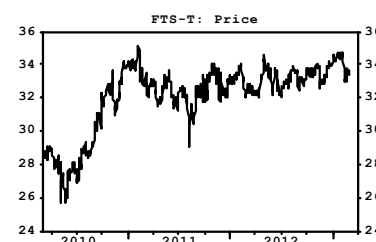
EPS (f.d.) Quarterly Estimates (C\$)				
Year	2011A	2012A	2013E	2014E
Q1	0.64	0.64	0.65	--
Q2	0.33	0.34	--	--
Q3	0.25	0.24	--	--
Q4	0.46	0.45	--	--

Valuations				
Year	2011A	2012A	2013E	2014E
P/E (f.d.)	20.2x	19.8x	19.5x	18.7x
P/AFFO	12.9x	12.5x	13.6x	12.0x

All figures in C\$, unless otherwise specified.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



YOUR ATTENTION IS DIRECTED  
TO THE IMPORTANT  
DISCLOSURES IN APPENDIX A.

**Linda Ezergailis, P.Eng.**

416 983 7784

[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**

416 983 9259

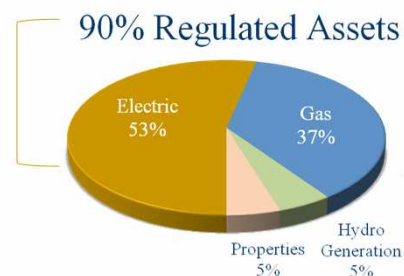
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Exhibit 1. Fortis Overview

**Total Assets \$15 Billion** (as at December 31, 2012)

### Regulated Utilities

- 7 electric / 1 gas
- \$13.5 billion
- 2 million customers



### Non-Regulated

- Hydroelectric Generation (including Waneta Expansion)
- Hotels / Real Estate
- \$1.5 billion

Source: Company Reports.

## Exhibit 2. Comparison of Fortis' Large Utilities

Utility	Customers (#000s) <sup>1</sup>	Rate Base (\$B) <sup>2</sup>
FortisBC (Gas)	945	3.7
FortisBC (Electric)	163	1.2
FortisAlberta	508	2.3
Newfoundland Power	252	0.9
<b>Central Hudson<sup>3</sup></b>	<b>375</b>	<b>1.0</b>
All Other	179	1.0
<b>Total</b>	<b>2,422</b>	<b>10.1</b>

Notes:

1) As of December 31, 2012.

2) Forecast mid-year 2013.

3) CH Energy Group acquisition announced Feb. 21, 2012. Transaction is expected to close Q2/13.

Source: Company Reports, TD Securities.

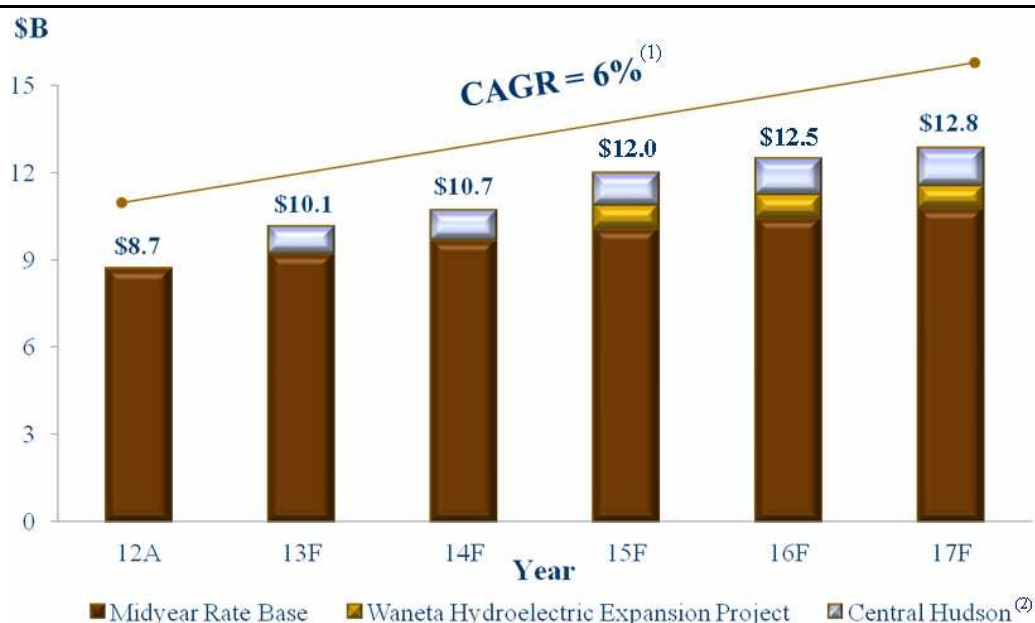
### Focus on Closing CH Energy and Waneta Expansion Project:

Management is confident that the CH Energy acquisition will close and that it continues to track toward an anticipated Q2/13 closing. The construction on the Waneta Expansion is proceeding well with all high-risk items completed. At the end of 2012, approximately \$436 million had been spent on the \$900 million project and it is tracking slightly ahead of budget and schedule. As a reminder, we expect the Waneta Expansion to return 200-300 bps above a regulated ROE on a 35%-40% equity thickness.



**Robust Organic Capital Plan Represents Both Low-Risk Growth and High Quality of Service:** Management believes that Fortis' largest driver of growth remains its organic capital investments into rate base. This spend also satisfies its mandate of maintaining high quality of service and reliability to its customers and reinforces its commitment to maintaining the quality of its assets. We view growth through organic investments as the lowest-risk capital opportunity as it largely requires the approval of regulators and is virtually guaranteed a fair return on and of capital spent. In 2013, Fortis expects to spend approximately \$1.3 billion for its capital plan and its five-year program, including Central Hudson, is expected to total approximately \$6 billion, most of which is to be self-funded at the subsidiary level. This five-year plan is broken down, with 59% expected to be spent at the Canadian regulated electric utilities, 19% at the regulated gas utilities, 11% at Central Hudson, and the remaining 11% in the non-regulated businesses.

**Exhibit 3. Mid-Year Rate Base and Waneta Investment**



Notes:

1) CAGR excludes the initial approximate \$1 billion rate base addition forecast in 2013 related to the Central Hudson acquisition.

2) Includes approximately \$1 billion of rate base related to Central Hudson upon acquisition and expected rate base growth thereafter.

Source: Company Reports.

**Leveraging Existing Presence and Expertise for New Transmission Build Opportunities:** Alberta and Ontario are holding a competitive procurement process for new electric transmission infrastructure build. Management is optimistic that it can secure some of these project RFPs and build up a presence in electric transmission. In our view, the company's strong expertise in electric distribution, and its incumbency and ability to leverage its existing FortisAlberta and FortisOntario operations will give it a competitive advantage over other bidders and allow for it to potentially secure the project mandates mentioned below along with future electric infrastructure RFPs in these provinces.

- **Fort McMurray Area Transmission in Alberta:** The construction of 500 kV transmission lines extending approximately 500 km from Edmonton to Fort McMurray. Current cost estimates for this project range between \$1.6 billion and \$2.0 billion and Fortis could partner with a large construction and infrastructure company to help construct the project. Given that Fortis already operates an electric distribution utility and is well-respected in this jurisdiction, we believe that it has a good chance of winning this tender.
- **East/West Tie Line in Ontario:** The construction of a double-circuit 230 kV transmission line from Thunder Bay to Wawa, and connect to the bulk transmission system in Northern Ontario at transformer stations owned by Hydro One Networks Inc., and the capital cost could be approximately \$600 million. As a reminder, Fortis has signed an MOU with Lake Huron Anishinabek Transmission Company Inc. (LHATC) for the potential construction and operation of regulated electricity transmission projects in Ontario.

**Hydro Power Opportunities:** Fortis is also studying opportunities to leverage the work completed for its Waneta Expansion project. The company is looking at building a hydroelectric dam and generating facility, approximately 60 MW in capacity, potentially costing \$200 million-\$300 million. Fortis would structure an agreement similar to a long-term PPA with off-takers, with zero commodity exposure. The company has existing water licenses. Other benefits of the project would include providing water management and summer irrigation to downstream states like Washington and Oregon, which could also improve the project economics. The company could make a final decision on the project in a year.

**LNG Expansion:** Fortis owns an extensive gas network in B.C. and is looking at ways to expand its system capacity to accommodate high interest in using relatively cheap natural gas (e.g., fuel for trucks). There are also LNG Expansion projects that Fortis could look to explore. The company owns the Tilbury and Mount Hayes LNG facilities in B.C. and is looking at ways to expand the business to supply LNG to power boats and ferries and also potentially export smaller volumes of LNG to neighboring jurisdictions like Hawaii and Alaska. This could represent a few investments in the \$200 million-\$300 million range, also driving increased gas throughput on Fortis' system, lowering system costs for customers, which in turn could facilitate further investment. Fortis would look to make these investments regulated in nature. Another potential project would be to expand its Southern Crossing pipeline as part of a path for natural gas export.

**Additional CH Energy Investments Possible:** Management expects CH Energy rate base to grow approximately 6% annually over the next number of years, with its identified capital plan. In addition, low natural gas prices relative to heating oil costs could accelerate residential customer conversions, further bolstering growth prospects. If the Indian Point nuclear power plant is shut down as per certain political intentions, then the expectation is that this would be replaced with natural gas-fired power generation to service New York City, and any resulting additional natural gas transmission pipeline capacity required through CH Energy's territory could also be an investing opportunity for the utility. As a reminder, Central Hudson is forecasted to average approximately \$125 million annually of capital spend.

**Fortis is a Logical Buyer of AltaLink:** Management acknowledged that it is a logical buyer of AltaLink should SNC Lavalin Group Inc. (SNC-T) decide to divest the asset. Fortis already has a sizeable presence in Alberta as it owns electrical distribution assets in the province, knows the regulatory system in place in the province, and is in constant dialogue with AltaLink through system operations. Also, if a transaction was to be consummated, it would essentially be a reintegration of two former TransAlta Corp. (TA-T) utility assets into one. To provide some historical context, back in 2002, AltaLink purchased its Alberta electric transmission assets from TransAlta, and in 2004, FortisAlberta purchased TransAlta's old Alberta electric distribution assets through its acquisition of Aquila Networks Canada Ltd. Management also noted that any deal would likely get done quicker with it involved, and could result in some operational efficiencies and other cost synergies, which could be beneficial to customer rates. We believe that if Fortis was to successfully acquire AltaLink, it will be well-received by the province and regulators, given its existing presence and knowledge of the Alberta electrical system, and the potential benefits it could represent to ratepayers. That being said, any sale process would likely be highly competitive and we believe that Fortis' management will maintain its exceptional discipline when evaluating any acquisition opportunities. For a discussion on the potential valuation of AltaLink, please refer to our TD Industrial Products analyst Michael Tupholme's SNC Lavalin report titled, [\*"Where to From Here? We See Further Upside -- BUY"\*](#).

**Continued Appetite for Acquisitions:** We believe that Fortis' management will remain acquisitive and will continue to look at U.S. electric and gas utility acquisitions, particularly in New York State, and potentially other regions with reasonable regulatory jurisdictions like Texas, the U.S. Midwest, and the U.S. Southwest. Our understanding is that there are some European based utility owners in New York and given the uncertainty surrounding the current situation in Europe, there is the possibility for these European players to shed assets in order to raise capital and strengthen their balance sheets. We believe that Fortis will be a potential bidder for any asset divestitures by these entities and has identified utility acquisition opportunities totalling approximately \$4.0 billion in rate base in New York State alone.

**Looking for Growth and Geographic Diversification:** In terms of potential scale, management stated that a large U.S. acquisition down the road combined with CH Energy could eventually grow its presence in the U.S. to the same scale as its current B.C. presence, thus potentially effectively reducing B.C. down to approximately one-third from approximately one half of the company today. This would further diversify the company's geographic operations and make it less reliant on the regulatory risks associated with a single jurisdiction. We believe that this is a prudent strategy. Fortis' utility acquisition strategy remains focused on good utilities with strong management teams, similar risk profile, growth potential through follow-on capital investments, while keeping operations autonomous and self-functioning.

**Regulatory Updates:** Fortis management adds value with its strong regulatory expertise, in our view, both when acquiring utilities and operating them. In Alberta, the recent Decision on Fortis' compliance filing appears to be a step in the right direction with approximately 60% of the capital tracker revenue accepted on an interim basis with a capital tracker decision expected in Q3/13. We are hopeful that the regulator understands historic cost based customer rates alone would not adequately compensate shareholders for significant growth capital. With respect to a B.C. generic cost of capital decision, expected by mid 2013, we see some risk of slightly lower ROEs. Despite the denial of amalgamation of Fortis' B.C. gas utilities because of what appears to be regulatory philosophical aversion to postage stamp rates, we still believe that long-term pragmatic considerations will support eventual amalgamation (which would benefit customers more than shareholders). Exhibit 4 has a list of the upcoming regulatory decisions.

#### Exhibit 4. Upcoming Regulatory Decisions

Utility	Significant Proceedings	Filing	Expected Decision
FortisBC (Gas)	Generic Cost of Capital – 2013	March-12	Mid-2013
	GRA(1) (2014+)	H1/2013	TBD
FortisBC (Electric)	Generic Cost of Capital – 2013	March-12	Mid-2013
	Kelowna Utility Asset Acquisition	November-12	Q1/2013
	GRA (2014+)	H1/2013	TBD
FortisAlberta	Generic Cost of Capital – 2013	October-12	Late 2013
	2013 PBR(3) Compliance Filing	November-12	Q1/2013
	PBR Capital Tracker Filing	December-12	Q3/2013
NF Power	GRA & Cost of Capital – 2013 & 2014	September-12	Q2/2013
Central Hudson	Merger Application	April-12	Q2/2013
	GRA (2014+)	July-13	TBD

Notes:

1) General Rate Application

2) Performance Based Regulation

Source: Company Reports, TD Securities.

**Exhibit 5. Regulatory Mechanisms for Fortis' Large Utilities (2013)**

Utility	FortisBC (Gas)	FortisBC (Electric)	FortisAlberta	Newfoundland Power	Central Hudson (1)
Cost of service regulation	✓	✓	✓	✓	✓
Performance-based rate-setting mechanism	X	X	✓	X	X
Forward test year	✓	✓	X	✓	✓
Commodity/Energy supply cost trackers (2)	✓	✓	N/A (3)	✓	✓
Advance approval required for capital expenditures	✓	✓	x (4)	✓	✓
Weather (volume) normalization (2)	✓	✓	N/A (3)	✓	✓
Pension cost tracker (2)	✓	✓	N/A (5)	✓	✓
Interest expense tracker (2)	✓	✓	X	X	✓
Property tax tracker (2)	✓	✓	(6)	✓	✓
Capital expenditure tracker (2)	X	X	✓ (4)	X	X
Relief typically granted for major non-controllable expenses (including taxes, storm damage and accounting changes) (2)	✓	✓	✓	✓	✓

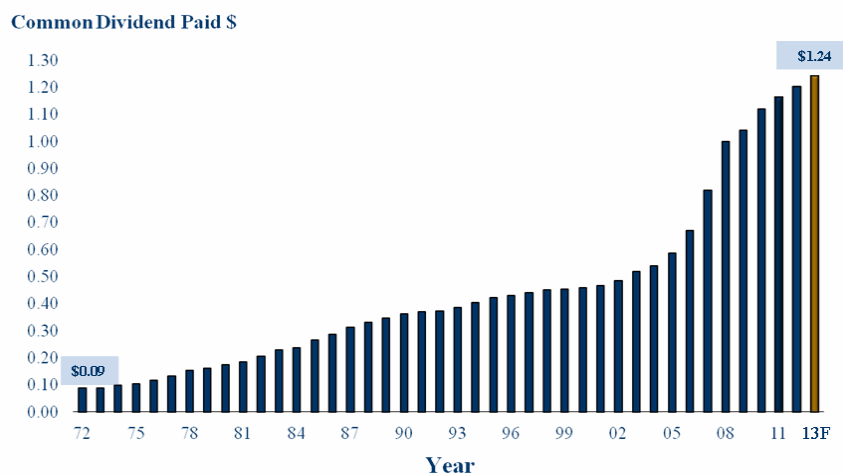
**Notes:**

- 1) CH Energy Group acquisition announced February 21, 2012. Transaction is expected to close during Q2/2013.
- 2) Deferral for future recovery from (refund to) customers of certain variances between actual and forecast for rate setting.
- 3) Distribution utility only. No commodity or purchase power exposure.
- 4) No advance approval required for sustaining capex. Advance approval through capital expenditure tracker mechanism required for growth capex.
- 5) Primarily has defined contribution pension plan.
- 6) Applied for 2013 through 2017 and subject to approval by the regulator.

Source: Company Reports, TD Securities.

**Financing Update:** Given that almost all of Fortis' capital plan over the next five years is self-funding capital spent at the subsidiaries, Fortis does not see the need to raise common equity in the short term beyond its DRIP program. However, once CH Energy closes and the subscription receipts convert, we expect Fortis to finish permanently financing the acquisition using a combination of debt and preferred equity. This could involve coming to the market to raise approximately US\$300 million of debt and potentially \$200 million preferred shares. The company expects to maintain a capital structure in the 35% common equity, 10% preferred share, 55% debt range, which would adhere to its A(low) credit rating from S&P. Management also takes pride in the company's track record of 40 years of consecutive dividend increases (Exhibit 6), which is among the longest of any publicly traded Canadian company.

#### Exhibit 6. Four Decades of Dividend Growth



Source: Company Reports.

**Highest Degree of Regulation and Lowest Risk Large-Cap Name in our Sector:** We expect Fortis to continue to have the highest degree of regulation of other power and utility companies under our coverage and we view it as the lowest-risk, best defensive large-cap play in our universe.



## Exhibit 7. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,811	<b>Debt-to-Capitalization</b>	52.8%
<b>Recent Share Price</b>	\$33.70	<b>Net Debt (\$mm)</b>	5,889	<b>BVPS</b>	20.84
<b>52 Week Range</b>	\$31.70–\$34.98	<b>EV (\$mm)</b>	14,118	<b>Ex-div date</b>	02/12/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	202	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.7%	<b>Float O/S (mm)</b>	192		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks, Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

<b>Key Metrics</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>Valuation</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Operating EPS (f.d.)	1.67	1.70	1.73	1.80	P/E	20.2x	19.8x	19.5x	18.8x
Free Cash Flow Per Share (AFFO)	2.62	2.70	2.47	2.80	AFFO Yield	7.8%	8.0%	7.3%	8.3%
Dividend Per Share	1.16	1.20	1.24	1.30	Dividend Yield	3.4%	3.6%	3.7%	3.9%
<b>Income Statement (\$mm)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>Ratios</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
FortisBC (Gas)	139	138	142	146	Payout Ratio (EPS)	69%	71%	72%	72%
FortisAlberta	74	96	97	99	Payout Ratio (AFFO)	44%	44%	50%	46%
FortisBC (Electric)	48	50	51	51	Debt-to-Capitalization	54%	53%	54%	55%
Newfoundland Power	34	37	37	38					
Other Canadian Electric Utilities	22	24	25	26					
CH Energy	0	0	36	50					
Regulated Electric Utilities - Caribbean	20	19	20	21					
Non-Regulated Properties	23	22	23	25					
Non-Regulated Fortis Generation	18	17	18	21					
Corporate and Other	(72)	(78)	(88)	(89)					
<b>Operating Income</b>	<b>306</b>	<b>325</b>	<b>362</b>	<b>387</b>					
Non-Recurring Items	12	(10)	(23)	0					
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>339</b>	<b>387</b>					
<b>Cash Flow Statement (\$mm)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>Segmented Breakdown ( % of Operating Income)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Income	356	371	388	438	FortisBC (Gas)	37%	34%	32%	31%
Other Items Not Involving Cash	450	527	549	600	FortisAlberta	20%	24%	22%	21%
Change in Non-cash Working Capital	98	78	0	0	FortisBC (Electric)	13%	12%	11%	11%
Cash from Operations	904	976	937	1,038	Newfoundland Power	9%	9%	8%	8%
					Other Canadian Electric Utilities	6%	6%	6%	5%
Capital Expenditures & Acquisitions	(1,199)	(1,151)	(2,949)	(1,392)	CH Energy	0%	0%	8%	10%
Other	74	71	68	68	Regulated Electric Utilities - Caribbean	5%	5%	5%	4%
Cash from Investing	(1,125)	(1,080)	(2,881)	(1,324)	Non-Regulated Properties	6%	5%	5%	5%
					Non-Regulated Fortis Generation	5%	4%	4%	5%
Dividends Paid	(189)	(225)	(306)	(329)		100%	100%	100%	100%
Change in Debt	(36)	85	1,353	533					
Common Shares	345	24	667	83					
Preferred Shares	0	194	100	0					
Other	81	93	0	0					
Cash from Financing	201	171	1,814	288					
<b>Total Cash Flow</b>	<b>(20)</b>	<b>67</b>	<b>(130)</b>	<b>2</b>					
<b>Balance Sheet (\$mm)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>Free Cash Flow</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
Cash and Cash Equivalents	89	154	24	26	CF from Continuing Operations	806	898	937	1,038
Other Current Assets	1,031	939	923	923	Preferred Dividends & Minority Interest	(38)	(55)	(49)	(51)
Property, Plant and Equipment	10,266	11,764	14,218	15,065	Maintenance Capital Expenditures	(293)	(330)	(376)	(389)
Other Non-Current Assets	2,176	2,093	2,286	1,081	<b>Free Cash Flow</b>	<b>475</b>	<b>513</b>	<b>511</b>	<b>599</b>
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,451</b>	<b>17,094</b>					
Other Liabilities	2,621	3,497	2,447	2,447					
Debt	6,264	6,043	8,125	8,108					
Total Liabilities	8,885	9,540	10,572	10,555					
Non-Controlling Interests	208	310	310	310					
Preferred Shares	592	1,108	1,208	1,208					
Total Shareholders' Equity	3,877	3,992	5,361	5,021					
<b>Total Liabilities &amp; Equity</b>	<b>13,562</b>	<b>14,950</b>	<b>17,451</b>	<b>17,094</b>					

Source: Company Reports, TD Securities.

## **Justification of Target Price**

Our \$37.00 target price is predicated on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

## **Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

## **TD Investment Conclusion**

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well-positioned to make future acquisitions in North America as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find Fortis' low-risk, utility-dominated business model attractive and reiterate our BUY recommendation.

## Appendix I. Comparables

### Exhibit 8. Comparables – P/E

	Ticker	Recent	EPS					P/E					P/E vs.
March 7, 2013	(Exch.)	Price	2011A	2012E	2013E	2014E	For.	2011A	2012E	2013E	2014E	For.	Peers
Canadian Power & Utility													
ATCO Ltd.	ACO.X-T	91.05	5.70	6.44	6.64	7.26	6.75	16.0	14.1	13.7	12.5	13.5	69%
Canadian Utilities Ltd.	CU-T	78.84	3.69	4.03	4.28	4.75	4.37	21.4	19.6	18.4	16.6	18.1	92%
Capital Power Corp.	CPX-T	21.55	1.24	1.29	1.33	1.20	1.31	17.3	16.8	16.1	18.0	16.4	84%
Emera Inc.	EMA-T	35.31	1.64	1.64	1.69	1.80	1.71	21.5	21.6	20.9	19.6	20.6	105%
Fortis Inc.	FTS-T	33.70	1.67	1.70	1.73	1.80	1.74	20.2	19.8	19.5	18.8	19.4	99%
TransAlta Corp.	TA-T	15.04	1.04	0.50	0.67	0.63	0.66	14.5	30.0	22.5	23.7	22.7	116%
Valener Inc.	VNR-T	16.20	0.82	0.81	0.80	0.80	0.80	19.8	20.1	20.3	20.3	20.3	104%
Average								19.1	21.3	19.6	19.5	19.6	
Canadian Pipeline & Midstream													
AltaGas Ltd.	ALA-T	35.83	0.98	1.06	1.32	1.36	1.32	36.5	33.9	27.2	26.4	27.1	98%
Enbridge Inc.	ENB-T	46.11	1.46	1.59	1.73	2.10	1.79	31.6	29.0	26.7	22.0	25.7	93%
Enbridge Income Fund Hlds Inc.	ENF-T	25.23	1.33	1.48	1.45	1.48	1.45	18.9	17.0	17.5	17.0	17.4	63%
Gibson Energy Inc.	GEI-T	26.00	0.41	1.10	1.09	1.22	1.11	NM	23.6	23.9	21.4	23.4	85%
Inter Pipeline Fund	IPL.UN-T	23.79	0.95	1.14	0.97	1.10	0.99	25.0	21.0	24.6	21.6	24.0	87%
Keyera Corp.	KEY-T	55.50	1.90	1.71	1.93	2.21	1.98	29.2	32.4	28.7	25.1	28.0	101%
Pembina Pipeline Corp.	PPL-T	31.22	0.99	0.87	0.92	0.96	0.92	31.6	35.9	34.1	32.5	33.8	122%
TransCanada Corp.	TRP-T	48.74	2.23	1.98	2.36	2.62	2.41	21.9	24.6	20.7	18.6	20.2	73%
Veresen Inc.	VSN-T	12.72	0.33	0.26	0.25	0.28	0.26	38.4	48.7	50.1	44.9	49.1	178%
Average								29.1	29.6	28.2	25.5	27.6	
Canadian IPPs & Alternative Energy													
Algonquin Power Utilities Corp.	AQN-T	7.73	0.16	0.17	0.24	0.42	0.27	49.2	45.5	32.9	18.5	28.8	69%
Atlantic Power Corp.	ATP-T	5.70	(0.04)	(0.23)	(0.32)	(0.32)	(0.32)	NM	NM	NM	NM	NM	NM
Boralex Inc.	BLX-T	9.82	(0.06)	(0.19)	(0.31)	(0.29)	(0.31)	NM	NM	NM	NM	NM	NM
Capstone Infrastructure Corp.	CSE-T	4.24	0.62	0.20	0.18	0.22	0.18	6.8	21.0	24.2	19.1	23.1	55%
Innervex Renewable Energy Inc.	INE-T	10.47	0.01	0.05	0.14	0.21	0.15	NM	NM	74.9	50.9	69.1	166%
Northland Power Inc.	NPI-T	18.90	0.02	0.10	0.38	0.57	0.42	NM	NM	49.6	33.0	45.5	109%
Sprott Power Corp.	SPZ-T	1.15	(0.03)	(0.03)	(0.00)	(0.01)	(0.00)	NM	NM	NM	NM	NM	NM
Average								28.0	33.3	44.8	32.2	41.6	

Notes: 1) Averages exclude ATCO.

Source: Bloomberg, TD Securities.

**Exhibit 9. Comparables – P/E (cont'd)**

	Ticker	Recent	EPS					P/E					P/E vs.
March 7, 2013	(Exch.)	Price	2011A	2012E	2013E	2014E	For.	2011A	2012E	2013E	2014E	For.	Peers
U.S. Pipelines													
Spectra Energy	SE-N	28.81	1.76	1.43	1.51	1.67	1.54	16.4	20.2	19.1	17.3	18.8	71%
Williams Cos Inc.	WMB-N	34.31	1.65	1.11	1.02	1.45	1.10	20.8	30.9	33.5	23.6	31.1	118%
Kinder Morgan Inc.	KMI-N	37.26	0.92	0.73	1.25	1.43	1.28	40.5	51.3	29.9	26.0	29.1	110%
Average								25.9	34.1	27.5	22.3	26.3	
U.S. Electric Utilities													
Ameren Corp.	AEE -N	34.05	2.56	2.44	2.19	2.25	2.20	13.3	14.0	15.5	15.1	15.5	102%
American Electric Power	AEP-N	47.39	3.12	3.04	3.16	3.31	3.18	15.2	15.6	15.0	14.3	14.9	98%
Centerpoint Energy Inc.	CNP-N	21.63	1.20	1.20	1.26	1.33	1.28	NM	18.0	17.1	16.2	16.9	112%
CMS Energy Corp.	CMS-N	26.85	1.45	1.54	1.65	1.74	1.66	18.5	17.4	16.3	15.4	16.1	106%
Consolidated Edison Inc.	ED-N	58.98	3.62	3.78	3.79	3.85	3.80	16.3	15.6	15.6	15.3	15.5	102%
Dominion Resources Inc.	D-N	55.87	3.05	3.06	3.37	3.57	3.40	18.3	18.3	16.6	15.7	16.4	108%
DTE Energy Co.	DTE-N	66.49	4.21	3.91	4.02	4.26	4.07	15.8	17.0	16.5	15.6	16.4	108%
Duke Energy Corp.	DUK-N	69.55	4.35	4.26	4.34	4.59	4.39	16.0	16.3	16.0	15.1	15.9	105%
Edison International	EIX-N	50.17	3.22	3.20	3.52	3.63	3.54	15.6	15.7	14.3	13.8	14.2	93%
Entergy Corp.	ETR-N	63.52	7.62	6.19	4.87	4.83	4.87	8.3	10.3	13.0	13.2	13.1	86%
Exelon Corp.	EXC-N	31.82	4.16	2.87	2.49	2.30	2.45	7.6	11.1	12.8	13.9	13.0	85%
FirstEnergy Corp.	FE-N	40.76	3.63	3.35	2.98	3.00	2.98	11.2	12.2	13.7	13.6	13.7	90%
NextEra Energy Inc.	NEE-N	73.94	5.16	4.49	4.94	5.31	5.00	14.3	16.5	15.0	13.9	14.8	97%
PG&E Corp.	PCG-N	42.87	3.58	3.21	2.67	3.10	2.75	12.0	13.4	16.0	13.8	15.6	103%
Pinnacle West Capital	PNW-N	57.03	2.99	3.44	3.57	3.71	3.59	19.1	16.6	16.0	15.4	15.9	105%
PPL Corp.	PPL-N	30.52	2.82	2.36	2.40	2.18	2.36	10.8	12.9	12.7	14.0	12.9	85%
Public Service Enterprise	PEG-N	32.67	2.69	2.40	2.36	2.35	2.36	12.1	13.6	13.8	13.9	13.8	91%
Southern Co./The	SO-N	45.39	2.55	2.62	2.76	2.91	2.79	17.8	17.3	16.5	15.6	16.3	107%
TECO Energy Inc.	TE-N	17.40	1.27	1.17	0.96	1.17	1.00	13.7	14.8	18.2	14.9	17.5	115%
Xcel Energy Inc.	XEL-N	28.96	1.72	1.80	1.90	1.98	1.91	16.8	16.1	15.3	14.7	15.1	100%
Average								14.4	15.1	15.3	14.7	15.2	100%
U.S. Gas Utilities													
AGL Resources Inc	GAS-N	40.28	2.92	2.48	2.61	2.72	2.63	13.8	16.3	15.4	14.8	15.3	91%
NiSource Inc	NI-N	28.03	1.32	1.44	1.56	1.67	1.58	21.2	19.5	18.0	16.8	17.8	105%
Sempra Energy	SRE-N	78.48	4.46	4.13	4.44	4.72	4.49	17.6	19.0	17.7	16.6	17.5	104%
Average								17.5	18.3	17.0	16.1	16.8	
U.S. Generators													
AES Corp/The	AES-N	12.32	1.02	1.21	1.28	1.37	1.29	12.1	10.1	9.6	9.0	9.5	44%
Calpine Corp.	CPN-N	19.45	(0.03)	0.30	0.61	0.78	0.64	NM	NM	31.7	25.1	30.3	140%
NRG Energy Inc.	NRG-N	24.70	2.64	0.97	0.91	1.29	0.98	9.4	25.5	27.2	19.2	25.3	117%
Average								10.7	17.8	22.8	17.8	21.7	

Notes: 1) All EPS forecasts for U.S. companies are consensus estimates. 2) NM = Not Material.

Source: Bloomberg, TD Securities.

**Exhibit 10. Comparables – Relative**

March 7, 2013	Ticker (Exch.)	Recent Price	E/P			Div Yield			Debt- to-Cap.	S&P Debt Rating
			Yield	Premium vs. 10-Yr	Relative to 10-Yr	Yield	Discount vs. 10-yr	Relative to 10-yr		
Canadian Power & Utility										
ATCO Ltd.	ACO.X-T	91.05	7.4%	553	393%	1.6%	24	87%	53.7	A
Canadian Utilities Ltd.	CU-T	78.84	5.5%	365	294%	2.5%	(58)	131%	56.3	A
Capital Power Corp.	CPX-T	21.55	6.1%	420	323%	5.8%	(396)	310%	36.3	BBB-
Emera Inc.	EMA-T	35.31	4.8%	296	257%	4.0%	(208)	210%	61.9	BBB+
Fortis Inc.	FTS-T	33.70	5.2%	328	274%	3.7%	(180)	195%	54.5	A-
TransAlta Corp.	TA-T	15.04	4.4%	253	234%	7.7%	(583)	409%	52.7	BBB-
Valener Inc.	VNR-T	16.20	4.9%	305	262%	6.2%	(429)	328%	-	BBB+
Average			5.2%	328	274%	5.0%	(309)	264%	52.3	
Canadian Pipeline & Midstream										
AltaGas Ltd.	ALA-T	35.83	3.7%	181	196%	4.0%	(213)	213%	49.3	BBB
Enbridge Inc.	ENB-T	46.11	3.9%	201	206%	2.7%	(85)	145%	59.8	A-
Enbridge Income Fund Hlds Inc.	ENF-T	25.23	5.8%	387	305%	5.3%	(341)	281%	63.9	-
Gibson Energy Inc.	GEI-T	26.00	4.3%	239	227%	4.2%	(235)	225%	42.4	BB-
Inter Pipeline Fund	IPL.UN-T	23.79	4.2%	228	221%	4.7%	(278)	248%	51.5	BBB+
Keyera Corp.	KEY-T	55.50	3.6%	169	190%	3.9%	(201)	207%	52.4	-
Pembina Pipeline Corp.	PPL-T	31.22	3.0%	108	157%	5.2%	(330)	275%	37.4	BBB
TransCanada Corp.	TRP-T	48.74	4.9%	305	262%	3.8%	(189)	200%	54.7	A-
Veresen Inc.	VSN-T	12.72	2.0%	15	108%	7.9%	(597)	417%	49.7	BBB
Average			3.9%	204	208%	4.6%	(274)	246%	51.2	
Canadian IPPs & Alternative Energy										
Algonquin Power Utilities Corp.	AQN-T	7.73	3.5%	158	184%	4.0%	(213)	213%	45.2	BBB-
Atlantic Power Corp.	ATP-T	5.70	NM	NM	NM	7.0%	(513)	372%	63.6	BB-
Boralex Inc.	BLX-T	9.82	NM	NM	NM	0.0%	188	0%	70.3	-
Capstone Infrastructure Corp.	CSE-T	4.24	4.3%	245	230%	7.1%	(519)	376%	67.9	BB+
Innervex Renewable Energy	INE-T	10.47	NM	NM	NM	5.5%	(366)	294%	66.1	BBB-
Northland Power Inc.	NPI-T	18.90	2.2%	31	117%	5.7%	(383)	303%	64.8	BBB-
Sprott Power Corp.	SPZ-T	1.15	NM	NM	NM	5.7%	(377)	300%	46.7	-
Average			3.3%	145	177%	5.0%	(309)	264%	58.5	

Note: Averages exclude ATCO.

Source: Bloomberg, TD Securities.

**Exhibit 11. Comparables – Relative (cont'd)**

March 7, 2013	Ticker (Exch.)	Recent Price	E/P			Div Yield			Debt- to-Cap.	S&P Debt Rating
			Yield	Premium vs. 10-Yr	Relative to 10-Yr	Yield	Discount vs. 10-yr	Relative to 10-yr		
U.S. Pipelines										
Spectra Energy	SE-N	28.81	5.3%	333	266%	4.2%	(223)	225%	56.0	BBB+
Williams Cos Inc.	WMB-N	34.31	3.2%	121	160%	3.9%	(195)	210%	59.1	BBB
Kinder Morgan Inc.	KMI-N	37.26	3.4%	143	172%	4.0%	(197)	211%	56.7	-
Average			4.3%	227	213%	4.1%	(209)	217%	57.5	
U.S. Electric Utilities										
Ameren Corp.	AEE-N	34.05	6.5%	446	323%	4.7%	(270)	249%	50.8	BBB-
American Electric Power	AEP-N	47.39	6.7%	471	335%	4.0%	(196)	211%	55.2	BBB
Centerpoint Energy Inc.	CNP-N	21.63	5.9%	390	295%	3.8%	(183)	204%	69.5	BBB+
CMS Energy Corp.	CMS-N	26.85	6.2%	419	309%	3.8%	(180)	202%	69.9	BBB-
Consolidated Edison Inc.	ED-N	58.98	6.4%	444	322%	4.2%	(217)	221%	47.8	A-
Dominion Resources Inc.	D-N	55.87	6.1%	409	304%	4.0%	(202)	214%	65.8	A-
DTE Energy Co.	DTE-N	66.49	6.1%	411	305%	3.7%	(173)	198%	52.1	BBB+
Duke Energy Corp.	DUK-N	69.55	6.3%	430	315%	4.4%	(240)	234%	49.7	BBB+
Edison International	EIX-N	50.17	7.1%	505	352%	2.7%	(69)	143%	45.7	BBB-
Entergy Corp.	ETR-N	63.52	7.7%	566	382%	5.2%	(322)	277%	58.7	BBB
Exelon Corp.	EXC-N	31.82	7.7%	571	385%	6.6%	(460)	350%	47.3	BBB
FirstEnergy Corp.	FE-N	40.76	7.3%	531	365%	5.4%	(339)	286%	59.4	BBB-
NextEra Energy Inc.	NEE-N	73.94	6.8%	476	338%	3.6%	(157)	190%	63.0	A-
PG&E Corp.	PCG-N	42.87	6.4%	441	320%	4.2%	(224)	225%	50.2	BBB
Pinnacle West Capital	PNW-N	57.03	6.3%	429	314%	3.8%	(182)	203%	45.4	BBB+
PPL Corp.	PPL-N	30.52	7.7%	573	386%	4.8%	(281)	256%	65.7	BBB
Public Service Enterprise	PEG-N	32.67	7.2%	522	360%	4.4%	(240)	234%	44.1	BBB
Southern Co./The	SO-N	45.39	6.1%	413	306%	4.3%	(231)	229%	53.7	A
TECO Energy Inc.	TE-N	17.40	5.7%	372	286%	5.1%	(305)	268%	56.5	BBB+
Xcel Energy Inc.	XEL-N	28.96	6.6%	460	330%	3.7%	(173)	198%	55.4	A-
Average			6.6%	464	332%	4.3%	(232)	230%	55.3	
U.S. Gas Utilities										
AGL Resources Inc	GAS-N	40.28	6.5%	453	326%	4.7%	(266)	248%	58.9	BBB+
NiSource Inc.	NI-N	28.03	5.6%	363	281%	3.4%	(142)	182%	59.3	BBB-
Sempra Energy	SRE-N	78.48	5.7%	371	285%	3.2%	(121)	170%	54.5	BBB+
Average			6.0%	396	298%	3.8%	(176)	200%	57.6	
U.S. Generators										
AES Corp./The	AES-N	12.32	11%	850	524%	0.0%			73.8	BB-
Calpine Corp.	CPN-N	19.45	NM	NM	NM	0.0%			72.6	B+
NRG Energy Inc.	NRG-N	24.70	4.0%	195	198%	1.5%	55	77%	59.6	BB-
Average			7.2%	523	361%				68.7	

Notes: 1) Non-investment grade ratings are shaded. 2) All EPS forecasts for U.S. companies are consensus estimates.

Source: Bloomberg, TD Securities.

## Exhibit 12. Price Performance

March 7, 2013	Ticker (Exch.)	Recent Price	Last Month	Chg. (%)	2012 Close	Chg. (%)	High 52-Wk	Chg. (%)	High Date	Low 52-Wk	Chg. (%)	Low Date
<b>TSX Composite Index</b>		<b>12,827</b>	<b>12,822</b>	<b>0.0%</b>	<b>12,434</b>	<b>3.2%</b>	<b>12,895</b>	<b>-0.5%</b>	<b>01/30/2013</b>	<b>11,210</b>	<b>14.4%</b>	<b>06/04/2012</b>
<b>TSX Utilities Index</b>		<b>1,925</b>	<b>1,962</b>	<b>-1.9%</b>	<b>1,930</b>	<b>-0.2%</b>	<b>2,027</b>	<b>-5.0%</b>	<b>01/29/2013</b>	<b>1,809</b>	<b>6.4%</b>	<b>11/16/2012</b>
<b>TSX Oil &amp; Gas Refining, Marketing &amp; Transportation Index</b>		<b>2,634</b>	<b>2,577</b>	<b>2.2%</b>	<b>2,429</b>	<b>8.4%</b>	<b>2,645</b>	<b>-0.4%</b>	<b>02/18/2013</b>	<b>1,826</b>	<b>44.2%</b>	<b>04/16/2012</b>
<b>Gov Can 10-Yr</b>		<b>1.88</b>	<b>1.84</b>	<b>2.6%</b>	<b>1.798</b>	<b>4.8%</b>						
S&P 500		1,544	1,515	2.0%	1,426	8.3%	1,546	-0.1%	03/07/2013	1,267	21.9%	06/04/2012
S&P Utilities Index		191.2	189.0	1.2%	189.0	1.2%	195.5	-2.2%	08/01/2012	170.9	11.9%	11/15/2012
U.S. Gov. 10-Yr		2.00	1.88	6.8%	1.76	14%						
<b>Canadian Power &amp; Utility</b>												
ATCO Ltd.	ACO.X-T	91.05	89.10	2.2%	80.72	12.8%	92.60	-1.7%	03/06/2013	68.91	32.1%	03/08/2012
Canadian Utilities Ltd.	CU-T	78.84	77.76	1.4%	71.94	9.6%	79.15	-0.4%	03/04/2013	63.11	24.9%	11/15/2012
Capital Power Corp.	CPX-T	21.55	22.87	-5.8%	22.73	-5.2%	25.14	-14.3%	03/14/2012	20.75	3.9%	09/17/2012
Emera Inc.	EMA-T	35.31	35.44	-0.4%	34.74	1.6%	36.49	-3.2%	01/28/2013	32.29	9.4%	06/04/2012
Fortis Inc.	FTS-T	33.70	33.66	0.1%	34.22	-1.5%	34.98	-3.7%	05/03/2012	31.70	6.3%	03/29/2012
TransAlta Corp.	TA-T	15.04	15.40	-2.3%	15.12	-0.5%	19.90	-24.4%	03/12/2012	13.96	7.7%	09/11/2012
Valener Inc.	VNR-T	16.20	16.27	-0.4%	16.05	0.9%	16.47	-1.6%	09/07/2012	14.60	11.0%	06/01/2012
<b>Average</b>				<b>-0.7%</b>		<b>2.5%</b>		<b>-7.0%</b>			<b>13.6%</b>	
<b>Canadian Pipeline &amp; Midstream</b>												
AltaGas Ltd.	ALA-T	35.83	34.85	2.8%	33.57	6.7%	36.66	-2.3%	01/30/2013	27.46	30.5%	06/04/2012
Enbridge Inc.	ENB-T	46.11	45.98	0.3%	43.02	7.2%	46.50	-0.8%	03/05/2013	36.47	26.4%	03/21/2012
Enbridge Income Fund Hlds Inc.	ENF-T	25.23	25.18	0.2%	24.13	4.6%	26.20	-3.7%	02/12/2013	20.40	23.7%	04/11/2012
Gibson Energy Inc.	GEI-T	26.00	25.20	3.2%	24.05	8.1%	26.93	-3.5%	02/19/2013	19.82	31.2%	06/04/2012
Inter Pipeline Fund	IPL.UN-T	23.79	22.80	4.3%	23.50	1.2%	24.39	-2.5%	12/14/2012	17.40	36.7%	06/01/2012
Keyera Corp.	KEY-T	55.50	54.45	1.9%	49.23	12.7%	55.77	-0.5%	03/07/2013	37.50	48.0%	04/17/2012
Pembina Pipeline Corp.	PPL-T	31.22	28.94	7.9%	28.46	9.7%	31.49	-0.9%	03/06/2013	24.86	25.6%	06/25/2012
TransCanada Corp.	TRP-T	48.74	48.04	1.5%	47.02	3.7%	49.44	-1.4%	01/24/2013	41.47	17.5%	06/27/2012
Veresen Inc.	VSN-T	12.72	12.94	-1.7%	11.83	7.5%	15.50	-17.9%	03/13/2012	11.22	13.4%	12/12/2012
<b>Average</b>				<b>2.3%</b>		<b>6.8%</b>		<b>-3.7%</b>			<b>28.1%</b>	
<b>Canadian IPPs &amp; Alternative Energy</b>												
Algonquin Power Utilities Corp.	AQN-T	7.73	7.64	1.2%	6.84	13.0%	7.78	-0.6%	03/04/2013	5.62	37.5%	04/05/2012
Atlantic Power Corp.	ATP-T	5.70	10.26	-44.4%	11.33	-49.7%	15.12	-62.3%	11/02/2012	5.51	3.4%	03/06/2013
Boralex Inc.	BLX-T	9.82	9.54	2.9%	9.17	7.1%	10.01	-1.9%	11/08/2012	7.41	32.5%	05/18/2012
Capstone Infrastructure Corp.	CSE-T	4.24	4.40	-3.6%	4.03	5.2%	4.74	-10.5%	08/09/2012	3.68	15.2%	04/30/2012
Innervex Renewable Energy Inc	INE-T	10.47	10.50	-0.3%	10.35	1.2%	11.27	-7.1%	09/06/2012	9.69	8.0%	06/15/2012
Northland Power Inc.	NPI-T	18.90	18.69	1.1%	18.67	1.2%	19.82	-4.6%	01/30/2013	16.67	13.4%	03/29/2012
Sprott Power Corp.	SPZ-T	1.15	1.17	-1.7%	1.16	-0.9%	1.37	-16.1%	01/10/2013	0.75	53.3%	04/10/2012
<b>Average</b>				<b>-5.9%</b>		<b>-2.4%</b>		<b>-13.5%</b>			<b>22.8%</b>	

Source: Bloomberg, TD Securities.



**Exhibit 13. Price Performance (cont'd)**

March 7, 2013	Ticker (Exch.)	Recent Price	Last Month	Chg. (%)	2012 Close	Chg. (%)	High 52-Wk	Chg. (%)	High Date	Low 52-Wk	Chg. (%)	Low Date
<b>U.S. Pipelines</b>												
Spectra Energy	SE-N	28.81	29.04	-0.8%	27.38	5.2%	32.26	-10.7%	03/19/2012	26.55	8.5%	12/28/2012
Williams Cos Inc.	WMB-N	34.31	34.71	-1.2%	32.74	4.8%	37.56	-8.7%	10/04/2012	27.26	25.9%	06/25/2012
Kinder Morgan Inc.	KMI-N	37.26	37.07	0.5%	35.33	5.5%	40.25	-7.4%	04/03/2012	30.52	22.1%	06/26/2012
<b>Average</b>				<b>-1.0%</b>		<b>5.0%</b>		<b>-9.7%</b>			<b>17.2%</b>	
<b>U.S. Electric Utilities</b>												
Ameren Corp.	AEE-N	34.05	33.79	0.8%	30.72	10.8%	34.84	-2.3%	08/14/2012	28.44	19.7%	11/23/2012
American Electric Power	AEP-N	47.39	46.79	1.3%	42.68	11.0%	47.88	-1.0%	03/07/2013	36.98	28.2%	04/10/2012
Centerpoint Energy Inc.	CNP-N	21.63	21.43	0.9%	19.25	12.4%	21.95	-1.5%	03/05/2013	18.79	15.1%	12/31/2012
CMS Energy Corp.	CMS-N	26.85	26.61	0.9%	24.38	10.1%	27.14	-1.1%	03/06/2013	21.35	25.8%	04/12/2012
Consolidated Edison Inc.	ED-N	58.98	59.00	0.0%	55.54	6.2%	65.98	-10.6%	08/01/2012	53.63	10.0%	11/21/2012
Dominion Resources Inc.	D-N	55.87	56.00	-0.2%	51.80	7.9%	57.19	-2.3%	02/25/2013	48.94	14.2%	11/13/2012
DTE Energy Co.	DTE-N	66.49	66.80	-0.5%	60.05	10.7%	67.77	-1.9%	03/05/2013	53.71	23.8%	04/12/2012
Duke Energy Corp.	DUK-N	69.55	69.25	0.4%	63.80	9.0%	70.37	-1.2%	03/05/2013	59.63	16.6%	11/15/2012
Edison International	EIX-N	50.17	48.03	4.5%	45.19	11.0%	50.32	-0.3%	03/07/2013	41.42	21.1%	04/12/2012
Entergy Corp.	ETR-N	63.52	62.26	2.0%	63.75	-0.4%	73.97	-14.1%	08/01/2012	61.09	4.0%	02/15/2013
Exelon Corp.	EXC-N	31.82	30.99	2.7%	29.74	7.0%	39.95	-20.4%	03/12/2012	28.40	12.0%	11/23/2012
FirstEnergy Corp.	FE-N	40.76	39.48	3.2%	41.76	-2.4%	51.13	-20.3%	08/01/2012	38.27	6.5%	02/26/2013
NextEra Energy Inc.	NEE-N	73.94	71.87	2.9%	69.19	6.9%	74.41	-0.6%	03/07/2013	59.64	24.0%	03/09/2012
PG&E Corp.	PCG-N	42.87	42.64	0.5%	40.18	6.7%	47.02	-8.8%	08/01/2012	39.40	8.8%	12/31/2012
Pinnacle West Capital	PNW-N	57.03	55.94	1.9%	50.98	11.9%	57.52	-0.9%	03/07/2013	45.96	24.1%	04/11/2012
PPL Corp.	PPL-N	30.52	30.82	-1.0%	28.63	6.6%	31.34	-2.6%	03/05/2013	26.68	14.4%	04/13/2012
Public Service Enterprise	PEG-N	32.67	32.59	0.2%	30.60	6.8%	34.06	-4.1%	07/30/2012	28.92	13.0%	04/10/2012
Southern Co./The	SO-N	45.39	45.01	0.8%	42.81	6.0%	48.58	-6.6%	07/27/2012	41.75	8.7%	11/23/2012
TECO Energy Inc.	TE-N	17.40	17.25	0.9%	16.76	3.8%	18.64	-6.7%	08/01/2012	16.13	7.9%	11/21/2012
Xcel Energy Inc.	XEL-N	28.96	28.70	0.9%	26.71	8.4%	29.92	-3.2%	08/01/2012	25.84	12.1%	11/23/2012
<b>Average</b>				<b>1.2%</b>		<b>7.5%</b>		<b>-5.5%</b>			<b>15.5%</b>	
<b>U.S. Gas Utilities</b>												
AGL Resources Inc	GAS-N	40.28	39.96	0.8%	39.97	0.8%	42.37	-4.9%	02/01/2013	36.59	10.1%	05/21/2012
NiSource Inc.	NI-N	28.03	27.70	1.2%	24.89	12.6%	28.45	-1.5%	03/06/2013	23.15	21.1%	11/15/2012
Sempra Energy	SRE-N	78.48	77.76	0.9%	70.94	10.6%	79.72	-1.6%	03/06/2013	57.86	35.6%	03/20/2012
<b>Average</b>				<b>1.0%</b>		<b>8.0%</b>		<b>-2.7%</b>			<b>22.3%</b>	
<b>U.S. Generators</b>												
AES Corp./The	AES-N	12.32	11.62	6.0%	10.70	15.1%	13.44	-8.3%	03/14/2012	9.53	29.3%	11/14/2012
Calpine Corp.	CPN-N	19.45	18.40	5.7%	18.13	7.3%	20.07	-3.1%	02/11/2013	15.90	22.3%	06/25/2012
NRG Energy Inc.	NRG-N	24.70	24.00	2.9%	22.99	7.4%	24.77	-0.3%	03/07/2013	14.29	72.8%	04/16/2012
<b>Average</b>				<b>4.5%</b>		<b>11.3%</b>		<b>-4.3%</b>			<b>51.1%</b>	

Source: Bloomberg, TD Securities.

## Exhibit 14. Comparables – Free Cash Flow

	Ticker	Recent	Est. AFFO/Share					AFFO Yield					vs.
March 7, 2013	(Exch.)	Price	2011A	2012E	2013E	2104E	For.	2011A	2012E	2013E	2104E	For.	Peers
Canadian Power & Utility													
ATCO Ltd.	ACO.X-T	91.05	8.38	9.05	8.76	9.69	8.93	9.2%	9.9%	9.6%	10.6%	9.8%	115%
Canadian Utilities Ltd.	CU-T	78.84	5.31	5.26	4.90	5.48	5.00	6.7%	6.7%	6.2%	7.0%	6.3%	75%
Capital Power Corp.	CPX-T	21.55	2.78	2.63	2.83	2.74	2.82	12.9%	12.2%	13.1%	12.7%	13.1%	154%
Emera Inc.	EMA-T	35.31	2.06	1.73	1.97	1.96	1.97	5.8%	4.9%	5.6%	5.5%	5.6%	66%
Fortis Inc.	FTS-T	33.70	2.62	2.70	2.47	2.80	2.53	7.8%	8.0%	7.3%	8.3%	7.5%	88%
TransAlta Corp.	TA-T	15.04	1.68	(0.25)	0.90	1.52	1.01	11.1%	n.a.	6.0%	10.1%	6.7%	79%
Valener Inc.	VNR-T	16.20	2.04	1.89	1.86	2.19	1.92	12.6%	11.7%	11.5%	13.5%	11.9%	139%
Average								9.5%	8.7%	8.3%	9.5%	8.5%	
Canadian Pipeline & Midstream													
AltaGas Ltd.	ALA-T	35.83	2.38	2.46	3.13	3.30	3.16	6.6%	6.9%	8.7%	9.2%	8.8%	119%
Enbridge Inc.	ENB-T	46.11	2.59	2.30	2.35	2.83	2.44	5.6%	5.0%	5.1%	6.1%	5.3%	72%
Enbridge Income Fund Hlds Inc.	ENF-T	25.23	1.59	1.87	1.86	1.83	1.85	6.3%	7.4%	7.4%	7.3%	7.3%	99%
Gibson Energy Inc.	GEI-T	26.00	1.47	1.72	1.97	2.25	2.02	5.6%	6.6%	7.6%	8.6%	7.8%	105%
Inter Pipeline Fund	IPL.UN-T	23.79	1.44	1.42	1.47	1.69	1.51	6.1%	6.0%	6.2%	7.1%	6.3%	86%
Keyera Corp.	KEY-T	55.50	2.83	2.61	3.47	3.66	3.50	5.1%	4.7%	6.2%	6.6%	6.3%	85%
Pembina Pipeline Corp.	PPL-T	31.22	1.73	1.88	1.93	2.01	1.95	5.5%	6.0%	6.2%	6.4%	6.2%	84%
TransCanada Corp.	TRP-T	48.74	4.60	4.01	4.72	5.22	4.81	9.4%	8.2%	9.7%	10.7%	9.9%	134%
Veresen Inc.	VSN-T	12.72	1.18	1.06	1.09	1.09	1.09	9.3%	8.3%	8.6%	8.6%	8.6%	116%
Average								6.6%	6.6%	7.3%	7.9%	7.4%	
Canadian IPPs & Alternative Energy													
Algonquin Power Utilities Corp.	AQN-T	7.73	0.25	0.28	0.42	0.48	0.43	3.3%	3.6%	5.4%	6.2%	5.6%	76%
Atlantic Power Corp.	ATP-T	5.70	1.10	1.12	0.98	0.86	0.96	19.2%	19.6%	17.2%	15.0%	16.8%	230%
Boralex Inc.	BLX-T	9.82	0.13	0.36	0.30	0.54	0.34	1.3%	3.7%	3.0%	5.5%	3.5%	48%
Capstone Infrastructure Corp.	CSE-T	4.24	0.54	0.46	0.56	0.58	0.57	12.6%	10.9%	13.3%	13.7%	13.4%	183%
Innervex Renewable Energy Inc.	INE-T	10.47	0.43	0.35	0.61	0.74	0.63	4.1%	3.3%	5.8%	7.1%	6.0%	83%
Northland Power Inc.	NPI-T	18.90	0.71	0.58	0.80	0.97	0.83	3.8%	3.1%	4.3%	5.1%	4.4%	60%
Sprott Power Corp.	SPZ-T	1.15	(0.08)	0.02	0.03	0.04	0.04	-	2.1%	2.9%	3.7%	3.1%	42%
Average								6.6%	6.1%	7.2%	7.7%	7.3%	

Notes:

1) AFFO denotes free cash flow.

2) We calculate AFFO/share for corps and trusts/LPs by deducting estimated maintenance capital from estimated cash flow from operations.

3) Averages due not include ATCO due to its holding company nature.

Source: Bloomberg, TD Securities.

**Exhibit 15. Comparables – EV/EBITDA**

Exhibit 10 - Comparables - EV/EBITDA					EV/EBITDA					vs.
March 7, 2013	Ticker (Exch.)	Recent Price	Market Cap.	EV	2011A 2012E 2013E 2014E For.					Peers
Canadian Power & Utility										
ATCO Ltd.	ACO.X-T	91.05	5,234	12,648	8.7	7.7	7.1	6.4	6.9	70%
Canadian Utilities Ltd.	CU-T	78.84	10,135	16,446	12.8	11.6	10.4	9.4	10.3	103%
Capital Power Corp.	CPX-T	21.55	2,120	3,994	7.5	8.6	7.7	7.9	7.7	77%
Emera Inc.	EMA-T	35.31	4,633	8,879	12.9	11.4	11.6	10.9	11.5	115%
Fortis Inc.	FTS-T	33.70	6,457	13,764	12.1	11.6	10.7	10.2	10.6	107%
TransAlta Corp.	TA-T	15.04	3,835	9,141	8.4	9.0	8.3	8.1	8.2	83%
Valener Inc.	VNR-T	16.20	608	1,514	12.5	12.6	11.8	10.3	11.5	115%
Average					11.1	10.8	10.1	9.5	10.0	
Canadian Pipeline & Midstream										
AltaGas Ltd.	ALA-T	35.83	3,773	6,898	26.9	20.4	14.8	13.4	14.5	107%
Enbridge Inc.	ENB-T	46.11	36,278	69,292	20.8	16.1	14.0	11.6	13.5	100%
Enbridge Income Fund Hlds Inc.	ENF-T	25.23	3,241	5,112	19.8	22.3	15.7	15.6	15.7	116%
Gibson Energy Inc.	GEI-T	26.00	3,123	3,699	16.2	12.4	9.4	8.4	9.2	68%
Inter Pipeline Fund	IPL.UN-T	23.79	6,547	9,595	18.4	16.8	15.8	13.0	15.3	113%
Keyera Corp.	KEY-T	55.50	4,310	5,128	20.1	15.7	14.7	13.3	14.5	107%
Pembina Pipeline Corp.	PPL-T	31.22	9,154	11,685	33.3	20.1	16.1	14.2	15.8	116%
TransCanada Corp.	TRP-T	48.74	34,362	58,548	12.2	13.8	12.3	11.0	12.1	89%
Veresen Inc.	VSN-T	12.72	2,505	5,033	13.6	12.1	11.3	11.0	11.3	83%
Average					20.1	16.6	13.8	12.4	13.5	
Canadian IPPs & Alternative Energy										
Algonquin Power Utilities Corp.	AQN-T	7.73	1,450	2,455	23.3	22.6	11.9	9.2	11.4	92%
Atlantic Power Corp.	ATP-T	5.70	683	3,036	19.9	11.0	9.4	9.6	9.4	76%
Boralex Inc.	BLX-T	9.82	371	1,131	10.6	11.9	11.0	7.2	10.4	84%
Capstone Infrastructure Corp.	CSE-T	4.24	316	1,272	17.1	10.9	11.1	10.4	11.0	89%
Innervex Renewable Energy Inc.	INE-T	10.47	1,005	2,472	22.2	18.2	15.2	13.1	14.8	120%
Northland Power Inc.	NPI-T	18.90	2,469	3,908	25.6	21.9	16.6	11.8	15.7	127%
Sprott Power Corp.	SPZ-T	1.15	82	217	57.7	23.0	14.4	9.7	13.5	110%
Average					24.5	17.2	12.8	10.4	12.3	

Notes: 1) Averages exclude ATCO.

Source: Bloomberg, TD Securities.

**Exhibit 16. Comparables – EV/EBITDA (cont'd)**

	Ticker	Recent	Market		EV/EBITDA					vs.
March 7, 2013	(Exch.)	Price	Cap.	EV	2011A	2012E	2013E	2014E	For.	Peers
U.S. Pipelines										
Spectra Energy	SE-N	28.81	19,249	33,117	13.3	12.2	11.5	10.2	11.2	93%
Williams Cos Inc.	WMB-N	34.31	23,383	35,955	10.3	14.3	13.4	10.5	12.9	107%
Average					11.8	13.2	12.4	10.3	12.1	
U.S. Electric Utilities										
Ameren Corp.	AEE -N	34.05	8,262	15,185	7.0	7.1	7.5	7.3	7.5	91%
American Electric Power	AEP-N	47.39	23,016	41,151	8.7	8.6	8.6	8.3	8.6	105%
Centerpoint Energy Inc.	CNP-N	21.63	9,251	17,860	8.2	8.1	7.7	7.3	7.6	93%
CMS Energy Corp.	CMS-N	26.85	7,140	14,605	9.4	9.1	8.5	8.1	8.5	103%
Consolidated Edison Inc.	ED-N	58.98	17,274	28,316	9.1	8.6	8.4	8.1	8.4	102%
Dominion Resources Inc.	D-N	55.87	32,198	53,135	12.8	11.4	10.3	9.8	10.2	125%
DTE Energy Co.	DTE-N	66.49	11,473	19,517	8.1	7.9	7.5	7.2	7.5	91%
Duke Energy Corp.	DUK-N	69.55	49,009	87,941	17.1	12.9	10.1	9.6	10.0	122%
Edison International	EIX-N	50.17	16,346	27,341	7.1	7.3	6.9	6.4	6.8	82%
Entergy Corp.	ETR-N	63.52	11,312	24,534	6.5	8.3	8.0	7.9	8.0	98%
Exelon Corp.	EXC-N	31.82	27,207	45,710	6.7	7.3	7.3	7.4	7.3	89%
FirstEnergy Corp.	FE-N	40.76	17,047	36,022	8.4	8.0	8.3	8.1	8.2	100%
NextEra Energy Inc.	NEE-N	73.94	31,341	58,371	11.3	11.7	9.7	9.1	9.6	117%
PG&E Corp.	PCG-N	42.87	18,809	32,069	7.7	6.7	7.0	6.1	6.9	84%
Pinnacle West Capital	PNW-N	57.03	6,259	9,777	7.9	7.9	7.6	7.3	7.6	92%
PPL Corp.	PPL-N	30.52	17,788	37,033	8.6	9.4	8.8	8.7	8.8	107%
Public Service Enterprise	PEG-N	32.67	16,530	24,061	6.2	7.1	6.9	6.7	6.9	84%
Southern Co./The	SO-N	45.39	39,443	62,331	9.9	10.1	9.6	9.0	9.5	116%
TECO Energy Inc.	TE-N	17.40	3,780	6,552	6.9	7.3	8.0	7.3	7.8	96%
Xcel Energy Inc.	XEL-N	28.96	14,141	25,062	9.0	9.0	8.5	8.0	8.4	103%
Average					8.8	8.7	8.3	7.9	8.2	
U.S. Gas Utilities										
AGL Resources Inc	GAS-N	40.28	4,748	9,511	13.7	9.0	8.4	8.1	8.3	91%
NiSource Inc	NI-N	28.03	8,723	16,790	11.6	10.4	9.6	8.8	9.5	104%
Sempra Energy	SRE-N	78.48	19,093	31,990	11.6	11.3	9.6	9.1	9.5	105%
Average					12.3	10.2	9.2	8.7	9.1	
U.S. Generators										
AES Corp/The	AES-N	12.32	9,188	30,918	6.3	6.5	6.2	5.9	6.1	75%
Calpine Corp.	CPN-N	19.45	8,874	18,402	13.5	10.7	9.8	9.5	9.8	120%
NRG Energy Inc.	NRG-N	24.70	7,982	22,543	12.0	11.8	8.6	8.4	8.6	105%
Average					10.6	9.7	8.2	7.9	8.2	

\* All EBITDA forecasts for U.S. companies are consensus estimates. NM = Not Material.

Source: Bloomberg, TD Securities.

## Exhibit 17. Comparables - U.S. MLPs

U.S. MLPs	Price (\$US)	Yield	Market		EV/EBITDA				P/E				P/CPS			
			Cap (\$USmm)	EV (\$USmm)	2011A	2012E	2013E	2014E	2011A	2012E	2013E	2014E	2011A	2012E	2013E	2014E
Atlas Pipeline Partners LP	32.50	7.1%	2,098	3,235	19.9x	15.3x	10.0x	8.6x		25.4x	16.8x	14.6x				
Buckeye Partners LP	58.30	7.1%	6,081	7,424	15.5x	13.9x	11.7x	10.4x	19.0x	20.9x	17.9x	15.8x	13.1x	15.2x	11.5x	11.0x
<b>Copano Energy LLC</b>	<b>37.76</b>	<b>6.1%</b>	<b>3,120</b>	<b>3,785</b>	<b>28.4x</b>	<b>16.5x</b>	<b>12.9x</b>	<b>10.8x</b>			<b>35.9x</b>	<b>24.3x</b>	<b>16.5x</b>	<b>17.6x</b>	<b>14.9x</b>	<b>14.5x</b>
Crosstex Energy LP	17.76	7.4%	1,390	2,175		10.2x	9.2x	7.0x					6.3x			
DCP Midstream Partners LP	43.03	6.4%	3,184	4,645	23.5x	20.1x	12.6x	9.3x		25.1x	19.0x	15.5x		12.1x	10.8x	9.2x
<b>Enbridge Energy Partners LP</b>	<b>28.24</b>	<b>7.7%</b>	<b>8,318</b>	<b>15,285</b>	<b>13.1x</b>	<b>13.1x</b>	<b>11.7x</b>	<b>9.8x</b>		<b>26.6x</b>	<b>29.8x</b>	<b>20.3x</b>		<b>11.0x</b>	<b>10.4x</b>	<b>9.4x</b>
Energy Transfer Partners LP	46.43	7.7%	18,601	37,291	22.6x	19.2x	13.0x	10.9x		32.2x	26.7x	19.1x	7.2x	9.7x	5.9x	5.6x
Enterprise Products Partners LP	57.23	4.6%	52,270	64,310	16.8x	15.2x	14.3x	13.1x	25.1x	21.7x	21.2x	19.8x	14.2x	16.7x	14.2x	13.5x
<b>Genesis Energy LP</b>	<b>46.75</b>	<b>4.2%</b>	<b>3,794</b>	<b>3,751</b>	<b>25.9x</b>	<b>17.0x</b>	<b>14.3x</b>	<b>11.6x</b>			<b>30.6x</b>	<b>22.3x</b>		<b>19.4x</b>	<b>19.8x</b>	<b>16.4x</b>
<b>Global Partners LP/MA</b>	<b>34.80</b>	<b>6.6%</b>	<b>955</b>	<b>1,566</b>	<b>18.6x</b>	<b>12.7x</b>	<b>8.6x</b>	<b>9.4x</b>	<b>37.4x</b>	<b>27.2x</b>	<b>12.0x</b>	<b>11.5x</b>		<b>4.3x</b>		
Holly Energy Partners LP	42.58	4.4%	2,458	2,862	19.8x	15.0x	13.2x	12.4x	31.8x	31.7x	28.8x	26.4x	20.9x	18.3x	16.6x	15.7x
Magellan Midstream Partners LP	49.47	4.0%	11,214	12,116	19.0x	17.4x	15.6x	13.7x	27.0x	25.1x	22.3x	20.0x	19.3x	19.1x	17.4x	15.7x
MarkWest Energy Partners LP	58.13	5.6%	7,507	9,007	15.1x	16.8x	13.0x	9.4x		33.7x	41.1x	23.4x	11.0x	15.8x	14.4x	12.5x
<b>NuStar Energy LP</b>	<b>49.85</b>	<b>8.8%</b>	<b>3,883</b>	<b>5,921</b>	<b>12.3x</b>	<b>15.9x</b>	<b>11.2x</b>	<b>9.1x</b>		<b>65.6x</b>	<b>24.3x</b>	<b>17.1x</b>		<b>12.2x</b>	<b>12.0x</b>	<b>9.2x</b>
<b>Plains All American Pipeline LP</b>	<b>54.00</b>	<b>4.2%</b>	<b>18,152</b>	<b>23,083</b>	<b>14.9x</b>	<b>11.5x</b>	<b>11.0x</b>	<b>10.4x</b>	<b>22.1x</b>	<b>18.4x</b>	<b>19.1x</b>	<b>19.6x</b>		<b>13.5x</b>	<b>13.9x</b>	<b>13.8x</b>
Spectra Energy Partners LP	38.67	5.1%	4,084	4,354	35.9x	18.1x	16.9x	15.0x	23.7x	23.1x	24.1x	22.7x	16.4x	16.8x	17.0x	15.9x
Blueknight Energy Partners LP	8.76	5.3%	199	558	8.6x	8.6x	8.3x	7.3x		21.4x						
<b>Sunoco Logistics Partners LP</b>	<b>67.08</b>	<b>3.3%</b>	<b>6,963</b>	<b>6,562</b>	<b>11.9x</b>	<b>9.0x</b>	<b>8.7x</b>	<b>8.1x</b>	<b>23.9x</b>	<b>16.9x</b>	<b>20.5x</b>	<b>19.5x</b>	<b>15.8x</b>	<b>13.0x</b>	<b>11.8x</b>	<b>11.6x</b>
<b>TC Pipelines LP</b>	<b>46.86</b>	<b>6.7%</b>	<b>2,506</b>	<b>3,130</b>		<b>17.7x</b>	<b>16.9x</b>	<b>15.5x</b>		<b>18.1x</b>	<b>19.6x</b>	<b>18.4x</b>		<b>14.7x</b>	<b>14.0x</b>	<b>13.8x</b>
Transmontaigne Partners LP	45.51	5.6%	658	652	8.5x	8.8x	8.5x			17.9x	18.6x	20.1x				
NuStar Energy LP	49.85	8.8%	3,883	5,938	12.3x	16.0x	11.2x	9.2x	17.9x	65.6x	24.3x	17.1x		12.2x	12.0x	9.2x
Williams Partners LP	48.76	6.8%	20,039	27,816	11.6x	12.8x	11.2x	8.6x	13.1x	24.4x	25.0x	19.8x	6.2x			
Average		6.2%			17.7x	14.6x	12.0x	10.5x	23.4x	27.9x	23.8x	19.4x	13.0x	14.2x	13.5x	12.3x

Note: All estimates are Bloomberg consensus estimates.

Source: Bloomberg, TD Securities.

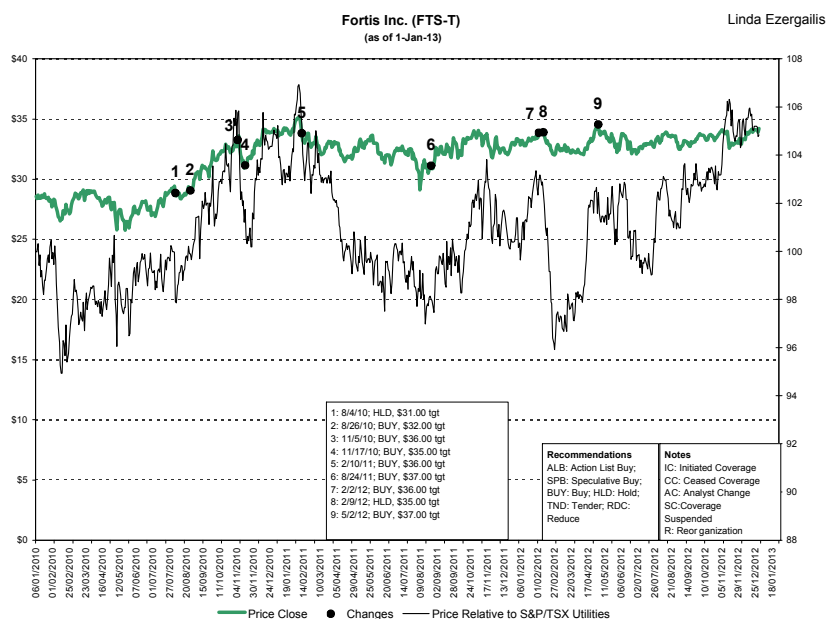
## APPENDIX A. IMPORTANT DISCLOSURES

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

### Additional Important Disclosures

## Price Graphs



## Research Ratings

### Action List BUY:

The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

### BUY:

The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

### SPECULATIVE BUY:

The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

### HOLD:

The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

### TENDER:

Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

### REDUCE:

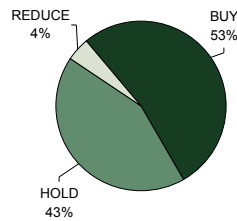
The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.5% of coverage universe), Medium (32.6%), High (50.0%), Speculative (10.9%)

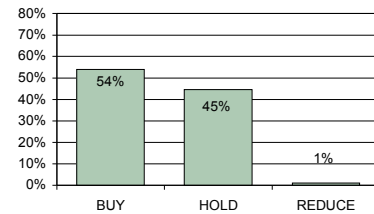


## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>



Investment Banking Services Provided<sup>\*</sup>



Current as of March 4, 2013

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ FactSet and TheMarkets.com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

## Analyst Certification

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **13.5%****Market Data (C\$)**

Current Price	\$33.70
52-Wk Range	\$31.70-\$34.98
Mkt Cap (f.d.)(mm)	\$6,810.8
Dividend per Share	\$1.24
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	399155

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.1
Float Shares (mm)	191.6
Net Debt/Tot Cap	51.4%
BVPS (basic)	\$20.84
ROE	8.3%

**Estimates (C\$)**

Year	2011A	2012A	2013E	2014E
EPS (basic)	1.68	1.71	1.74	1.81
EPS (f.d.)	1.67	1.70	1.73	1.80
AFFO/Shr	2.62	2.70	2.47	2.80

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012A	2013E	2014E
Q1	0.64	0.64	0.65	--
Q2	0.33	0.34	--	--
Q3	0.25	0.24	--	--
Q4	0.46	0.45	--	--

**Valuations**

Year	2011A	2012A	2013E	2014E
P/E (f.d.)	20.2x	19.8x	19.5x	18.7x
P/AFFO	12.9x	12.5x	13.6x	12.0x

All figures in C\$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc. (FTS-T) C\$33.70

### Growth Through Discipline - Takeaways From Management Meetings

#### Event

We recently hosted Fortis management for a number of investor meetings.

#### Impact

**SLIGHTLY POSITIVE.** Our meetings with management provided a solid update and, in our view, reaffirmed our positive thesis on the company. For a more detailed update, please see our concurrently published Fortis report titled *"A Utility Tried, Tested and Grew"*.

#### Details

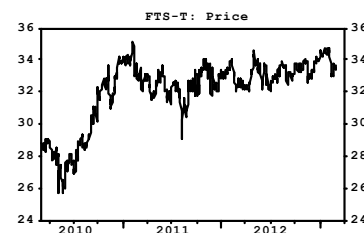
**Focus on Closing CH Energy and Waneta Expansion:** Management is confident that the CH Energy acquisition will close in Q2/13. The construction on the Waneta Expansion is proceeding well with all high-risk items completed, and it is tracking slightly ahead of budget and schedule.

**Robust Organic Capital Plan Represents Both Low-Risk Growth and High Quality of Service:** Management believes that Fortis' largest driver of growth remains its organic capital investments into rate base. This spend also satisfies its mandate of maintaining high-quality of service and reliability to its customers and reinforces its commitment to maintaining the quality of its assets. Its five-year program is expected to total approximately \$6 billion.

**Leveraging Existing Presence and Expertise for New Transmission Build Opportunities:** Alberta and Ontario are holding a competitive procurement process for new electric transmission infrastructure build. Management is optimistic that it can secure some of these project RFPs and build up a presence in electric transmission. In our view, the company's strong expertise in electric distribution, and its incumbency and ability to leverage its existing FortisAlberta and FortisOntario operations will give it a competitive advantage over other bidders.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Hydro Power Opportunities:** Fortis is also studying opportunities to leverage the work completed for its Waneta Expansion project. The company is looking at building a hydroelectric dam and generating facility, approximately 60 MW in capacity, potentially costing \$200 million-\$300 million. The company could make a final decision on the project in a year.

**LNG Expansion:** Fortis owns an extensive gas network in B.C. and is looking at ways to expand its system capacity to accommodate high interest in using relatively cheap natural gas (e.g., fuel for trucks). There are also LNG Expansion projects that Fortis could look to explore. The company owns the Tilbury and Mount Hayes LNG facilities in B.C. and is looking at ways to supply LNG to power boats and ferries, and also potentially export smaller volumes of LNG to neighboring jurisdictions like Hawaii and Alaska.

**Additional CH Energy Investments Possible:** Low natural gas prices relative to heating oil costs could accelerate residential customer conversions to natural gas, further bolstering current 6% rate base growth expectations. If the Indian Point nuclear power plant is shut down as per certain political intentions, then the expectation is that this would be replaced with natural gas-fired power generation to service New York City, and any resulting additional natural gas transmission pipeline capacity required through CH Energy's territory could also be an investing opportunity for the utility.

**Fortis is a Logical Buyer of AltaLink:** Management acknowledged that it is a logical buyer of AltaLink should SNC Lavalin Group Inc. decide to divest the asset. Fortis already has a sizeable presence in Alberta as it owns electrical distribution assets in the province, knows the regulatory system in place in the province, and is in constant dialogue with AltaLink through system operations. Management also noted that any deal would likely get done quicker with them involved, and could result in some operational efficiencies and other cost synergies, which could be beneficial to customer rates. Any sale process would likely be highly competitive and we believe that Fortis' management will maintain its exceptional discipline when evaluating any acquisition opportunities.

**Continued Appetite for Acquisitions:** We believe that Fortis' management will remain acquisitive and will continue to look at U.S. electric and gas utility acquisitions, particularly in New York state, and potentially other regions with reasonable regulatory jurisdictions like Texas, the U.S. Midwest, and the U.S. Southwest.

**Looking for Growth and Geographic Diversification:** In terms of potential scale, management stated that a large U.S. acquisition down the road combined with CH Energy could eventually grow its presence in the U.S. to the same scale as its current B.C. presence, thus potentially effectively reducing B.C. businesses down to approximately one-third from approximately one half of the company today. This would further diversify the company's geographic operations and make it less reliant on the regulatory risks associated with a single jurisdiction. We believe that this is a prudent strategy.

**Regulatory Updates:** In Alberta, the recent Decision on Fortis' compliance filing appears a step in the right direction with approximately 60% of the capital tracker revenue accepted on an interim basis with a capital tracker decision expected in Q3/13. We are hopeful that the regulator understands historic cost-based customer rates alone would not adequately compensate shareholders for significant growth capital. With respect to a B.C. generic cost of capital decision, expected by mid 2013, we see some risk of slightly lower ROEs.

**Exhibit 1. Upcoming Regulatory Decisions**

Utility	Significant Proceedings	Filing	Expected Decision
FortisBC (Gas)	Generic Cost of Capital – 2013	March-12	Mid-2013
	GRA(1) (2014+)	H1/2013	TBD
FortisBC (Electric)	Generic Cost of Capital – 2013	March-12	Mid-2013
	Kelowna Utility Asset Acquisition	November-12	Q1/2013
	GRA (2014+)	H1/2013	TBD
FortisAlberta	Generic Cost of Capital – 2013	October-12	Late 2013
	2013 PBR(3) Compliance Filing	November-12	Q1/2013
	PBR Capital Tracker Filing	December-12	Q3/2013
NF Power	GRA & Cost of Capital – 2013 & 2014	September-12	Q2/2013
Central Hudson	Merger Application	April-12	Q2/2013
	GRA (2014+)	July-13	TBD

Notes:

1) General Rate Application

2) Performance Based Regulation

Source: Company Reports, TD Securities.

**Exhibit 2. Comparison of Fortis' Large Utilities**

Utility	Customers (#000s) <sup>1</sup>	Rate Base (\$B) <sup>2</sup>
FortisBC (Gas)	945	3.7
FortisBC (Electric)	163	1.2
FortisAlberta	508	2.3
Newfoundland Power	252	0.9
<b>Central Hudson<sup>3</sup></b>	<b>375</b>	<b>1.0</b>

Notes:

1) As at December 31, 2012.

2) Forecast mid-year 2013.

3) CH Energy Group acquisition announced February 21, 2012.

Transaction is expected to close during Q2/13.

Source: Company Reports, TD Securities.

**Exhibit 3. Regulatory Mechanisms for Fortis' Large Utilities (2013)**

Utility	FortisBC (Gas)	FortisBC (Electric)	FortisAlberta	Newfoundland Power	Central Hudson (1)
Cost of service regulation	✓	✓	✓	✓	✓
Performance-based rate-setting mechanism	X	X	✓	X	X
Forward test year	✓	✓	X	✓	✓
Commodity/Energy supply cost trackers (2)	✓	✓	N/A (3)	✓	✓
Advance approval required for capital expenditures	✓	✓	x (4)	✓	✓
Weather (volume) normalization (2)	✓	✓	N/A (3)	✓	✓
Pension cost tracker (2)	✓	✓	N/A (5)	✓	✓
Interest expense tracker (2)	✓	✓	X	X	✓
Property tax tracker (2)	✓	✓	(6)	✓	✓
Capital expenditure tracker (2)	X	X	✓ (4)	X	X
Relief typically granted for major non-controllable expenses (including taxes, storm damage and accounting changes) (2)	✓	✓	✓	✓	✓

## Notes:

- 1) CH Energy Group acquisition announced February 21, 2012. Transaction is expected to close during Q2/2013.
- 2) Deferral for future recovery from (refund to) customers of certain variances between actual and forecast for rate setting.
- 3) Distribution utility only. No commodity or purchase power exposure.
- 4) No advance approval required for sustaining capex. Advance approval through capital expenditure tracker mechanism required for growth capex.
- 5) Primarily has defined contribution pension plan.
- 6) Applied for 2013 through 2017 and subject to approval by the regulator.

Source: Company Reports, TD Securities.

**Financing Update:** Given that almost all of Fortis' capital plan over the next five years is self-funding capital spent at the subsidiaries, Fortis does not see the need to raise common equity in the short term beyond its DRIP. However, once CH Energy closes, we expect Fortis to permanently finance the acquisition using a combination of debt and preferred equity. The company expects to maintain a capital structure in the 35% common equity, 10% preferred share, 55% debt range, which would adhere to its A(low) credit rating from S&P. Management also takes pride in the company's track record of 40 years of consecutive dividend increases, which is among the longest of any public traded Canadian company.

**Valuation****Exhibit 4. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2011A	2012E	2013E	2011A	2012E	2013E	2012E	2013E	2012E	2013E
Fortis Inc.	FTS	\$33.70	202.1	\$6,811	\$1.24	3.7%	\$1.67	\$1.70	\$1.73	\$2.62	\$2.70	\$2.47	19.8x	19.5x	8.0%	7.3%
ATCO Ltd.	ACO.X	\$91.05	57.5	\$5,234	\$1.50	1.6%	\$5.70	\$6.44	\$6.64	\$8.35	\$9.05	\$8.76	14.1x	13.7x	9.9%	9.6%
Canadian Utilities Ltd.	CU	\$78.84	128.6	\$10,135	\$1.94	2.5%	\$3.69	\$4.03	\$4.28	\$5.30	\$5.26	\$4.89	19.6x	18.4x	6.7%	6.2%
Capital Power Corp.	CPX	\$21.55	98.4	\$2,120	\$1.26	5.8%	\$1.24	\$1.29	\$1.33	\$2.78	\$2.63	\$2.83	16.8x	16.1x	12.2%	13.1%
Emera Inc.	EMA	\$35.31	131.0	\$4,625	\$1.40	4.0%	\$1.64	\$1.64	\$1.69	\$2.06	\$1.73	\$1.97	21.6x	20.9x	4.9%	5.6%
TransAlta Corp.	TA, TAC	\$15.04	254.7	\$3,831	\$1.16	7.7%	\$1.04	\$0.50	\$0.67	\$1.68	(\$0.25)	\$0.90	30.0x	22.5x	n.a.	6.0%
Valener Inc.	VNR	\$16.20	37.6	\$609	\$1.00	6.2%	\$0.82	\$0.81	\$0.80	\$2.04	\$1.89	\$1.86	20.0x	20.3x	11.7%	11.5%
Average						5.0%							21.3x	19.6x	8.7%	8.3%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**TD Investment Conclusion**

Our meetings with management provided a solid update and in our view reaffirmed our positive thesis on the company. Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well-positioned to make future acquisitions in North America as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find Fortis' low-risk, utility-dominated business model attractive and reiterate our BUY recommendation.



**Exhibit 5. Fortis Summary**

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,811	<b>Debt-to-Capitalization</b>	52.8%
<b>Recent Share Price</b>	\$33.70	<b>Net Debt (\$mm)</b>	5,889	<b>BVPS</b>	20.84
<b>52 Week Range</b>	\$31.70–\$34.98	<b>EV (\$mm)</b>	14,118	<b>Ex-div date</b>	02/12/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	202	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.7%	<b>Float O/S (mm)</b>	192		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks, Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2011A	2012A	2013E	2014E	Valuation	2011A	2012A	2013E	2014E
Operating EPS (f.d.)	1.67	1.70	1.73	1.80	P/E	20.2x	19.8x	19.5x	18.8x
Free Cash Flow Per Share (AFFO)	2.62	2.70	2.47	2.80	AFFO Yield	7.8%	8.0%	7.3%	8.3%
Dividend Per Share	1.16	1.20	1.24	1.30	Dividend Yield	3.4%	3.6%	3.7%	3.9%
Income Statement (\$mm)	2011A	2012A	2013E	2014E	Ratios	2011A	2012A	2013E	2014E
FortisBC (Gas)	139	138	142	146	Payout Ratio (EPS)	69%	71%	72%	72%
FortisAlberta	74	96	97	99	Payout Ratio (AFFO)	44%	44%	50%	46%
FortisBC (Electric)	48	50	51	51	Debt-to-Capitalization	54%	53%	54%	55%
Newfoundland Power	34	37	37	38					
Other Canadian Electric Utilities	22	24	25	26					
CH Energy	0	0	36	50					
Regulated Electric Utilities - Caribbean	20	19	20	21					
Non-Regulated Properties	23	22	23	25					
Non-Regulated Fortis Generation	18	17	18	21					
Corporate and Other	(72)	(78)	(88)	(89)					
<b>Operating Income</b>	<b>306</b>	<b>325</b>	<b>362</b>	<b>387</b>					
Non-Recurring Items	12	(10)	(23)	0					
<b>Net Income</b>	<b>318</b>	<b>315</b>	<b>339</b>	<b>387</b>					
Cash Flow Statement (\$mm)	2011A	2012A	2013E	2014E	Segmented Breakdown ( % of Operating Income)	2011A	2012A	2013E	2014E
Income	356	371	388	438	FortisBC (Gas)	37%	34%	32%	31%
Other Items Not Involving Cash	450	527	549	600	FortisAlberta	20%	24%	22%	21%
Change in Non-cash Working Capital	98	78	0	0	FortisBC (Electric)	13%	12%	11%	11%
Cash from Operations	904	976	937	1,038	Newfoundland Power	9%	9%	8%	8%
					Other Canadian Electric Utilities	6%	6%	6%	5%
Capital Expenditures & Acquisitions	(1,199)	(1,151)	(2,949)	(1,392)	CH Energy	0%	0%	8%	10%
Other	74	71	68	68	Regulated Electric Utilities - Caribbean	5%	5%	5%	4%
Cash from Investing	(1,125)	(1,080)	(2,881)	(1,324)	Non-Regulated Properties	6%	5%	5%	5%
					Non-Regulated Fortis Generation	5%	4%	4%	5%
Dividends Paid	(189)	(225)	(306)	(329)		100%	100%	100%	100%
Change in Debt	(36)	85	1,353	533					
Common Shares	345	24	667	83					
Preferred Shares	0	194	100	0					
Other	81	93	0	0					
Cash from Financing	201	171	1,814	288					
<b>Total Cash Flow</b>	<b>(20)</b>	<b>67</b>	<b>(130)</b>	<b>2</b>					
Balance Sheet (\$mm)	2011A	2012A	2013E	2014E	Free Cash Flow	2011A	2012A	2013E	2014E
Cash and Cash Equivalents	89	154	24	26	CF from Continuing Operations	806	898	937	1,038
Other Current Assets	1,031	939	923	923	Preferred Dividends & Minority Interest	(38)	(55)	(49)	(51)
Property, Plant and Equipment	10,266	11,764	14,218	15,065	Maintenance Capital Expenditures	(293)	(330)	(376)	(389)
Other Non-Current Assets	2,176	2,093	2,286	1,081	<b>Free Cash Flow</b>	<b>475</b>	<b>513</b>	<b>511</b>	<b>599</b>
<b>Total Assets</b>	<b>13,562</b>	<b>14,950</b>	<b>17,451</b>	<b>17,094</b>					
Other Liabilities	2,621	3,497	2,447	2,447					
Debt	6,264	6,043	8,125	8,108					
Total Liabilities	8,885	9,540	10,572	10,555					
Non-Controlling Interests	208	310	310	310					
Preferred Shares	592	1,108	1,208	1,208					
Total Shareholders' Equity	3,877	3,992	5,361	5,021					
<b>Total Liabilities &amp; Equity</b>	<b>13,562</b>	<b>14,950</b>	<b>17,451</b>	<b>17,094</b>					

Source: Company Reports, TD Securities.

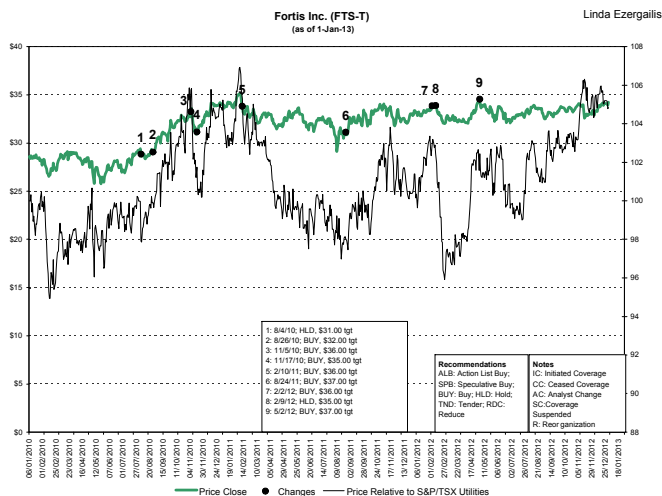


## TD Securities Equity Research Disclosures

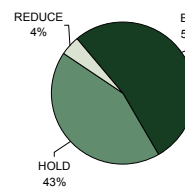
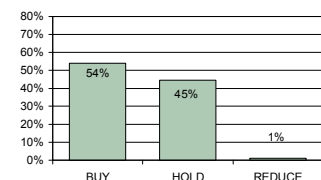
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of March 4, 2013

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on First Call, Bloomberg, Reuters, Capital IQ, FactSet and TheMarkets.Com. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on First Call, Bloomberg and Reuters. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.5% of coverage universe), Medium (32.6%), High (50.0%), Speculative (10.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/disclosures> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$37.00**  
*Unchanged***12-Month Total Return:** **9.2%****Market Data (C\$)**

Current Price	\$35.01
52-Wk Range	\$32.03-\$35.13
Mkt Cap (f.d.)(mm)	\$7,075.5
Dividend per Share	\$1.24
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	449083

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.1
Float Shares (mm)	191.6
Net Debt/Tot Cap	51.4%
BVPS (basic)	\$20.84
ROE	8.3%

**Estimates (C\$)**

Year	2011A	2012A	2013E	2014E
EPS (basic)	1.68	1.71	1.74	1.81
EPS (f.d.)	1.67	1.70	1.73	1.80
AFFO/Shr	2.62	2.70	2.47	2.80

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2011A	2012A	2013E	2014E
Q1	0.64	0.64	0.65	--
Q2	0.33	0.34	--	--
Q3	0.25	0.24	--	--
Q4	0.46	0.45	--	--

**Valuations**

Year	2011A	2012A	2013E	2014E
P/E (f.d.)	21.0x	20.6x	20.2x	19.5x
P/AFFO	13.4x	13.0x	14.2x	12.5x

Notes: 2012+ financials are based on US GAAP.

All figures in C\$, unless otherwise specified.

**Please see the final pages of this document for important disclosure information.**

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$35.01

### Proposed Acquisition of CH Energy Hits Regulatory Roadblock

#### Event

Administrative law judges (ALJs) have recommended to the New York State Public Service Commission (the Commission) that Fortis' proposed acquisition of CH Energy Group as laid out in the Joint Proposal not be approved (the Recommended Decision).

#### Impact

##### SLIGHTLY NEGATIVE.

Overall, we were surprised by the findings of the Recommended Decision and the amount of perceived public opposition toward Fortis' acquisition of CH Energy. However, to clarify, the ALJ's recommendation is an advisory opinion (not legally binding) that will be considered by the Commission in its final ruling on whether to approve the acquisition of CH Energy by Fortis.

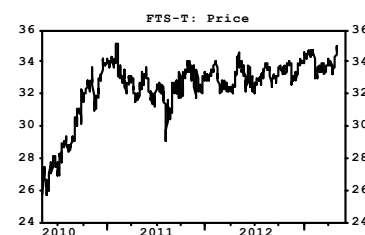
Given the ongoing discussions between the parties and the Commission, we have not changed our financial estimates at this time as we await a final ruling by the Commission, and remain hopeful that a decision can be mutually agreed upon by all parties after some of the most recent concerns are mitigated. Our forecasts had assumed a Q2/13 acquisition close and that the public interest test required for the acquisition was met. We estimate that the acquisition could be \$0.02 accretive to EPS on an annual basis.

#### Details

**Some Uncertainty Over Approval; Exceptions to be Filed:** While the Recommended Decision suggests that the Commission could consider allowing the transaction to proceed, subject to modifications that would alter the transaction's balance of risks and benefits, in the form of more public benefit adjustments (PBAs), the ALJs also suggested that the "extraordinary intense degree of public opposition" might not be remediated by more PBAs. Fortis and CH Energy intend to file exceptions with a number of points raised in the Recommended Decision and will continue dialogue with all parties. Management has stated that a number of the issues of concern have already been addressed in the Joint Proposal, and is disappointed with the Recommended Decision not recognizing the nature and value of the stand-alone model in which CH Energy would operate under. Currently, the Joint Proposal outlines US\$49.25 million in payments and guaranteed saving for the benefits of customers. For additional details, please refer to our January

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.





29, 2013 Action Note titled, [\*"Settlement Agreement With Central Hudson Filed"\*](#).

**Timeline for Appeals and Final Decision:** Any parties can file exceptions to the Recommended Decision by May 17, 2013, and responses to these submissions are due by May 24, 2013. The next decision point would be in mid-June, where we expect the Commission might discuss the item on its agenda. With respect to the approximate \$600 million of subscription receipts issued in 2012 related to the acquisition, their conversion to common shares requires the transaction to close prior to 5 PM (EST) on June 30, 2013, otherwise, the sub-receipt holders will receive a refund together with earned interest. Our expectation is that Fortis could request an approval to extend the sub-receipt timeline if necessary (whereby at least two sub-receipt holders with a quorum of at least 25% of the total sub receipts would need to obtain at least two-thirds of the votes, in person or by proxy). Management has not made a final decision on whether to extend the timeline for the sub receipts, but will likely decide near the end of May (which would require approximately 21 days to set up a meeting of extraordinary resolution). Fortis also would have the option of not extending the sub-receipt timeline and issuing common equity to help finance the acquisition once all approvals have been obtained. A final decision by the Commission is expected in June 2013. The Fortis/CH Energy merger agreement will expire on August 20, 2013. In the event that the acquisition did not proceed, Fortis would be reimbursed for up to US\$4.0 million of expenses.

**Committed to its U.S. Expansion Strategy:** Despite the recent regulatory challenges, we believe that Fortis will remain committed to its U.S. growth strategy going forward. Given this could potentially be the second time the company has been derailed from consummating a large U.S. acquisition (the first time being Central Vermont Public Service Corporation in mid-2011), going forward, we believe that management will remain increasingly cautious when proceeding with any potential future U.S. acquisitions and maintain its measured approach to acquisitions. Fortis' utility acquisition strategy remains focused on good utilities with strong management teams, similar risk profile, growth potential through follow-on capital investments, while keeping operations autonomous and self-functioning.

**Decision Highlights Expertise Required to Acquire Utilities:** The regulatory hurdles presented with the acquisition, in our view, illustrate the relatively high barriers to entry to acquire utilities in certain jurisdictions. We continue to view Fortis management as best-in-class, with a history of being disciplined in acquisitions, and view its ability to execute on large-scale, utility acquisitions as well proven. We believe that Fortis has a solid historical track record of owning and operating utilities using a decentralized management model, and its mandate of maintaining high quality of service and reliability to its customers reinforces its commitment to all stakeholders, including that of ratepayers.

## Valuation

### Exhibit 1. Valuation

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$35.01	202.1	\$7,076	\$1.24	3.5%	\$1.70	\$1.73	\$1.80	\$2.70	\$2.47	\$2.80	20.2x	19.5x	7.0%	8.0%
ATCO Ltd.	ACO.X	\$95.00	57.6	\$5,471	\$1.50	1.6%	\$6.44	\$6.61	\$7.27	\$9.05	\$8.78	\$9.70	14.4x	13.1x	9.2%	10.2%
Canadian Utilities Ltd.	CU	\$81.13	129.1	\$10,472	\$1.94	2.4%	\$4.03	\$4.24	\$4.73	\$5.26	\$4.90	\$5.48	19.1x	17.2x	6.0%	6.8%
Capital Power Corp.	CPX	\$22.50	98.6	\$2,218	\$1.26	5.6%	\$1.29	\$1.25	\$1.14	\$2.63	\$2.61	\$2.56	18.0x	19.7x	11.6%	11.4%
Emera Inc.	EMA	\$36.77	131.0	\$4,816	\$1.40	3.8%	\$1.64	\$1.69	\$1.80	\$1.73	\$1.97	\$1.96	21.7x	20.4x	5.4%	5.3%
TransAlta Corp.	TA, TAC	\$15.02	258.4	\$3,881	\$1.16	7.7%	\$0.50	\$0.51	\$0.52	(\$0.25)	\$0.65	\$1.33	29.2x	28.9x	4.3%	8.8%
Valener Inc.	VNR	\$16.00	37.6	\$602	\$1.00	6.3%	\$0.81	\$0.80	\$1.00	\$1.89	\$1.86	\$2.19	20.0x	16.1x	11.6%	13.7%
Average						4.9%							21.4x	20.3x	7.7%	9.0%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**TD Investment Conclusion**

We are hopeful the CH Energy acquisition will close as we believe that it will be beneficial for all stakeholders. In our view, CH Energy and its rate payers are expected to gain the financial backing of a strong parent to help fund its future growth, benefit from the sharing of best practices across the Fortis group of utilities, receive benefits to improve its system reliability and efficiency for customers, while keeping its operations autonomous in the Fortis fold. In the event that management would find any additional potential concessions as diluting the acquisition value for Fortis shareholders to the point that it would make no economic sense to proceed, we are confident that management would be disciplined and walk away.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive.

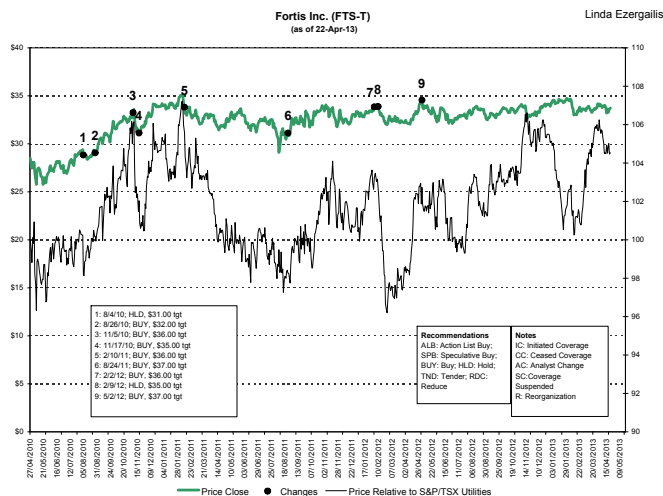


## TD Securities Equity Research Disclosures

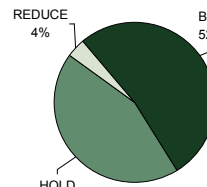
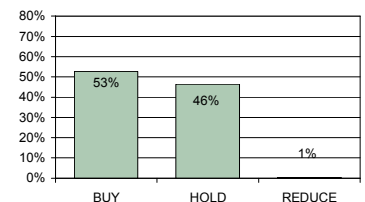
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of April 2, 2013

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>



**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.5% of coverage universe), Medium (32.5%), High (50.3%), Speculative (10.8%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$37.00**  
*Unchanged*

**12-Month Total Return:** **9.4%**

**Market Data (C\$)**

Current Price	\$34.97
52-Wk Range	\$32.03-\$35.13
Mkt Cap (f.d.)(mm)	\$7,091.9
Dividend per Share	\$1.24
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	449083

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.8
Float Shares (mm)	192.5
Net Debt/Tot Cap	50.9%
BVPS (basic)	\$21.37
ROE	8.3%

**Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.73	1.81	1.89
EPS (basic)(old)	1.71	1.74	1.80	--
EPS (f.d.)	1.70	1.71	1.78	1.87
EPS (f.d.)(old)	1.70	1.73	1.80	--
AFFO/Shr	2.70	2.61	2.82	3.09
AFFO/Shr (old)	2.70	2.47	2.80	--

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.34	--	--
Q3	0.24	--	--	--
Q4	0.45	--	--	--

**Valuations**

Year	2012A	2013E	2014E	2015E
P/E (f.d.)	20.6x	20.5x	19.6x	18.7x
P/AFFO	13.0x	13.4x	12.4x	11.3x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$34.97

### Q1 Results In-Line with Expectations; Introducing 2015 Forecasts

**Event**

Fortis reported normalized Q1/13 EPS (f.d.) of \$0.65, in line with our estimate, recent consensus of \$0.66 and above Q1/12 EPS (f.d.) of \$0.64.

**Impact****NEUTRAL.**

We have updated our forecasts largely to reflect a slight delay in our estimated closing for the CH Energy acquisition (which we now assume in late-Q2/13), along with small revisions to the contributions from the regulated Canadian utilities. We are also introducing our 2015 estimates, and rolling forward our target price by a quarter to be based 75% and 25% off our 2014 and 2015 forecasts, respectively. Our target price remains \$37.

**Details**

**FortisBC Energy** Q1/13 earnings of \$85 million increased by \$3 million year over year, due to rate base growth and increased transportation volumes to industrial customers.

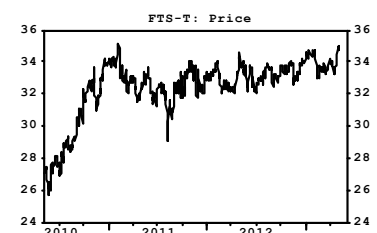
**Regulated Electric Utilities – Canadian** Q1/13 earnings of \$55 million were \$4 million higher year over year.

- **FortisAlberta** normalized earnings of \$24 million grew \$3 million year over year, largely from lower depreciation rates, resulting from the 2012 distribution revenue requirements decision.
- **FortisBC Electric** earnings of \$18 million grew \$2 million year over year and benefited from rate base growth, lower operating expenses from the timing of capital expenditures, lower finance/depreciation charges, and higher allowance for funds used during construction.
- **Newfoundland Power** earnings of \$7 million were flat year over year.
- **Other Canadian Electric Utilities** earnings of \$6 million decreased by \$1 million year over year, largely from higher energy supply costs at Maritime Electric.

Please see the final pages of this document for important disclosure information.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Regulated Utilities – Caribbean** earnings of \$3 million were in line with Q1/12 results as lower operating expenses at Caribbean Utilities were offset by higher depreciation costs.

**Fortis Generation** normalized earnings of \$2 million declined from \$5 million in Q1/12, primarily due to decreased electricity production in Belize as a result of lower rainfall.

**Fortis Properties** earnings of \$0 million were down \$1 million year over year, largely due to lower occupancy levels in the Central Canadian hotels. During the quarter, RevPAR decreased slightly to \$66.04 from \$66.54 in Q1/12.

#### Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)

	Q1/13	Q1/12	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$85	\$82	\$3	4%
FortisAlberta <sup>1</sup>	24	21	3	14%
FortisBC Electric	18	16	2	13%
Newfoundland Power	7	7	-	0%
Other Canadian	6	7	(1)	-14%
Regulated Electric Utilities - Canadian	55	51	4	8%
Regulated Utilities - Caribbean	3	3	-	0%
<b>Total Regulated Utilities</b>	<b>143</b>	<b>136</b>	<b>7</b>	<b>5%</b>
<b>Non-Regulated Fortis Generation<sup>2</sup></b>	<b>2</b>	<b>5</b>	<b>(3)</b>	<b>-60%</b>
<b>Non-Regulated Fortis Properties</b>	<b>0</b>	<b>1</b>	<b>(1)</b>	<b>-100%</b>
<b>Corporate<sup>3</sup></b>	<b>(18)</b>	<b>(17)</b>	<b>(1)</b>	<b>3%</b>
<b>Operating Earnings</b>	<b>128</b>	<b>125</b>	<b>3</b>	<b>2%</b>
Adjustments	25	(4)	29	-713%
<b>Reported Earnings</b>	<b>152</b>	<b>121</b>	<b>31</b>	<b>26%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.65</b>	<b>\$0.64</b>	<b>\$0.00</b>	<b>1%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.76</b>	<b>\$0.62</b>	<b>\$0.14</b>	<b>23%</b>

Notes: Earnings have been normalized for the following items:

1) A \$2mm (after tax) adjustment recognized in Q1/13 related to the finalization of 2012 net transmission volume variances.

2) A \$22mm (after tax) gain in Q1/13 related to the settlement of the Exploits River Hydro Partnership.

3) \$0.5mm and \$4mm of costs (after tax) incurred in Q1/13 and Q1/12, respectively, related to the pending CH Energy acquisition.

Source: Company reports, TD Securities.

**Outlook****Acquisition and Construction Updates:**

- **CH Energy Update:** Administrative law judges have recommended to the New York State Public Service Commission that Fortis' proposed acquisition of CH Energy as laid out in the Joint Proposal not be approved. Overall, we were surprised by the findings of the decision and the amount of perceived public opposition toward the acquisition. For additional details, please refer to our May 7, 2013, Action Note titled, "[\*Proposed Acquisition of CH Energy Hits Regulatory Roadblock\*](#)".
- **Waneta Expansion Proceeding Well:** Approximately \$483 million has been spent on the \$900 million 335 MW Waneta Expansion in B.C. since construction began late in 2010. The project is tracking on budget and on schedule for a spring 2015 in-service date.
- **2013 Capital Plan and Five-Year Outlook Remain Robust:** Fortis expects to spend approximately \$1.3 billion for its 2013 capital plan. Management's five-year gross capital expenditure program (2013-2017) is unchanged at \$6.0 billion (including CH Energy) and is expected to translate into a combined utility rate base and hydroelectric generation investment CAGR of approximately 6%. This five-year plan is broken down with 54% expected to be spent at the Canadian regulated electric utilities, 20% at the regulated gas utilities, 11% at Central Hudson, 4% at the Caribbean regulated electric utilities, and the remaining 11% in the non-regulated businesses.

**Regulatory Update:** Management expects a mid-year decision on the British Columbia Utilities Commission (BCUC) benchmark cost-of-capital hearing (affecting FortisBC Energy), with the phase II Decision (affecting the Vancouver Island utility and FortisBC Electric) following later this year.

**Exploits Partnership Resolved:** Reported earnings included a \$0.12 per-share after tax (\$22 million) gain related to the settlement of the December 2008 expropriation by the provincial government of Fortis' ownership of non-regulated hydroelectric generating assets and water rights in central Newfoundland (via its 51% in the Exploits River Hydro Partnership).

**Introducing our 2015 Forecasts:** We are forecasting a 2015 EPS of \$1.87, 5% higher than our 2014 EPS, largely due to incremental contribution from the Waneta Expansion project along with earnings growth resulting from increased rate base at the Canadian utility businesses.

**Q2/13 Preview:** We are forecasting Q2/13 EPS of \$0.34, in line with Q2/12 results. Increased earnings, largely due to rate base additions in the Canadian regulated electric utilities, could be offset by lower non-regulated generation and properties contribution.

**Valuation****Exhibit 2. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$34.97	202.8	\$7,092	\$1.24	3.5%	\$1.70	\$1.71	\$1.78	\$2.70	\$2.61	\$2.82	20.4x	19.7x	7.5%	8.1%
ATCO Ltd.	ACO.X	\$95.02	57.6	\$5,472	\$1.50	1.6%	\$6.44	\$6.61	\$7.27	\$9.05	\$8.78	\$9.70	14.4x	13.1x	9.2%	10.2%
Canadian Utilities Ltd.	CU	\$80.52	129.1	\$10,394	\$1.94	2.4%	\$4.03	\$4.24	\$4.73	\$5.26	\$4.90	\$5.48	19.0x	17.0x	6.1%	6.8%
Capital Power Corp.	CPX	\$22.41	98.6	\$2,209	\$1.26	5.6%	\$1.29	\$1.25	\$1.14	\$2.63	\$2.61	\$2.56	17.9x	19.7x	11.7%	11.4%
Emera Inc.	EMA	\$36.67	136.1	\$4,991	\$1.40	3.8%	\$1.64	\$1.71	\$1.78	\$1.73	\$1.94	\$1.95	21.5x	20.6x	5.3%	5.3%
TransAlta Corp.	TA, TAC	\$14.97	258.4	\$3,868	\$1.16	7.7%	\$0.50	\$0.51	\$0.52	(\$0.25)	\$0.65	\$1.33	29.1x	28.9x	4.4%	8.9%
Valener Inc.	VNR	\$16.00	37.6	\$602	\$1.00	6.3%	\$0.81	\$0.80	\$1.00	\$1.89	\$1.86	\$2.19	20.0x	16.1x	11.6%	13.7%
Average						4.9%							21.3x	20.3x	7.8%	9.0%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$37.00 target price is predicated 75% and 25% on our 2014 and 2015 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) pending acquisitions.

**TD Investment Conclusion**

First quarter results demonstrated the stability of the company's business model. Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive.

**Exhibit 3. Financial Summary**

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	7,092	<b>Debt-to-Capitalization</b>	50.9%
<b>Recent Share Price</b>	\$34.97	<b>Net Debt (\$mm)</b>	5,942	<b>BVPS</b>	21.37
<b>52 Week Range</b>	\$32.03–\$35.14	<b>EV (\$mm)</b>	14,475	<b>Ex-div date</b>	05/15/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	203	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.5%	<b>Float O/S (mm)</b>	192		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks, Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013E	2014E	2015E	Valuation	2012A	2013E	2014E	2015E
Operating EPS (f.d.)	1.70	1.71	1.78	1.87	P/E	20.6x	20.4x	19.7x	18.7x
Free Cash Flow Per Share (AFFO)	2.70	2.61	2.82	3.09	AFFO Yield	7.7%	7.5%	8.1%	8.8%
Dividend Per Share	1.20	1.24	1.28	1.34	Dividend Yield	3.4%	3.5%	3.7%	3.8%
Income Statement (\$mm)	2012A	2013E	2014E	2015E	Ratios	2012A	2013E	2014E	2015E
FortisBC (Gas)	138	142	143	145	Payout Ratio (EPS)	71%	72%	72%	72%
FortisAlberta	96	101	104	106	Payout Ratio (AFFO)	44%	48%	45%	43%
FortisBC (Electric)	50	48	49	51	Debt-to-Capitalization	53%	55%	55%	55%
Newfoundland Power	37	37	38	39					
Other Canadian Electric Utilities	24	25	26	27					
CH Energy	-	24	50	54					
Regulated Electric Utilities - Caribbean	19	20	21	21					
Non-Regulated Properties	22	18	21	22					
Non-Regulated Fortis Generation	17	17	20	32					
Corporate and Other	(78)	(83)	(87)	(89)					
<b>Operating Income</b>	<b>325</b>	<b>349</b>	<b>384</b>	<b>408</b>					
Non-Recurring Items	(10)	2	0	0					
<b>Net Income</b>	<b>315</b>	<b>351</b>	<b>384</b>	<b>408</b>					
Cash Flow Statement (\$mm)	2012A	2013E	2014E	2015E	Segmented Breakdown ( % of Operating Income)	2012A	2013E	2014E	2015E
Income	371	400	434	459	FortisBC (Gas)	34%	33%	30%	29%
Other Items Not Involving Cash	527	552	608	657	FortisAlberta	24%	23%	22%	21%
Change in Non-cash Working Capital	78	0	0	0	FortisBC (Electric)	12%	11%	10%	10%
Cash from Operations	976	953	1,042	1,115	Newfoundland Power	9%	8%	8%	8%
					Other Canadian Electric Utilities	6%	6%	5%	5%
Capital Expenditures & Acquisitions	(1,151)	(3,163)	(1,407)	(918)	CH Energy	0%	6%	11%	11%
Other	71	68	68	70	Regulated Electric Utilities - Caribbean	5%	5%	4%	4%
Cash from Investing	(1,080)	(3,095)	(1,339)	(848)	Non-Regulated Properties	5%	4%	4%	4%
					Non-Regulated Fortis Generation	4%	4%	4%	6%
Dividends Paid	(225)	(300)	(324)	(340)		100%	100%	100%	100%
Change in Debt	85	1,553	573	48					
Common Shares	24	665	82	87					
Preferred Shares	194	100	0	0					
Other	93	0	0	0					
Cash from Financing	171	2,018	331	(205)					
<b>Total Cash Flow</b>	<b>67</b>	<b>(125)</b>	<b>34</b>	<b>62</b>					
Balance Sheet (\$mm)	2012A	2013E	2014E	2015E	Free Cash Flow	2012A	2013E	2014E	2015E
Cash and Cash Equivalents	154	29	63	125	CF from Continuing Operations	898	953	1,042	1,115
Other Current Assets	939	923	923	923	Preferred Dividends & Minority Interest	(55)	(49)	(51)	(51)
Property, Plant and Equipment	11,764	14,429	15,283	15,598	Maintenance Capital Expenditures	(330)	(376)	(389)	(398)
Other Non-Current Assets	2,093	1,619	998	1,067	<b>Free Cash Flow</b>	<b>513</b>	<b>527</b>	<b>603</b>	<b>667</b>
<b>Total Assets</b>	<b>14,950</b>	<b>17,000</b>	<b>17,266</b>	<b>17,713</b>					
Other Liabilities	3,807	3,486	2,936	3,078					
Debt	6,043	7,596	8,169	8,217					
Total Liabilities	9,850	11,082	11,105	11,295					
Non-Controlling Interests	310	310	310	310					
Preferred Shares	1,108	1,208	1,208	1,208					
Total Shareholders' Equity	3,682	4,400	4,643	4,900					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>17,000</b>	<b>17,266</b>	<b>17,713</b>					

Source: Company Reports, TD Securities.

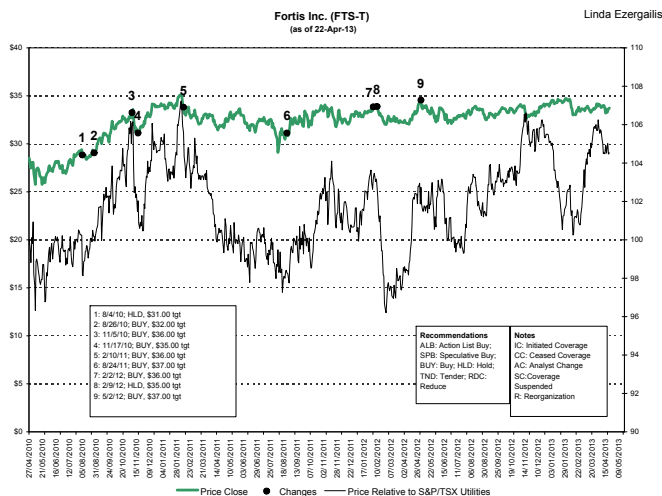


## TD Securities Equity Research Disclosures

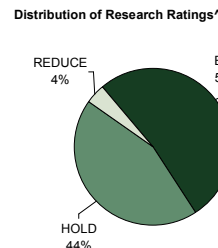
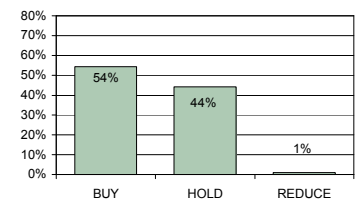
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>B</sup>

Current as of May 2, 2013

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>



**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$36.00↓**

**Prior:** **C\$37.00**

**12-Month Total Return:** **8.9%**

**Market Data (C\$)**

Current Price	\$34.21
52-Wk Range	\$32.03-\$35.14
Mkt Cap (f.d.)(mm)	\$6,937.8
Dividend per Share	\$1.24
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	453203

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.8
Float Shares (mm)	192.5
Net Debt/Tot Cap	50.9%
BVPS (basic)	\$21.37
ROE	8.3%

**Estimates (C\$)**

YearYear	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.68	1.76	1.85
EPS (basic)(old)	1.71	1.73	1.81	1.89
EPS (f.d.)	1.70	1.67	1.74	1.83
EPS (f.d.)(old)	1.70	1.71	1.78	1.87
AFFO/Shr	2.70	2.58	2.78	3.05
AFFO/Shr (old)	2.70	2.61	2.82	3.09

**EPS (f.d.) Quarterly Estimates (C\$)**

YearYear	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.33	--	--
Q3	0.24	--	--	--
Q4	0.45	--	--	--

**Valuations**

YearYear	2012A	2013E	2014E	2015E
P/E (f.d.)	20.1x	20.5x	19.7x	18.7x
P/AFFO	12.7x	13.3x	12.3x	11.2x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$34.21

### Fortis Receives BC Regulatory Decision

#### Event

- The British Columbia Utilities Commission (BCUC) has released its Decision on the first phase of the generic cost of capital review.
- Effective January 1, 2013 through December 31, 2015, the rate of return on equity (ROE) for FortisBC Energy Inc. (FEI) has been set at 8.75% and the common equity component in its capital structure for rate-making purposes has been set at 38.5%.

#### Impact

##### SLIGHTLY NEGATIVE.

In our view, the decline in the ROE was expected as long bond yields have decreased over the past few years. However, we had been hopeful that the prior common equity thickness of 40% would not change, and view the 150 bps drop to be disappointing.

Our BC benchmark 2013+ ROE declines 25 bps to 8.75% from our prior 9.00% assumption and our BC Energy equity thickness has been updated with the 38.5% in the decision. We previously had assumed no change to the prior 40% equity thickness. On a year-over-year basis (2013E versus 2012A), the 75 bps drop in ROE and 150 bps drop in equity thickness has an approximate \$0.08 EPS impact. With the decline in our financial forecasts, our target price declines a dollar to \$36.00.

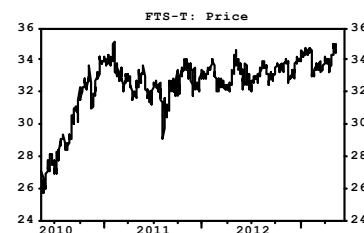
#### Details

**BCUC Changes Capital Structure:** The BCUC noted that with its decision, the FEI capital structure will become more aligned with other gas utilities in Canada. Now that the decision is out, we expect FEI to file for 2014/2015 rates in the near term.

**Automatic Adjustment Formula:** If the long-term Government of Canada bond yields exceed 3.8% prior to December 31, 2015, then an automatic adjustment mechanism (AAM) has been introduced to re-set the annual ROE. We view this as mildly positive, as it introduces an asymmetric return possibility – with the 8.75% ROE set as a floor but allowing for some upside if long bonds move up substantially.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**



**Risk Premiums for Other Utilities to be Established:** FEI (the old Terasen Gas) is the benchmark utility in the province, and Fortis' other affected utilities in the province (Vancouver Island, Whistler Island, and FortisBC Electric) will have their ROE set based off this benchmark ROE plus a risk premium. Phase two of the generic cost of capital hearing will now begin, and this phase will establish appropriate capital structures and risk premiums for other utilities in the province. We expect the 40% equity thickness to remain unchanged at FortisBC Electric as we believe its capital structure is in-line with other comparable electric utilities. In our view, Fortis' other BC gas utilities (FEVI and FEWI) should also maintain their equity thicknesses given our view of their smaller size and slightly higher risk profile. In the event that the Phase two decision differs from our expectations, we provide EPS sensitivities for potential changes in capital structure and risk premium for Fortis' other BC utilities in Exhibit 1.

### Exhibit 1. Estimated EPS Sensitivities to Changes in Capital Structure and Risk Premium for Fortis' Other BC Utilities (Excludes FEI)

	1 Percentage Point Equity Thickness Increase/(Decrease)		25 bps Risk Premium Increase/(Decrease)	
	\$	%	\$	%
2013E	0.01 / (0.01)	+/- 0.6%	0.01 / (0.01)	+/- 0.6%
2014E	0.01 / (0.01)	+/- 0.6%	0.01 / (0.01)	+/- 0.6%
2015E	0.01 / (0.01)	+/- 0.6%	0.01 / (0.01)	+/- 0.6%

Source: TD Securities.

### Exhibit 2. Fortis: Affected BC Utilities

BC Utility	2013E Earnings Contribution (\$mm)	% of 2013E Earnings
FortisBC Energy Inc. (FEI)	102	30%
Vancouver Island (FEVI)	30	9%
Whistler Island (FEWI)	2	0%
FortisBC Electric	47	14%

Source: TD Securities.

## Valuation

### Exhibit 3. Valuation

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$34.21	202.8	\$6,938	\$1.24	3.6%	\$1.70	\$1.67	\$1.74	\$2.70	\$2.58	\$2.78	20.5x	19.6x	7.5%	8.1%
ATCO Ltd.	ACO.X	\$94.99	57.6	\$5,470	\$1.50	1.6%	\$6.44	\$6.61	\$7.27	\$9.05	\$8.78	\$9.70	14.4x	13.1x	9.2%	10.2%
Canadian Utilities Ltd.	CU	\$79.86	129.1	\$10,308	\$1.94	2.4%	\$4.03	\$4.24	\$4.73	\$5.26	\$4.90	\$5.48	18.8x	16.9x	6.1%	6.9%
Capital Power Corp.	CPX	\$21.95	98.6	\$2,163	\$1.26	5.7%	\$1.29	\$1.25	\$1.14	\$2.63	\$2.61	\$2.56	17.5x	19.3x	11.9%	11.6%
Emera Inc.	EMA	\$36.77	136.1	\$5,004	\$1.40	3.8%	\$1.64	\$1.71	\$1.78	\$1.73	\$1.94	\$1.95	21.5x	20.6x	5.3%	5.3%
TransAlta Corp.	TA, TAC	\$15.12	258.4	\$3,907	\$1.16	7.7%	\$0.50	\$0.51	\$0.52	(\$0.25)	\$0.65	\$1.33	29.4x	29.1x	4.3%	8.8%
Valener Inc.	VNR	\$16.17	37.6	\$608	\$1.00	6.2%	\$0.81	\$0.83	\$0.96	\$1.89	\$1.85	\$2.08	19.5x	16.8x	11.4%	12.9%
Average							4.9%						21.2x	20.4x	7.8%	8.9%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

### Justification of Target Price

Our \$36.00 target price is predicated 75% and 25% on our 2014 and 2015 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) pending acquisitions.

**TD Investment Conclusion**

Although we are slightly disappointed with the decision by the BCUC to reduce both the benchmark ROE and allowed equity thickness for FEI, the magnitude of the change is not material to our overall thesis on Fortis. In our view, there are some positives to the decision as it provides some certainty on regulated ROEs for utilities in BC over the medium term, and we view the adoption of an automatic adjustment mechanism as potentially positive as it could allow earnings upside if bond yields rise while maintaining a base ROE.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive.

**Exhibit 4. Financial Summary**

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,938	<b>Debt-to-Capitalization</b>	50.9%
<b>Recent Share Price</b>	\$34.21	<b>Net Debt (\$mm)</b>	5,942	<b>BVPS</b>	21.37
<b>52 Week Range</b>	\$32.03–\$35.14	<b>EV (\$mm)</b>	14,321	<b>Ex-div date</b>	05/15/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	203	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.6%	<b>Float O/S (mm)</b>	192		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks, Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013E	2014E	2015E	Valuation	2012A	2013E	2014E	2015E
Operating EPS (f.d.)	1.70	1.67	1.74	1.83	P/E	20.1x	20.5x	19.6x	18.7x
Free Cash Flow Per Share (AFFO)	2.70	2.58	2.78	3.05	AFFO Yield	7.9%	7.5%	8.1%	8.9%
Dividend Per Share	1.20	1.24	1.28	1.32	Dividend Yield	3.5%	3.6%	3.7%	3.9%
Income Statement (\$mm)	2012A	2013E	2014E	2015E	Ratios	2012A	2013E	2014E	2015E
FortisBC (Gas)	138	134	136	138	Payout Ratio (EPS)	71%	74%	74%	72%
FortisAlberta	96	101	104	106	Payout Ratio (AFFO)	44%	48%	46%	43%
FortisBC (Electric)	50	47	48	49	Debt-to-Capitalization	53%	55%	55%	55%
Newfoundland Power	37	37	38	39					
Other Canadian Electric Utilities	24	25	26	27					
CH Energy	-	24	50	54					
Regulated Electric Utilities - Caribbean	19	20	21	21					
Non-Regulated Properties	22	18	21	22					
Non-Regulated Fortis Generation	17	17	20	32					
Corporate and Other	(78)	(83)	(87)	(89)					
<b>Operating Income</b>	<b>325</b>	<b>340</b>	<b>375</b>	<b>400</b>					
Non-Recurring Items	(10)	4	0	0					
<b>Net Income</b>	<b>315</b>	<b>345</b>	<b>375</b>	<b>400</b>					
Cash Flow Statement (\$mm)	2012A	2013E	2014E	2015E	Segmented Breakdown ( % of Operating Income)	2012A	2013E	2014E	2015E
Income	371	394	426	450	FortisBC (Gas)	34%	32%	29%	28%
Other Items Not Involving Cash	527	552	608	657	FortisAlberta	24%	24%	23%	22%
Change in Non-cash Working Capital	78	0	0	0	FortisBC (Electric)	12%	11%	10%	10%
Cash from Operations	976	946	1,034	1,107	Newfoundland Power	9%	9%	8%	8%
					Other Canadian Electric Utilities	6%	6%	6%	6%
Capital Expenditures & Acquisitions	(1,151)	(3,163)	(1,407)	(918)	CH Energy	0%	6%	11%	11%
Other	71	68	68	70	Regulated Electric Utilities - Caribbean	5%	5%	5%	4%
Cash from Investing	(1,080)	(3,095)	(1,339)	(848)	Non-Regulated Properties	5%	4%	4%	5%
					Non-Regulated Fortis Generation	4%	4%	4%	7%
Dividends Paid	(225)	(300)	(324)	(336)		100%	100%	100%	100%
Change in Debt	85	1,553	573	48					
Common Shares	24	665	82	85					
Preferred Shares	194	100	0	0					
Other	93	0	0	0					
Cash from Financing	171	2,018	331	(202)					
<b>Total Cash Flow</b>	<b>67</b>	<b>(131)</b>	<b>25</b>	<b>57</b>					
Balance Sheet (\$mm)	2012A	2013E	2014E	2015E	Free Cash Flow	2012A	2013E	2014E	2015E
Cash and Cash Equivalents	154	23	48	105	CF from Continuing Operations	898	946	1,034	1,107
Other Current Assets	939	923	923	923	Preferred Dividends & Minority Interest	(55)	(49)	(51)	(51)
Property, Plant and Equipment	11,764	14,429	15,283	15,598	Maintenance Capital Expenditures	(330)	(376)	(389)	(398)
Other Non-Current Assets	2,093	1,619	998	1,067	<b>Free Cash Flow</b>	<b>513</b>	<b>520</b>	<b>594</b>	<b>658</b>
<b>Total Assets</b>	<b>14,950</b>	<b>16,994</b>	<b>17,251</b>	<b>17,692</b>					
Other Liabilities	3,807	3,486	2,936	3,078					
Debt	6,043	7,596	8,169	8,217					
Total Liabilities	9,850	11,082	11,105	11,295					
Non-Controlling Interests	310	310	310	310					
Preferred Shares	1,108	1,208	1,208	1,208					
Total Shareholders' Equity	3,682	4,394	4,628	4,879					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>16,994</b>	<b>17,251</b>	<b>17,692</b>					

Source: Company Reports, TD Securities.

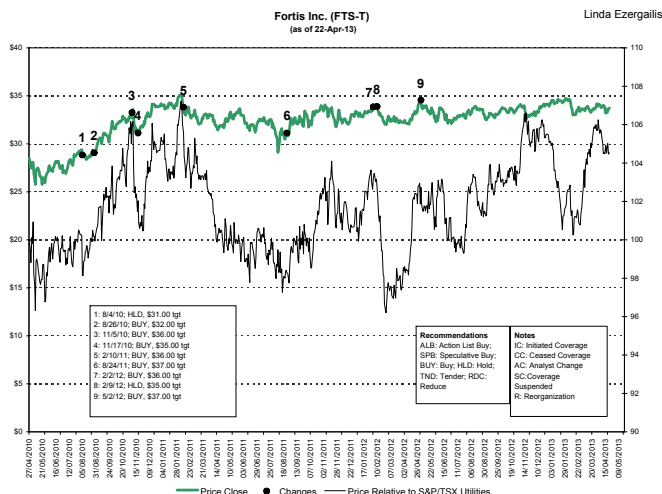


## TD Securities Equity Research Disclosures

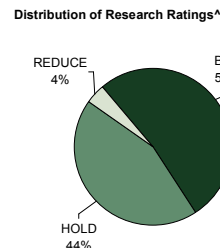
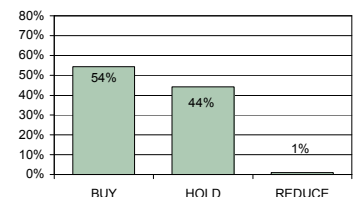
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
13. Restricted voting shares.
14. Non-voting shares.
15. Variable voting shares.
16. Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Investment Banking Services Provided<sup>\*</sup>

Current as of May 2, 2013

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**



**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **17.1%****Market Data (C\$)**

Current Price	\$31.80
52-Wk Range	\$31.88-\$35.14
Mkt Cap (f.d.)(\$mm)	\$6,449.0
Dividend per Share	\$1.24
Dividend Yield	3.9%
Avg. Daily Trading Vol. (3M-All Exch)	502613

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	202.8
Float Shares (mm)	192.5
Net Debt/Tot Cap	50.9%
BVPS (basic)	\$21.37
ROE	8.3%

**Estimates (C\$)**

YearYear	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.68	1.76	1.85
EPS (f.d.)	1.70	1.67	1.74	1.83
AFFO/Shr	2.70	2.58	2.78	3.05

**EPS (f.d.) Quarterly Estimates (C\$)**

YearYear	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.33	--	--
Q3	0.24	--	--	--
Q4	0.45	--	--	--

**Valuations**

YearYear	2012A	2013E	2014E	2015E
P/E (f.d.)	18.7x	19.0x	18.3x	17.4x
P/AFFO	11.8x	12.3x	11.4x	10.4x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$31.80****Regulator Approves CH Energy Acquisition****Event**

The New York State Public Service Commission (the Commission / Regulator) has unanimously approved Fortis' acquisition of CH Energy Group (CH Energy).

**Impact****POSITIVE.**

We view the Regulators' decision positively and expect the acquisition to close in late Q2/13 or early Q3/13. As a reminder, we estimate that the acquisition could be \$0.02 accretive to EPS on an annual basis, and currently have the acquisition incorporated into our model.

**Details**

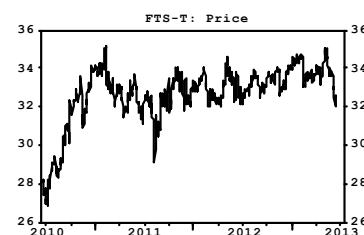
**A Unanimous Decision:** The Commission unanimously ruled in favour of the acquisition and that it had met the overall net-benefit condition. We believe that the final enhanced proposal presented by Fortis on May 30, 2013 was well received by stakeholders, and helped clarify their understanding of Fortis' intentions of operating the utility in an autonomous manner without lowering the level of service or its community involvement. It also provided additional enhancements to its previous offer that secured the support of labour unions and provided further customer benefits by freezing delivery rates by an additional year.

**Next Steps:** Fortis will convene a meeting for the subscription receipt holders on June 20, 2013 to extend the deadline for the expiry of the subscription receipts from June 30, 2013 to August 30, 2013. We believe that the subscription receipt holders will vote in favour of extending the deadline and believe this should provide sufficient time for Fortis and CH Energy to finalize the transaction.

**Committed to its U.S. Expansion Strategy:** Despite the recent regulatory challenges associated with the CH Energy acquisition, we believe that Fortis will remain committed to its U.S. growth strategy going forward. Fortis' utility acquisition strategy remains focused on good utilities with strong management teams, similar risk profile, growth potential through follow-on capital investments, while keeping operations autonomous and self-functioning.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**



**Decision Highlights Expertise Required to Acquire Utilities:** The regulatory hurdles presented during the CH Energy acquisition process, in our view, illustrate the relatively high barriers to entry to acquire utilities in certain jurisdictions. We continue to view Fortis management as best-in-class, with a history of being disciplined in acquisitions, and view its ability to execute on large-scale, utility acquisitions as well proven. We believe that Fortis has a solid historical track record of owning and operating utilities using a decentralized management model, and its mandate of maintaining high quality of service and reliability to its customers reinforces its commitment to all stakeholders, including that of ratepayers and the general public.

## Valuation

### Exhibit 1. Valuation

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$31.80	202.8	\$6,449	\$1.24	3.9%	\$1.70	\$1.67	\$1.74	\$2.70	\$2.58	\$2.78	19.0x	18.3x	8.1%	8.7%
ATCO Ltd.	ACO.X	\$87.61	57.6	\$5,045	\$1.50	1.7%	\$6.44	\$6.61	\$7.27	\$9.05	\$8.78	\$9.70	13.3x	12.1x	10.0%	11.1%
Canadian Utilities Ltd.	CU	\$73.75	129.1	\$9,520	\$1.94	2.6%	\$4.03	\$4.24	\$4.73	\$5.26	\$4.90	\$5.48	17.4x	15.6x	6.6%	7.4%
Capital Power Corp.	CPX	\$20.89	98.6	\$2,059	\$1.26	6.0%	\$1.29	\$1.25	\$1.14	\$2.63	\$2.61	\$2.56	16.7x	18.3x	12.5%	12.2%
Emera Inc.	EMA	\$33.27	136.1	\$4,528	\$1.40	4.2%	\$1.64	\$1.71	\$1.78	\$1.73	\$1.94	\$1.95	19.5x	18.7x	5.8%	5.9%
TransAlta Corp.	TA, TAC	\$13.58	258.4	\$3,509	\$1.16	8.5%	\$0.50	\$0.51	\$0.52	(\$0.25)	\$0.65	\$1.33	26.4x	26.2x	4.8%	9.8%
Valener Inc.	VNR	\$16.20	37.6	\$609	\$1.00	6.2%	\$0.81	\$0.83	\$0.96	\$1.89	\$1.85	\$2.08	19.5x	16.9x	11.4%	12.8%
Average						5.2%							19.8x	19.0x	8.2%	9.5%

Source: Thomson, TD Securities.

### Justification of Target Price

Our \$36.00 target price is predicated 75% and 25% on our 2014 and 2015 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 12.0x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

### Key Risks to Target Price

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) closing of pending acquisitions.

### TD Investment Conclusion

We view the decision by the Commission to approve Fortis' acquisition of CH Energy positively and believe that it will be beneficial for all stakeholders. In our view, CH Energy and its rate payers are expected to gain the financial backing of a strong parent to help fund its future growth, benefit from the sharing of best practices across the Fortis group of utilities, receive benefits to improve its system reliability and efficiency for customers, while keeping its operations autonomous in the Fortis fold.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive.



## Exhibit 2. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,449	<b>Debt-to-Capitalization</b>	50.9%
<b>Recent Share Price</b>	\$31.80	<b>Net Debt (\$mm)</b>	5,942	<b>BVPS</b>	21.37
<b>52 Week Range</b>	\$31.74–\$35.14	<b>EV (\$mm)</b>	13,832	<b>Ex-div date</b>	08/14/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	203	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.9%	<b>Float O/S (mm)</b>	192		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks, Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013E	2014E	2015E	Valuation	2012A	2013E	2014E	2015E
Operating EPS (f.d.)	1.70	1.67	1.74	1.83	P/E	18.7x	19.0x	18.3x	17.4x
Free Cash Flow Per Share (AFFO)	2.70	2.58	2.78	3.05	AFFO Yield	8.5%	8.1%	8.7%	9.6%
Dividend Per Share	1.20	1.24	1.28	1.32	Dividend Yield	3.8%	3.9%	4.0%	4.2%
Income Statement (\$mm)	2012A	2013E	2014E	2015E	Ratios	2012A	2013E	2014E	2015E
FortisBC (Gas)	138	134	136	138	Payout Ratio (EPS)	71%	74%	74%	72%
FortisAlberta	96	101	104	106	Payout Ratio (AFFO)	44%	48%	46%	43%
FortisBC (Electric)	50	47	48	49	Debt-to-Capitalization	53%	55%	55%	55%
Newfoundland Power	37	37	38	39					
Other Canadian Electric Utilities	24	25	26	27					
CH Energy	-	24	50	54	<b>Segmented Breakdown ( % of Operating Income)</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Regulated Electric Utilities - Caribbean	19	20	21	21	FortisBC (Gas)	34%	32%	29%	28%
Non-Regulated Properties	22	18	21	22	FortisAlberta	24%	24%	23%	22%
Non-Regulated Fortis Generation	17	17	20	32	FortisBC (Electric)	12%	11%	10%	10%
Corporate and Other	(78)	(83)	(87)	(89)	Newfoundland Power	9%	9%	8%	8%
<b>Operating Income</b>	<b>325</b>	<b>340</b>	<b>375</b>	<b>400</b>	Other Canadian Electric Utilities	6%	6%	6%	6%
Non-Recurring Items	(10)	4	0	0	CH Energy	0%	6%	11%	11%
<b>Net Income</b>	<b>315</b>	<b>345</b>	<b>375</b>	<b>400</b>	Regulated Electric Utilities - Caribbean	5%	5%	5%	4%
					Non-Regulated Properties	5%	4%	4%	5%
					Non-Regulated Fortis Generation	4%	4%	4%	7%
						100%	100%	100%	100%
Cash Flow Statement (\$mm)	2012A	2013E	2014E	2015E	Free Cash Flow	2012A	2013E	2014E	2015E
Income	371	394	426	450	CF from Continuing Operations	898	946	1,034	1,107
Other Items Not Involving Cash	527	552	608	657	Preferred Dividends & Minority Interest	(55)	(49)	(51)	(51)
Change in Non-cash Working Capital	78	0	0	0	Maintenance Capital Expenditures	(330)	(376)	(389)	(398)
Cash from Operations	976	946	1,034	1,107	<b>Free Cash Flow</b>	<b>513</b>	<b>520</b>	<b>594</b>	<b>658</b>
Capital Expenditures & Acquisitions	(1,151)	(3,163)	(1,407)	(918)					
Other	71	68	68	70	<b>Degree of Regulation</b>	<b>2012A</b>			
Cash from Investing	(1,080)	(3,095)	(1,339)	(848)	Highly Regulated	90%			
Dividends Paid	(225)	(300)	(324)	(336)	Loosely Regulated	0%			
Change in Debt	85	1,553	573	48	Unregulated	10%			
Common Shares	24	665	82	85					
Preferred Shares	194	100	0	0	<b>Business Mix</b>	<b>2012A</b>			
Other	93	0	0	0	Natural Gas Distribution	34%			
Cash from Financing	171	2,018	331	(202)	Electricity Transmission & Distribution	56%			
<b>Total Cash Flow</b>	<b>67</b>	<b>(131)</b>	<b>25</b>	<b>57</b>	Power Generation	4%			
					Marketing and Other	5%			
Balance Sheet (\$mm)	2012A	2013E	2014E	2015E					
Cash and Cash Equivalents	154	23	48	105					
Other Current Assets	939	923	923	923					
Property, Plant and Equipment	11,764	14,429	15,283	15,598					
Other Non-Current Assets	2,093	1,619	998	1,067					
<b>Total Assets</b>	<b>14,950</b>	<b>16,994</b>	<b>17,251</b>	<b>17,692</b>					
Other Liabilities	3,807	3,486	2,936	3,078					
Debt	6,043	7,596	8,169	8,217					
Total Liabilities	9,850	11,082	11,105	11,295					
Non-Controlling Interests	310	310	310	310					
Preferred Shares	1,108	1,208	1,208	1,208					
Total Shareholders' Equity	3,682	4,394	4,628	4,879					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>16,994</b>	<b>17,251</b>	<b>17,692</b>					

Source: Company Reports, TD Securities.

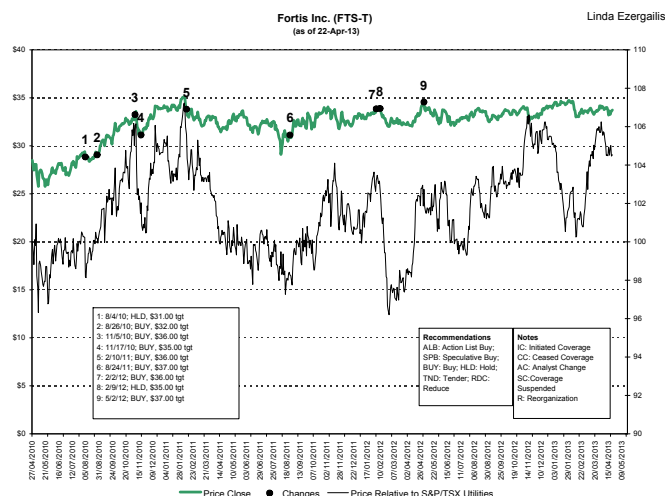


## TD Securities Equity Research Disclosures

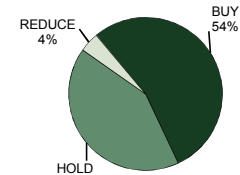
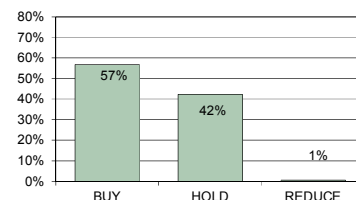
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>a</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of June 4, 2013

<sup>a</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$36.00**  
*Unchanged***12-Month Total Return:** **16.3%****Market Data (C\$)**

Current Price	\$32.01
52-Wk Range	\$30.70-\$35.14
Mkt Cap (f.d.)(mm)	\$6,533.2
Dividend per Share	\$1.24
Dividend Yield	3.9%
Avg. Daily Trading Vol. (3M-All Exch)	515662

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	204.1
Float Shares (mm)	193.4
Net Debt/Tot Cap	52.2%
BVPS (basic)	\$22.27
ROE	8.3%

**Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.67	1.75	1.84
EPS (basic)(old)	1.71	1.68	1.76	1.85
EPS (f.d.)	1.70	1.66	1.74	1.83
EPS (f.d.)(old)	1.70	1.67	1.74	1.83
AFFO/Shr	2.70	2.56	2.78	3.04
AFFO/Shr (old)	2.70	2.58	2.78	3.05

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.33	--	--
Q3	0.24	0.24	--	--
Q4	0.45	--	--	--

**Valuations**

Year	2012A	2013E	2014E	2015E
P/E (f.d.)	18.8x	19.3x	18.4x	17.5x
P/AFFO	11.9x	12.5x	11.5x	10.5x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$32.01****Q2/13 Results In-Line; Focus Now On CH Energy****Event**

Fortis Q2/13 normalized EPS of \$0.33 was in line with our estimate, above recent consensus of \$0.32, and slightly below Q2/12 normalized EPS of \$0.34.

**Impact****NEUTRAL.**

The quarter was in line with our expectations and the integration of CH Energy is progressing well. We have revised our forecasts slightly to reflect small revisions in the Regulated Canadian and CH Energy utilities along with financing updates. We are also rolling forward our target price by a quarter to be based 50% on each of our 2014 and 2015 forecasts. Our target price remains \$36.

**Details**

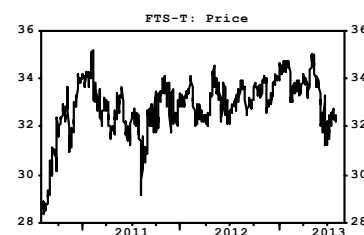
**FortisBC Energy** Q2/13 normalized earnings of \$12 million decreased by \$1 million year-over-year, largely from the May 2013 regulatory decision that decreased the ROE and equity component of the capital structure along with lower gas transportation volumes to industrial customers, lower customer additions, and higher effective income taxes. The decline was partially offset by rate base growth.

**Regulated Electric Utilities — Canadian** Q2/13 normalized earnings of \$51 million were slightly lower year-over-year.

- **FortisAlberta** earnings of \$25 million decreased slightly year-over-year, largely from lower net transmission revenues and partially offset by timing of operating expenses, rate base growth, and an increase in customers.
- **FortisBC Electric** normalized earnings of \$10 million grew \$1 million year-over-year, largely from lower finance charges, rate base growth from investments and the acquisition of the City of Kelowna's electrical utility (March 2013). Partially offsetting the increase was the May 2013 regulatory decision that lowered the ROE and equity component for the utility.
- **Newfoundland Power** normalized earnings of \$11 million were relatively flat year-over-year.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**



- **Other Canadian Electric Utilities** normalized earnings of \$5 million were flat year-over-year.

**Regulated Utilities — Caribbean** earnings of \$6 million were in line with Q2/12 results as increased electricity sales and lower operating expenses at Caribbean Utilities were offset by higher overall depreciation expenses and lower FortisTCI sales.

**Fortis Generation** earnings of \$3 million declined from \$5 million in Q2/12, primarily due to lower electricity production in Belize as a result of lower rainfall. Since the end of Q2/13, the hydroelectric generating facilities in Belize are running at full capacity as a tropical depression has provided precipitation to fill the Chalillo reservoir.

**Fortis Properties** earnings of \$9 million were up \$1 million year-over-year, largely due to better performance at the Hospitality Division, primarily from the hotel operations in Western Canada.

#### Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)

	Q2/13	Q2/12	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy) <sup>1</sup>	\$12	\$13	(\$1)	-8%
FortisAlberta	25	26	(1)	-4%
FortisBC Electric <sup>2</sup>	10	9	1	6%
Newfoundland Power <sup>3</sup>	11	12	(1)	-8%
Other Canadian Electric Utilities <sup>4</sup>	5	5	-	0%
Regulated Electric Utilities - Canadian	51	52	(2)	-3%
Regulated Utilities - Caribbean	6	6	-	0%
<b>Total Regulated Utilities</b>	<b>69</b>	<b>71</b>	<b>(3)</b>	<b>-4%</b>
<b>Non-Regulated Fortis Generation</b>	<b>3</b>	<b>5</b>	<b>(2)</b>	<b>-40%</b>
<b>Non-Regulated Fortis Properties</b>	<b>9</b>	<b>8</b>	<b>1</b>	<b>13%</b>
<b>Corporate<sup>5,6</sup></b>	<b>(17)</b>	<b>(19)</b>	<b>2</b>	<b>-11%</b>
<b>Operating Earnings</b>	<b>64</b>	<b>65</b>	<b>(2)</b>	<b>-2%</b>
Adjustments	(10)	(3)	(7)	217%
<b>Reported Earnings</b>	<b>54</b>	<b>62</b>	<b>(8)</b>	<b>-13%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.33</b>	<b>\$0.34</b>	<b>(\$0.01)</b>	<b>-4%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.28</b>	<b>\$0.33</b>	<b>(\$0.05)</b>	<b>-15%</b>

Notes: Earnings have been normalized for the following items:

1) \$6mm related to the BCUC decision for the decrease in ROE and equity component in Q2/13.

2) \$2mm related to the BCUC decision for the decrease in ROE and equity component in Q2/13.

3) \$13mm of income tax recovery in Q2/13 due to the enactment of higher tax deductions.

4) \$4mm of income tax recovery in Q2/13 due to the enactment of higher tax deductions.

5) \$32mm and \$3mm of costs incurred in Q2/13 and Q2/12, respectively, related to the CH Energy acquisition.

6) \$13mm of recoveries related to income taxes in Q2/13.

Source: Company reports, TD Securities.

#### Outlook

**Opportunities Abound in B.C.:** Approximately \$513 million has been spent on the \$900 million 335 MW Waneta Expansion in B.C. since construction began late in 2010. The project appears to be proceeding well, tracking on budget and on schedule for a spring 2015 in-service date. Over the next year, we expect Fortis to make progress on a number of proposed initiatives in B.C. including: 1) providing natural gas pipeline capacity to the proposed Woodfibre LNG export project, 2) a 60 MW hydro plant in the interior of B.C., and 3) an expansion of its existing Tilbury LNG facility to service boats and trucks with LNG fuel.

**2013 Capital Plan and Five-Year Outlook Remain Robust:** Fortis expects to spend approximately \$1.3 billion for its 2013 capital plan, which includes approximately \$50 million at CH Energy and slightly lower capital for the Waneta project in 2013 due to timing of payments. Spending for alternative energy projects at FortisBC Alternative Energy Services Inc. (FAES) in 2013 has also been delayed and is expected to be lower than the estimated \$43 million. Management's five-year gross capital expenditure program (2013–2017) is



unchanged at \$6.0 billion. This five-year plan is broken down with 55% expected to be spent at the Canadian Regulated Electric Utilities, 20% at the regulated gas utilities, 11% at Central Hudson, 4% at the Caribbean regulated electric utilities, and the remaining 10% in the non-regulated businesses.

**Regulatory Update:** Management now expects Phase 2 of the B.C. cost-of-capital hearing (affecting the Vancouver Island and Whistler Island utilities, and FortisBC Electric) to conclude in H1/14.

**Q3/13 Preview:** We are forecasting Q3/13 EPS of \$0.24, in line with Q3/12 results. Increased earnings, largely due to contribution from CH Energy and rate base growth could be offset by lower Caribbean Utilities earnings, decreased non-regulated properties contribution, increased financing costs along with a higher number of shares outstanding.

## Valuation

### Exhibit 2. Valuation

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$32.01	204.1	\$6,533	\$1.24	3.9%	\$1.70	\$1.66	\$1.74	\$2.70	\$2.56	\$2.78	19.3x	18.4x	8.0%	8.7%
ATCO Ltd.	ACO.X	\$46.34	115.2	\$5,338	\$0.75	1.6%	\$3.22	\$3.44	\$3.63	\$4.51	\$4.66	\$4.84	13.5x	12.8x	10.1%	10.4%
Canadian Utilities Ltd.	CU	\$37.28	257.0	\$9,581	\$0.97	2.6%	\$2.02	\$2.22	\$2.36	\$2.63	\$2.67	\$2.74	16.8x	15.8x	7.2%	7.4%
Capital Power Corp.	CPX	\$20.90	98.8	\$2,065	\$1.26	6.0%	\$1.29	\$1.37	\$1.09	\$2.63	\$2.84	\$2.51	15.2x	19.2x	13.6%	12.0%
Emera Inc.	EMA	\$32.41	136.1	\$4,411	\$1.40	4.3%	\$1.64	\$1.71	\$1.78	\$1.73	\$1.94	\$1.95	19.0x	18.2x	6.0%	6.0%
Valener Inc.	VNR	\$16.09	37.6	\$605	\$1.00	6.2%	\$0.81	\$0.83	\$0.96	\$1.89	\$1.85	\$2.08	19.4x	16.8x	11.5%	12.9%
Average						4.6%							17.9x	17.7x	9.2%	9.4%

Source: Thomson, TD Securities.

### Justification of Target Price

Our \$36.00 target price is predicated 50% on each of our 2014 and 2015 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

### Key Risks to Target Price

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) integration risk.

### TD Investment Conclusion

Q2 results were in line with expectations, and we expect the company to focus on the integration of CH Energy. In our view, CH Energy and its rate payers gain the financial backing of a strong parent to help fund its future growth, benefit from the sharing of best practices across the Fortis group of utilities, receive benefits to improve its system reliability and efficiency for customers, while keeping its operations autonomous in the Fortis fold.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. We believe that income-oriented investors will find the company's low-risk, utility-dominated business model attractive.

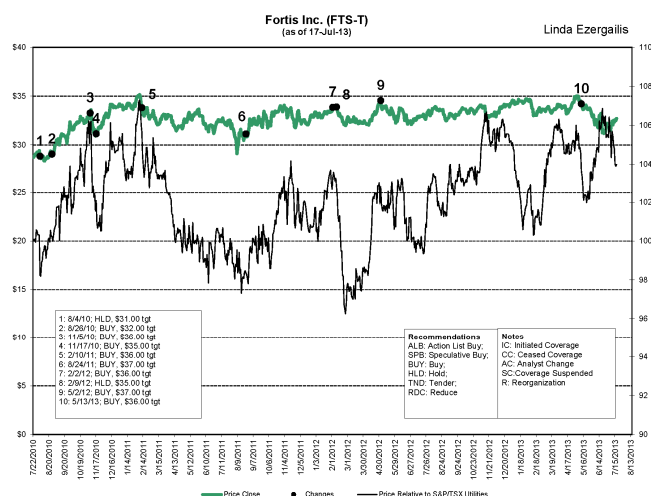


## TD Securities Equity Research Disclosures

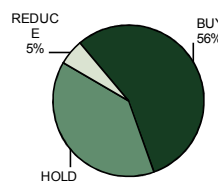
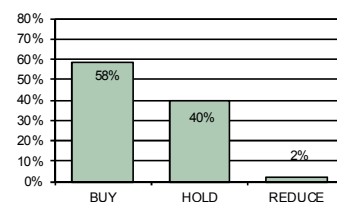
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

## Additional Important Disclosures



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of July 5, 2013

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Services Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** HOLD↓  
**Prior:** BUY  
**Risk:** LOW  
**12-Month Target Price:** C\$34.00↓  
**Prior:** C\$36.00  
**12-Month Dividend:** C\$1.25  
**12-Month Total Return:** 8.6%

**Market Data (C\$)**

Current Price \$32.47  
 52-Wk Range \$29.78-\$35.14  
 Mkt Cap (f.d.)(mm) \$6,906.4  
 Current Dividend \$1.24  
 Dividend Yield 3.8%  
 Avg. Daily Trading Vol. (3M-All Exch) 504836

**Financial Data (C\$)**

Fiscal Y-E December  
 Shares O/S (f.d.)(mm) 212.7  
 Float Shares (mm) 212.4  
 Net Debt/Tot Cap 53.6%  
 BVPS (basic) \$22.07  
 ROE 8.3%

**Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.65	1.68	1.76
EPS (basic)(old)	1.71	1.67	1.75	1.84
EPS (f.d.)	1.70	1.64	1.67	1.76
EPS (f.d.)(old)	1.70	1.66	1.74	1.83
DIVIDEND	1.20	1.24	1.26	1.28
DIVIDEND (old)	1.20	1.24	1.28	1.32

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.33	--	--
Q3	0.24	0.24	--	--
Q4	0.45	0.44	--	--

**Valuations**

Year	2012A	2013E	2014E	2015E
P/E (f.d.)	19.1x	19.8x	19.4x	18.4x
P/AFFO	12.0x	12.7x	12.2x	11.0x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
 416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
 416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$32.47

### Q3 Results In Line; Downgrading to HOLD on Lower Growth Outlook

**Event**

Fortis Q3/13 normalized EPS of \$0.24 was in line with our estimate, below recent consensus of \$0.26, and flat versus Q3/12 normalized EPS of \$0.24.

**Impact****SLIGHTLY NEGATIVE.**

Although the quarterly results were in line, helped by CH Energy along with higher rainfall increasing hydroelectric production, contributions from the Canadian regulated utilities were a bit softer than expected. The outlook for Fortis's Canadian regulated utilities remains muted as lower ROEs and some timing uncertainty over future regulatory decisions will dampen the benefits of continued rate base investment. We have revised our forecasts to reflect this outlook and believe that consensus estimates are too high generally and will need to come down.

As a result of our lowered forecasts, including a more moderate outlook for dividend increases, and our view that valuations are unlikely to expand over the next year (resulting in a 50 bps increase in our target AFFO yield to 8.5%), our target price declines by \$2 to \$34, and we are downgrading our recommendation to HOLD.

**Details**

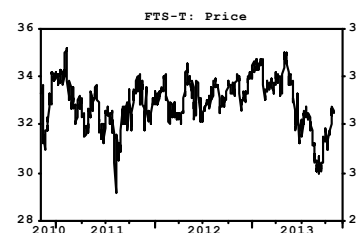
**FortisBC Energy** Q3/13 earnings of (\$14) million decreased by \$8 million year-over-year, largely from the timing of operating and maintenance expenses and the May 2013 regulatory decision that decreased the ROE and equity component of the capital structure, partially offset by rate base growth.

**Regulated Electric Utilities — Canadian** Q3/13 normalized earnings of \$52 million were \$3 million lower year-over-year.

- **FortisAlberta** normalized earnings of \$26 million decreased slightly year-over-year, largely from lower net transmission revenues and were partially offset by rate base growth, an increase in customers, and the timing of operating expenses.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, U.S., Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

- **FortisBC Electric** earnings of \$11 million declined by \$2 million year-over-year primarily from a May 2013 regulatory decision that lowered the ROE, decreased pole-attachment revenue, and higher effective income taxes. Partially offsetting the decline was rate base growth from investments and the acquisition of the City of Kelowna's electrical utility (March 2013).
- **Newfoundland Power** earnings of \$8 million decreased slightly year-over-year, largely due to higher effective income taxes and was partially offset by rate base growth.
- **Other Canadian Electric Utilities** earnings of \$7 million increased by \$1 million year-over-year.

**Central Hudson (Regulated Utilities — U.S.)** earnings for Q3/13 were \$12 million and were comparable with Q3/12 results despite a 34 GWh year-over-year decline in electricity sales to 1,420 GWh due to cooler temperatures. Fortis completed its acquisition of CH Energy in June 2013.

**Regulated Utilities — Caribbean** earnings of \$6 million were in line with Q3/12 results as increased electricity rates were offset by higher overall depreciation expenses.

**Non-Regulated Fortis Generation** earnings of \$8 million increased from \$5 million in Q3/12, primarily due to higher electricity production in Belize as a result of higher rainfall.

**Other Non-Regulated Businesses** now includes Griffith, which is the non-regulated operations of CH Energy. Year-over-year earnings were down \$2 million due to a net loss of \$2.5 million at Griffith resulting from seasonality. This was partially offset by better performance at Fortis Properties's Hospitality Division. As a reminder, Griffith's business involves selling petroleum products and related services to customers in the U.S. Mid-Atlantic region.

#### Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)

	Q3/13	Q3/12	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	(\$14)	(\$6)	(\$8)	133%
FortisAlberta <sup>1</sup>	26	27	(1)	-3%
FortisBC Electric	11	13	(2)	-15%
Newfoundland Power	8	9	(1)	-11%
Other Canadian Electric Utilities	7	6	1	17%
Regulated Electric Utilities - Canadian	52	55	(3)	-5%
Regulated Utilities - US (Central Hudson)	12	-	12	n.a.
Regulated Utilities - Caribbean	6	7	(1)	-14%
<b>Total Regulated Utilities</b>	<b>56</b>	<b>56</b>	<b>0</b>	<b>1%</b>
<b>Non-Regulated Fortis Generation</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>60%</b>
<b>Other Non-Regulated Businesses</b>	<b>6</b>	<b>8</b>	<b>(2)</b>	<b>-25%</b>
<b>Corporate<sup>2,3</sup></b>	<b>(19)</b>	<b>(23)</b>	<b>4</b>	<b>-16%</b>
<b>Operating Earnings</b>	<b>51</b>	<b>46</b>	<b>5</b>	<b>10%</b>
Adjustments	(3)	(1)	(2)	157%
<b>Reported Earnings</b>	<b>48</b>	<b>45</b>	<b>3</b>	<b>7%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.24</b>	<b>\$0.24</b>	<b>(\$0.00)</b>	<b>0%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.23</b>	<b>\$0.24</b>	<b>(\$0.01)</b>	<b>-4%</b>

Notes: Earnings have been normalized for the following items:

- 1) \$1mm of costs related to flooding in southern Alberta in Q3/13.
- 2) \$2mm of costs related to the redemption of preferred shares in Q3/13.
- 3) \$0.5mm of costs related to the CH Energy acquisition in Q3/12.

Source: Company reports, TD Securities.

**Outlook**

**B.C. Projects Proceeding:** Approximately \$534 million has been spent on the \$900 million 335 MW Waneta Expansion in B.C. since construction began late in 2010. Over the next year, we also expect Fortis to make progress on a number of proposed initiatives in B.C., including a potential 60 MW hydro plant in the interior of B.C. The company will continue public consultations, discussion with First Nations and feasibility studies, and could be in a position to announce an investment decision in 2014. Other potential B.C. projects could involve providing natural gas pipeline capacity to the proposed Woodfibre LNG export project, and an expansion of its existing Tilbury LNG facility to service boats and trucks with LNG fuel.

**Updated Capital Guidance:** Fortis expects to spend approximately \$1.2 billion for its 2013 capital plan, down \$150 million due to timing of expenditures at the Waneta Expansion, labour disruptions at FortisBC Electric and uncertainty of the timing of alternative energy projects at FAES. There is no change to the five-year capital expenditure forecast (2013–2017) of \$6.0 billion with 53% expected to be spent at the Canadian Regulated Electric Utilities, 21% at the regulated gas utilities, 11% at Central Hudson, 4% at the Caribbean regulated electric utilities, and the remaining 11% in the non-regulated businesses.

**Regulatory Updates:** Management continues to expect Phase 2 of the B.C. Generic Cost-of-Capital hearing (affecting the Vancouver Island and Whistler Island utilities, and FortisBC Electric) to conclude in H1/14. With respect to the Alberta Generic Cost-of-Capital hearing, the proceedings are underway with a hearing scheduled for early 2014. Timing of a final decision on this front is currently unknown.

**Q4/13 Preview:** We are forecasting Q4/13 EPS of \$0.44, slightly lower than Q4/12 results. Increased earnings, largely due to contribution from CH Energy and rate base growth could be offset by lower non-regulated properties contribution, increased financing costs along with a higher number of shares outstanding.

**Valuation****Exhibit 2. Valuation**

Power & Utility Companies	Symbol	Curr.	Shares	Market	Ind.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
		Price	O/S (mm)	Cap (mm)	Div.		2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$32.47	204.1	\$6,627	\$1.24	3.8%	\$1.70	\$1.64	\$1.67	\$2.70	\$2.55	\$2.71	19.8x	19.4x	7.8%	8.3%
ATCO Ltd.	ACO.X	\$47.96	115.2	\$5,524	\$0.75	1.6%	\$3.22	\$3.45	\$3.60	\$4.51	\$4.77	\$4.78	13.9x	13.3x	9.9%	10.0%
Canadian Utilities Ltd.	CU	\$38.40	260.0	\$9,986	\$0.97	2.5%	\$2.02	\$2.22	\$2.36	\$2.63	\$2.78	\$2.76	17.3x	16.3x	7.2%	7.2%
Capital Power Corp.	CPX	\$21.48	98.8	\$2,122	\$1.26	5.9%	\$1.29	\$1.63	\$1.29	\$2.63	\$3.28	\$2.76	13.2x	16.7x	15.3%	12.8%
Emera Inc.	EMA	\$30.68	132.7	\$4,071	\$1.45	4.7%	\$1.64	\$1.68	\$1.76	\$1.73	\$2.22	\$2.02	18.3x	17.4x	7.2%	6.6%
TransAlta Corp.	TA, TAC	\$14.09	268.2	\$3,779	\$1.16	8.2%	\$0.50	\$0.52	\$0.50	(\$0.25)	\$0.58	\$1.28	27.3x	28.4x	4.1%	9.1%
TransAlta Renewables Inc.	RNW	\$10.37	114.7	\$1,189	\$0.75	7.2%	-	\$0.37	\$0.36	-	\$1.04	\$1.09	28.2x	29.0x	10.0%	10.5%
Valener Inc.	VNR	\$15.47	37.7	\$583	\$1.00	6.5%	\$0.81	\$0.83	\$0.96	\$1.89	\$2.09	\$2.13	18.6x	16.1x	13.5%	13.8%
Average						5.6%							20.4x	20.5x	9.3%	9.8%

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$34.00 target price is predicated 25% and 75% on our 2014 and 2015 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 11.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**TD Investment Conclusion**

Although Q3 results were in line with our expectations, we see limited regulated earnings growth in the next year and also do not foresee much potential for valuation expansion over this time frame. Although our view of Fortis's high-quality assets and low-risk business model might cause it to remain a core holding in certain income-oriented portfolios, we believe that investors with some risk appetite will see better return potential over the next year in higher growth names.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. and continue to believe that income-oriented investors will find the company's low-risk, utility-dominated business model attractive. However, given the total implied returns to our target, we are compelled to downgrade the stock to HOLD.





## Exhibit 3. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,906	<b>Debt-to-Capitalization</b>	53.6%
<b>Recent Share Price</b>	\$32.47	<b>Net Debt (\$mm)</b>	7,082	<b>BVPS</b>	22.07
<b>52 Week Range</b>	\$29.78–\$35.14	<b>EV (\$mm)</b>	15,572	<b>Ex-div date</b>	11/13/13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	213	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.8%	<b>Float O/S (mm)</b>	212		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013E	2014E	2015E	Valuation	2012A	2013E	2014E	2015E
Operating EPS (f.d.)	1.70	1.64	1.67	1.76	P/E	19.1x	19.8x	19.4x	18.4x
Free Cash Flow Per Share (AFFO)	2.70	2.55	2.71	2.98	AFFO Yield	8.3%	7.8%	8.3%	9.2%
Dividend Per Share	1.20	1.24	1.26	1.28	Dividend Yield	3.7%	3.8%	3.9%	3.9%
Income Statement (\$mm)	2012A	2013E	2014E	2015E	Ratios	2012A	2013E	2014E	2015E
FortisBC (Gas)	138	130	130	134	Payout Ratio (EPS)	71%	76%	75%	73%
FortisAlberta	96	97	98	100	Payout Ratio (AFFO)	44%	49%	47%	43%
FortisBC (Electric)	50	50	51	51	Debt-to-Capitalization	53%	53%	54%	54%
Newfoundland Power	37	36	37	37					
Other Canadian Electric Utilities	24	24	24	25	<b>Segmented Breakdown ( % of Operating Income)</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Central Hudson	-	21	44	48	FortisBC (Gas)	34%	32%	30%	29%
Regulated Electric Utilities - Caribbean	19	18	18	18	FortisAlberta	24%	24%	22%	22%
Non-Regulated Fortis Generation	17	16	17	32	FortisBC (Electric)	12%	12%	12%	11%
Other Non-Regulated Businesses	22	19	20	21	Newfoundland Power	9%	9%	8%	8%
Corporate and Other	(78)	(78)	(80)	(83)	Other Canadian Electric Utilities	6%	6%	6%	5%
<b>Operating Income</b>	<b>325</b>	<b>334</b>	<b>360</b>	<b>384</b>	Central Hudson	0%	5%	10%	10%
Non-Recurring Items	(10)	12	0	0	Regulated Electric Utilities - Caribbean	5%	4%	4%	4%
<b>Net Income</b>	<b>315</b>	<b>346</b>	<b>360</b>	<b>384</b>	Non-Regulated Fortis Generation	4%	4%	4%	7%
					Other Non-Regulated Businesses	5%	5%	5%	5%
						100%	100%	100%	100%
Cash Flow Statement (\$mm)	2012A	2013E	2014E	2015E	Free Cash Flow	2012A	2013E	2014E	2015E
Income	371	395	411	435	CF from Continuing Operations	898	939	1,003	1,074
Other Items Not Involving Cash	527	544	592	639	Preferred Dividends & Minority Interest	(55)	(49)	(51)	(51)
Change in Non-cash Working Capital	78	0	0	0	Maintenance Capital Expenditures	(330)	(374)	(372)	(378)
Cash from Operations	976	939	1,003	1,074	<b>Free Cash Flow</b>	<b>513</b>	<b>515</b>	<b>580</b>	<b>645</b>
Capital Expenditures & Acquisitions	(1,151)	(2,731)	(1,385)	(886)					
Other	71	68	68	70	<b>Degree of Regulation</b>	<b>2012A</b>			
Cash from Investing	(1,080)	(2,663)	(1,317)	(816)	Highly Regulated	90%			
Dividends Paid	(225)	(300)	(321)	(328)	Loosely Regulated	0%			
Change in Debt	85	1,153	623	48	Unregulated	10%			
Common Shares	24	665	81	83					
Preferred Shares	194	115	0	0	<b>Business Mix</b>	<b>2012A</b>			
Other	93	0	0	0	Natural Gas Distribution	34%			
Cash from Financing	171	1,633	383	(197)	Electricity Transmission & Distribution	56%			
<b>Total Cash Flow</b>	<b>67</b>	<b>(92)</b>	<b>69</b>	<b>61</b>	Power Generation	4%			
					Marketing and Other	5%			
Balance Sheet (\$mm)	2012A	2013E	2014E	2015E					
Cash and Cash Equivalents	154	62	132	193					
Other Current Assets	939	923	923	923					
Property, Plant and Equipment	11,764	14,004	14,850	15,149					
Other Non-Current Assets	2,093	1,620	1,001	1,071					
<b>Total Assets</b>	<b>14,950</b>	<b>16,610</b>	<b>16,905</b>	<b>17,337</b>					
Other Liabilities	3,807	3,486	2,936	3,078					
Debt	6,043	7,196	7,819	7,867					
Total Liabilities	9,850	10,682	10,755	10,945					
Non-Controlling Interests	310	310	310	310					
Preferred Shares	1,108	1,223	1,223	1,223					
Total Shareholders' Equity	3,682	4,395	4,617	4,859					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>16,610</b>	<b>16,905</b>	<b>17,337</b>					

Source: TD Securities.



## TD Securities Equity Research Disclosures

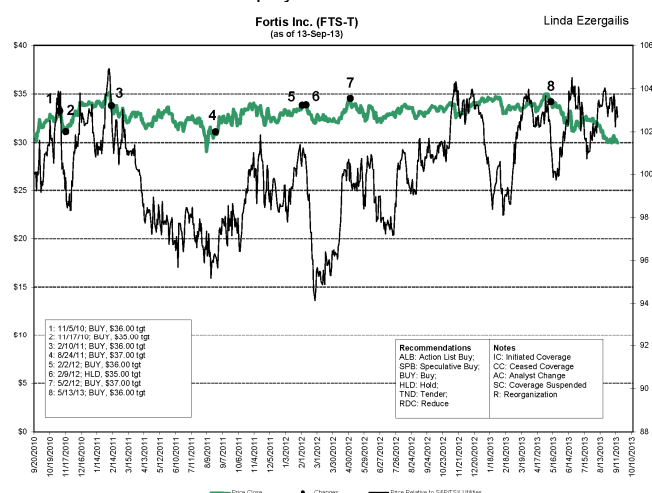
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

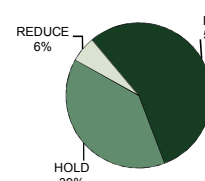
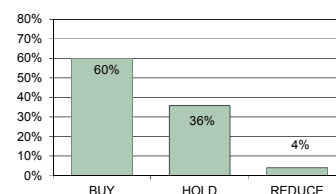
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of October 2, 2013

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (4% of coverage universe), Medium (31%), High (54%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **HOLD**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$34.00**  
*Unchanged*

**12-Month Dividend:** **C\$1.25**

**12-Month Total Return:** **12.9%**

**Market Data (C\$)**

Current Price	\$31.22
52-Wk Range	\$29.78-\$35.14
Mkt Cap (f.d.)(mm)	\$6,640.5
Current Dividend	\$1.24
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3M-All Exch)	537117

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	212.7
Float Shares (mm)	212.4
Net Debt/Tot Cap	53.6%
BVPS (basic)	\$22.07
ROE	8.3%

**Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.65	1.68	1.78
EPS (basic)(old)	1.71	1.65	1.68	1.76
EPS (f.d.)	1.70	1.64	1.67	1.77
EPS (f.d.)(old)	1.70	1.64	1.67	1.76
DIVIDEND	1.20	1.24	1.26	1.28
DIVIDEND (old)	1.20	1.24	1.26	1.28

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.33	--	--
Q3	0.24	0.24	--	--
Q4	0.45	0.44	--	--

**Valuations**

Year	2012A	2013E	2014E	2015E
P/E (f.d.)	18.4x	19.0x	18.7x	17.6x
P/AFFO	11.6x	12.2x	11.7x	10.6x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$31.22

### BC Government Expedites Tilbury LNG Facility Investment

#### Event

FortisBC, a subsidiary of Fortis Inc., announced that it is proceeding with an approximate \$400 million expansion of its Tilbury LNG Facility.

#### Impact

#### SLIGHTLY POSITIVE.

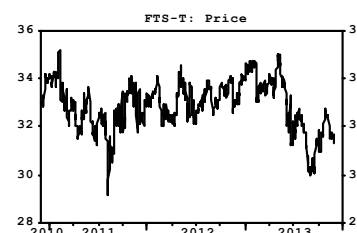
The B.C. government announced changes that effectively exempted Fortis' Tilbury LNG Facility expansion from needing a certificate of public convenience and a necessity review by the British Columbia Utilities Commission (BCUC). We view the announcement positively as it expedites Fortis' ability to supply liquefied natural gas (LNG) to the B.C. marketplace. Based on our assumptions, we believe the investment could represent approximately \$0.02 of EPS accretion once in-service.

#### Details

- **Description:** The project is an expansion of the existing Tilbury LNG facility and will help to service the transportation sector with LNG fuel. The expansion project will include the construction of a second tank and a new liquefier, both of which are expected to be in service by mid-2016. The project will add approximately one million gigajoules of LNG storage, in addition to 30,000 - 60,000 gigajoules of liquefaction capacity per day.
- **Capital Cost:** Fortis expects an investment of up to \$400 million and the project will be a regulated gas investment within FortisBC. We expect approximately one-third of the total capital will be spent in each of 2014-2016.
- **Returns:** The company expects to earn AEDC (allowance for equity return during construction) for the project, with an 8.75% ROE and 38.5% equity thickness. As part of the BC Government's direction, the BCUC will set the LNG dispensing rate at \$4.35/gigajoule.
- **Financing:** The company expects to finance the expansion initially with debt as part of its natural gas regulated rate base.
- **Timing and Approvals:** The project is subject to FortisBC Board approval along with regulatory and environmental permits and approvals.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, U.S., Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Please see the final pages of this document for important disclosure information.**

**Helps Stabilize Customer Rates:** FortisBC expects its gas utility customers to benefit from the additional gas volumes that move through the pipeline system as increased utilization of the infrastructure helps to keep natural gas delivery rates stable.

### Outlook

**Other Projects Updates:** Over the next year, we also expect Fortis to make progress on a number of proposed initiatives in B.C. These could include:

- **Regulated Gas Opportunities:** Fortis is evaluating potential B.C. opportunities that could involve providing natural gas pipeline capacity to the proposed Woodfibre LNG export project. The investment could be in the range of \$350 million and would be an expansion of its pipeline system through compression / twinning of pipelines. We expect a decision could be made over the next 6 – 12 months.
- **Power Generation Opportunities:** A potential 60 MW hydro plant in the interior of B.C., costing approximately \$200 million-\$300 million. The company will continue public consultations, discussion with First Nations and feasibility studies, and could be in a position to announce an investment decision in 2014.

**Regulatory Updates:** Management continues to expect Phase 2 of the B.C. Generic Cost-of-Capital hearing (affecting the Vancouver Island and Whistler Island utilities, and FortisBC Electric) to conclude in H1/14. With respect to the Alberta Generic Cost-of-Capital hearing, the proceedings are underway with a hearing scheduled for early 2014. Timing of a final decision on this front is currently unknown. With respect to the Alberta PBR Capital Tracker Filing, the Decision on Fortis' compliance filing appears to be a step in the right direction with approximately 60% of the capital tracker revenue accepted on an interim basis. A final capital tracker decision is expected in Q4/13.

### **Exhibit 1. Summary of Regulatory Decisions**

Utility	Significant Proceedings	Filing	Expected Decision
FortisBC (Gas)	Generic Cost of Capital – 2013 (Phase 1)	March-12	Released
	Generic Cost of Capital – 2013 (Phase 2)	July-13	H1/2014
	GRA(1) (2014 – 2018)	Jun-13	Mid-2014
FortisBC (Electric)	Generic Cost of Capital – 2013 (Phase 1)	March-12	Released
	Generic Cost of Capital – 2013 (Phase 2)	July-13	H1/2014
	GRA (2014 – 2018)	July-13	Mid-2014
FortisAlberta	2013 PBR(3) Compliance Filing	November-12	Released
	Generic Cost of Capital – 2013	October-12	TBD
	PBR Capital Tracker Filing	December-12	Q4 2013
	Annual Rates Filing (2014)	September-13	Q4 2013

Notes:

1) General Rate Application

2) Performance Based Regulation

Source: Thomson, TD Securities.

**Valuation****Exhibit 2. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E
Fortis Inc.	FTS	\$31.22	212.7	\$6,640	\$1.24	4.0%	\$1.70	\$1.64	\$1.67	\$2.70	\$2.55	\$2.71	19.1x	18.7x	8.2%	8.7%
ATCO Ltd.	ACO.X	\$49.03	115.2	\$5,647	\$0.75	1.5%	\$3.22	\$3.45	\$3.60	\$4.51	\$4.77	\$4.78	14.2x	13.6x	9.7%	9.7%
Canadian Utilities Ltd.	CU	\$36.27	260.0	\$9,432	\$0.97	2.7%	\$2.02	\$2.22	\$2.36	\$2.63	\$2.78	\$2.76	16.3x	15.4x	7.7%	7.6%
Capital Power Corp.	CPX	\$20.95	98.8	\$2,070	\$1.26	6.0%	\$1.29	\$1.63	\$1.29	\$2.63	\$3.28	\$2.76	12.9x	16.2x	15.7%	13.2%
Emera Inc.	EMA	\$29.20	133.1	\$3,887	\$1.45	5.0%	\$1.64	\$1.71	\$1.76	\$1.73	\$2.20	\$2.02	17.0x	16.5x	7.5%	6.9%
TransAlta Corp.	TA, TAC	\$14.15	268.2	\$3,795	\$1.16	8.2%	\$0.50	\$0.52	\$0.50	(\$0.25)	\$0.58	\$1.28	27.4x	28.5x	4.1%	9.0%
TransAlta Renewables Inc.	RNW	\$10.72	114.7	\$1,230	\$0.75	7.0%	-	\$0.37	\$0.36	-	\$1.04	\$1.09	29.1x	30.0x	9.7%	10.2%
Valener Inc.	VNR	\$15.59	37.7	\$588	\$1.00	6.4%	\$0.81	\$0.90	\$0.99	\$1.89	\$2.05	\$2.17	17.3x	15.7x	13.1%	13.9%
Average						5.6%							19.9x	20.2x	9.4%	9.9%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$34.00 target price is predicated 25% and 75% on our 2014 and 2015 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 11.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

**TD Investment Conclusion**

We view the announcement positively as it allows Fortis to move forward with the Tilbury LNG Facility expansion and could create momentum for its other infrastructure projects in B.C.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S. and continue to believe that income-oriented investors will find the company's low-risk, utility-dominated business model attractive.



## Exhibit 3. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,640	<b>Debt-to-Capitalization</b>	53.6%
<b>Recent Share Price</b>	\$31.22	<b>Net Debt (\$mm)</b>	7,082	<b>BVPS</b>	22.07
<b>52 Week Range</b>	\$29.78–\$35.14	<b>EV (\$mm)</b>	15,306	<b>Ex-div date</b>	13.11.13
<b>Dividend</b>	\$1.24	<b>Shares O/S (mm)</b>	213	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	4.0%	<b>Float O/S (mm)</b>	212		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013E	2014E	2015E	Valuation	2012A	2013E	2014E	2015E
Operating EPS (f.d.)	1.70	1.64	1.67	1.77	P/E	18.4x	19.1x	18.7x	17.7x
Free Cash Flow Per Share (AFFO)	2.70	2.55	2.71	2.98	AFFO Yield	8.7%	8.2%	8.7%	9.5%
Dividend Per Share	1.20	1.24	1.26	1.28	Dividend Yield	3.8%	4.0%	4.0%	4.1%
Income Statement (\$mm)	2012A	2013E	2014E	2015E	Ratios	2012A	2013E	2014E	2015E
FortisBC (Gas)	138	130	130	137	Payout Ratio (EPS)	71%	76%	76%	72%
FortisAlberta	96	97	98	100	Payout Ratio (AFFO)	44%	49%	46%	43%
FortisBC (Electric)	50	50	51	51	Debt-to-Capitalization	53%	53%	55%	54%
Newfoundland Power	37	36	37	37					
Other Canadian Electric Utilities	24	24	24	25	<b>Segmented Breakdown ( % of Operating Income)</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Central Hudson	-	21	44	48	FortisBC (Gas)	34%	32%	30%	29%
Regulated Electric Utilities - Caribbean	19	18	18	18	FortisAlberta	24%	24%	22%	21%
Non-Regulated Fortis Generation	17	16	17	32	FortisBC (Electric)	12%	12%	12%	11%
Other Non-Regulated Businesses	22	19	20	21	Newfoundland Power	9%	9%	8%	8%
Corporate and Other	(78)	(78)	(81)	(85)	Other Canadian Electric Utilities	6%	6%	6%	5%
<b>Operating Income</b>	<b>325</b>	<b>334</b>	<b>360</b>	<b>385</b>	Central Hudson	0%	5%	10%	10%
Non-Recurring Items	(10)	12	0	0	Regulated Electric Utilities - Caribbean	5%	4%	4%	4%
<b>Net Income</b>	<b>315</b>	<b>346</b>	<b>360</b>	<b>385</b>	Non-Regulated Fortis Generation	4%	4%	4%	7%
					Other Non-Regulated Businesses	5%	5%	5%	5%
						100%	100%	100%	100%
Cash Flow Statement (\$mm)	2012A	2013E	2014E	2015E	Free Cash Flow	2012A	2013E	2014E	2015E
Income	371	395	411	437	CF from Continuing Operations	898	939	1,003	1,074
Other Items Not Involving Cash	527	544	592	637	Preferred Dividends & Minority Interest	(55)	(49)	(51)	(51)
Change in Non-cash Working Capital	78	0	0	0	Maintenance Capital Expenditures	(330)	(374)	(372)	(378)
Cash from Operations	976	939	1,003	1,074	<b>Free Cash Flow</b>	<b>513</b>	<b>515</b>	<b>580</b>	<b>645</b>
Capital Expenditures & Acquisitions	(1,151)	(2,731)	(1,418)	(1,019)					
Other	71	68	68	70	<b>Degree of Regulation</b>	<b>2012A</b>			
Cash from Investing	(1,080)	(2,663)	(1,350)	(949)	Highly Regulated	90%			
Dividends Paid	(225)	(300)	(321)	(328)	Loosely Regulated	0%			
Change in Debt	85	1,153	723	48	Unregulated	10%			
Common Shares	24	665	81	83					
Preferred Shares	194	115	0	0	<b>Business Mix</b>	<b>2012A</b>			
Other	93	0	0	0	Natural Gas Distribution	34%			
Cash from Financing	171	1,633	483	(197)	Electricity Transmission & Distribution	56%			
<b>Total Cash Flow</b>	<b>67</b>	<b>(92)</b>	<b>136</b>	<b>(72)</b>	Power Generation	4%			
					Marketing and Other	5%			
Balance Sheet (\$mm)	2012A	2013E	2014E	2015E					
Cash and Cash Equivalents	154	62	198	126					
Other Current Assets	939	923	923	923					
Property, Plant and Equipment	11,764	14,004	14,883	15,312					
Other Non-Current Assets	2,093	1,620	1,001	1,076					
<b>Total Assets</b>	<b>14,950</b>	<b>16,610</b>	<b>17,005</b>	<b>17,438</b>					
Other Liabilities	3,807	3,486	2,936	3,078					
Debt	6,043	7,196	7,919	7,967					
Total Liabilities	9,850	10,682	10,855	11,045					
Non-Controlling Interests	310	310	310	310					
Preferred Shares	1,108	1,223	1,223	1,223					
Total Shareholders' Equity	3,682	4,395	4,617	4,860					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>16,610</b>	<b>17,005</b>	<b>17,438</b>					

Source: Thomson, TD Securities.





## TD Securities Equity Research Disclosures

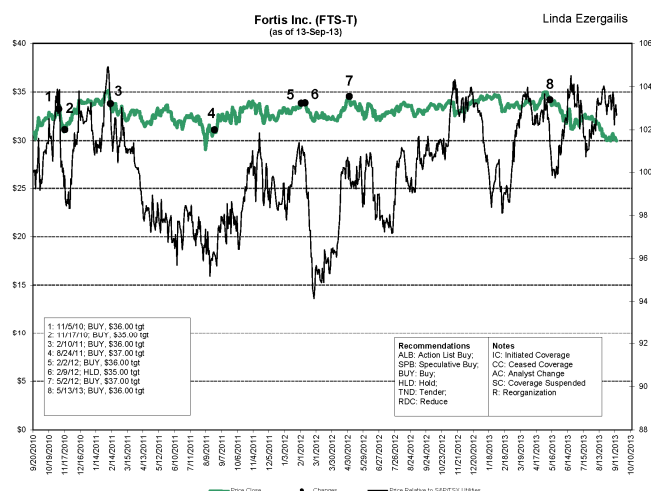
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

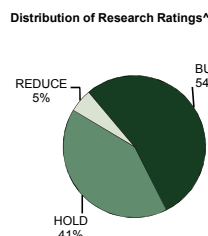
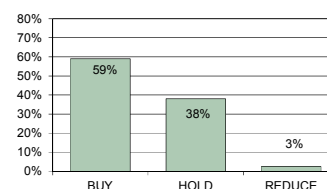
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Investment Banking Services Provided<sup>\*</sup>

Current as of November 4, 2013

<sup>a</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6% of coverage universe), Medium (31%), High (51%), Speculative (12%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2013 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** BUY↑  
**Prior:** HOLD  
**Risk:** LOW  
**12-Month Target Price:** C\$36.00↑  
**Prior:** C\$34.00  
**12-Month Dividend:** C\$1.25  
**12-Month Total Return:** 23.3%

**Market Data (C\$)**

Current Price \$30.21  
 52-Wk Range \$29.51-\$35.14  
 Mkt Cap (f.d.)(mm) \$6,425.7  
 Current Dividend \$1.24  
 Dividend Yield 4.1%  
 Avg. Daily Trading Vol. (3M-All Exch) 0

**Financial Data (C\$)**

Fiscal Y-E December  
 Shares O/S (f.d.)(mm) 212.7  
 Float Shares (mm) 212.4  
 Net Debt/Tot Cap 59.0%  
 BVPS (basic) \$22.07  
 ROE 8.3%

**Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
EPS (basic)	1.71	1.65	1.66	1.88
EPS (basic)(old)	1.71	1.65	1.68	1.78
EPS (f.d.)	1.70	1.64	1.65	1.87
EPS (f.d.)(old)	1.70	1.64	1.67	1.77
DIVIDEND	1.20	1.24	1.28	1.32
DIVIDEND (old)	1.20	1.24	1.26	1.28

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2012A	2013E	2014E	2015E
Q1	0.64	0.65	--	--
Q2	0.34	0.33	--	--
Q3	0.24	0.24	--	--
Q4	0.45	0.44	--	--

**Valuations**

Year	2012A	2013E	2014E	2015E
P/E (f.d.)	17.8x	18.4x	18.3x	16.2x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Please see the final pages of this document for important disclosure information.**

**Linda Ezergailis, P.Eng.**  
 416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
 416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$30.21

### Resuming Coverage: UNS Acquisition a Platform for Future Growth

**Event**

- We are resuming coverage of Fortis after a \$1.8 billion convertible debenture offering to help finance the pending acquisition of UNS Energy Corp. (UNS-N).
- On December 11, 2013, Fortis announced that it entered into an agreement and plan of merger to acquire UNS Energy for US\$60.25 per common share in cash, for an aggregate purchase price of approximately US\$4.3 billion, including the assumption of approximately US\$1.8 billion of debt and capital leases.

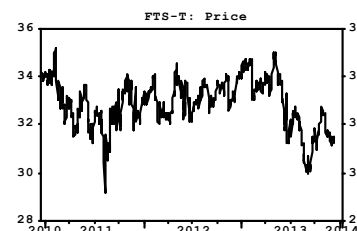
**Impact****POSITIVE.**

We view the pending acquisition of UNS Energy positively as it is expected to be immediately accretive to Fortis' EPS once completed (excluding one-time transaction costs of approximately US\$30 million). The acquisition would also establish a platform in the US Southwest for future growth in a supportive regulatory environment. We calculate that the acquisition could be approximately \$0.10 accretive to EPS during its first full year of ownership (likely 2015) and should increase in future years as rate base investments are made. Based on this forecast accretion, we believe that the acquisition of UNS Energy should generate \$2 per share in incremental value for Fortis shareholders. We have updated our forecasts for a transaction close in late 2014. Our 2014 estimates decline largely due to interest costs associated with the convertible debenture offering, while our 2015 forecasts increase as they incorporate the acquisition.

**Upgrading to BUY:** Back on November 4, 2013 (after Q3/13 earnings), we downgraded Fortis based on our outlook calling for lower growth. Since then, Fortis' share price has fallen 6.9%, and has underperformed its comparable power and utility peers, which have declined by 1.3% on average. We believe the UNS Energy acquisition could bolster the growth pipeline and provide earnings accretion in 2015 and onwards by establishing a platform for future growth. Our target price increases with this transaction and updated forecasts by \$2. Given the implied returns to our target, we are raising our recommendation to BUY.

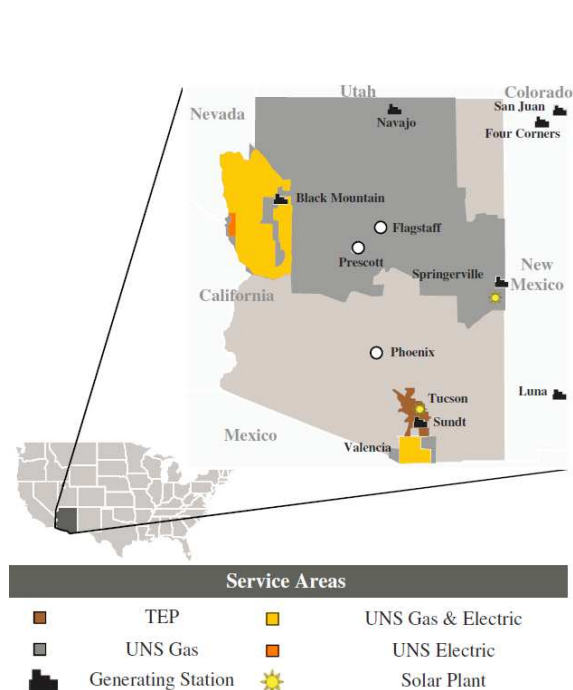
**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, U.S., Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



**Details**

- **UNS Energy Description:** A vertically integrated regulated utility in Arizona serving approximately 505,000 electric and 149,000 gas customers. It owns or leases 2,420 MW of net generation capacity, and has a rate base expected to reach approximately US\$3 billion at the end of 2014.

**Exhibit 1. UNS Energy: Service Area and Description****Tucson Electric Power (TEP)**

- **Description:** Vertically integrated regulated electric utility
- **Customers & Service Territory:** Generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County.
- **Size:** Represents approximately 84% of the total assets as at September 30, 2013 and approximately 81% of operating revenues for the nine months ended September 30, 2013.

**UNSGas**

- **Description:** Regulated gas distribution company
- **Customers & Service Territory:** Serves approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona.
- **Size:** Represents approximately 7% of the total assets as at September 30, 2013 and approximately 8% of operating revenues for the nine months ended September 30, 2013.

**UNSElectric**

- **Description:** Vertically integrated regulated electric utility
- **Customers & Service Territory:** Serves approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties. These counties have a combined population of approximately 250,000.
- **Size:** Represents approximately 9% of the total assets as at September 30, 2013 and approximately 11% of operating revenues for the nine months ended September 30, 2013.

**Millennium and UniSource Energy Development Company (Non-Regulated)**

- **Description:** SES, a wholly owned subsidiary of Millennium provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville.
- **Size:** Comprises less than 1% of total assets.

Source: Company Reports, TD Securities.

- **Purchase Price and Acquisition Metrics:** The US\$60.25 per share offer represents an approximate 31% premium above UNS Energy's closing price on December 11, 2013, resulting in a net purchase price of approximately US\$2.5 billion (EV of US\$4.3 billion), representing a P/E multiple of 18.1x 2014E EPS, and an EV/EBITDA multiple of 8.3x 2014E EBITDA.
- **Competing Offers Possible But Unlikely:** The merger agreement was a result of negotiations, rather than a full auction process. However, given what we view to be a fair price, we do not expect any higher competing offers. The transaction includes a break fee of US\$63.9 million (US\$1.52 per UNS share) plus acquisition related expenses up to US\$12.5 million (US\$0.30 per UNS share).
- **Financing:** Fortis expects to fund the approximate US\$2.5 billion cash portion by using the net proceeds of the \$1.8 billion convertible debenture financing, approximately \$500 - \$600 million in preferred shares, and the balance with corporate level debt.
- **Timing and Approvals:** The transaction is expected to close by the end of 2014, subject to UNS Energy common shareholder approval and certain regulatory and government approvals, including approval by the Arizona Corporation Commission (ACC) and Federal Energy Regulatory Commission, and the satisfaction of customary closing conditions. We believe the regulatory approval risk is low and expect the ACC to approve the acquisition given Fortis' reputation and track record of successful utility acquisitions, and its intention to operate UNS Energy as a standalone entity.

**Merits of the Transaction:**

- **Accretive Acquisition:** We estimate the acquisition could be approximately \$0.10 accretive to EPS during the first full year of ownership, excluding one-time acquisition-related expenses, and could grow as rate base investments are made over time.

**Exhibit 2. UNS Energy: Acquisition Assumptions and Accretion Calculations****UNS Energy - Purchase Price:**

Common Shares - Diluted (mm)	42.0
Purchase Price Per Common Share (US\$)	60.25
Total Common Equity (US\$mm)	2,531
Assumed Long-Term Debt and Capital Leases (US\$mm)	1,805
Total (US\$mm)	4,336
F/X (CAD/USD)	1.08
<b>Total Purchase Price (C\$mm)</b>	<b>4,682</b>

**FTS Financing - Sources (C\$mm):**

Convertible Debenture Issue	1,728
Assumed Preferred Equity Issue	500
Assumed Draw on FTS Corporate Credit Facility	505
<b>Total - Cash Component</b>	<b>2,733</b>
Assumed UNS Energy Long-Term Debt and Capital Leases	1,949
<b>Total</b>	<b>4,682</b>

**Financing Assumptions:**

Assumed FTS Corporate Credit Facility - Interest Rate	4.0%
Assumed Preferred Equity - Coupon	4.5%
Assumed FTS Corporate - Tax Rate	30%
Assumed F/X (CAD/USD)	1.08

**Convertible Debenture / Preferred Equity Assumptions:**

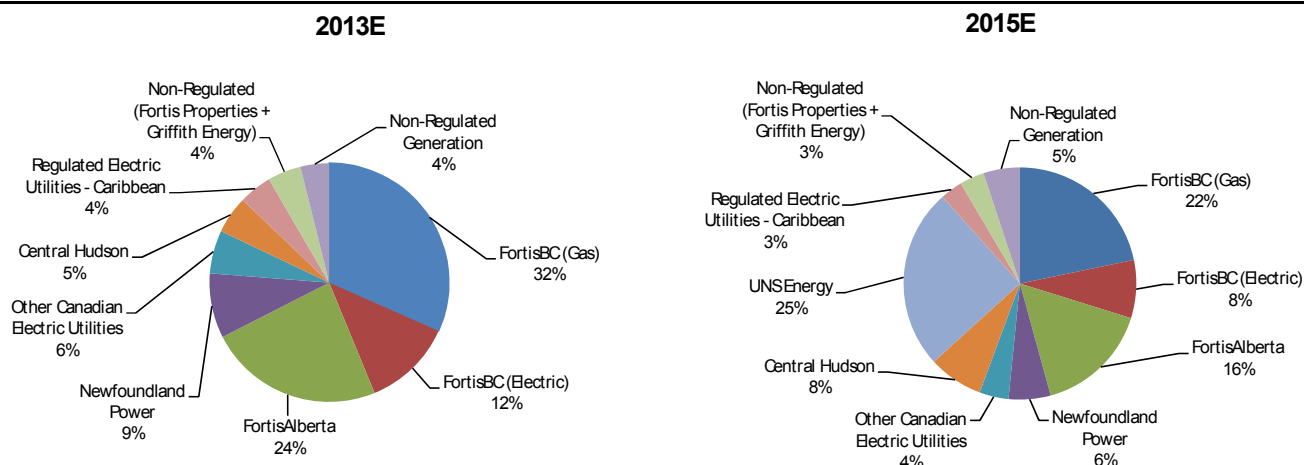
Assumed Preferred Equity Issue (C\$mm)	500
Convertible Debenture Issue (C\$mm)	1,728
Convertible Debenture - Share Conversion Price (C\$)	30.72
Commission	4.0%
Shares Issued (mm)	58.6

<b>UNS Energy - Rate Base and Income</b>	<b>2015E</b>	<b>2016E</b>
Average Rate Base (US\$mm)	3,288	3,453
<b>Total UNS Energy Income (US\$mm)</b>	<b>147</b>	<b>154</b>
F/X (CAD/USD)	1.08	1.08
<b>Total UNS Energy Income (C\$mm)</b>	<b>159</b>	<b>167</b>
Less: FTS Credit Facilities - Interest (After-Tax)	(14)	(14)
Less: FTS Preferred Share Dividends	(23)	(23)
Add: Other Items - Tax Planning / Concessions (After-Tax)	8	8
<b>FTS Incremental Income (C\$mm)</b>	<b>131</b>	<b>138</b>
FTS Operating Income (Prior to Acquisition)	385	401
FTS Shares Outstanding - Basic (Prior to Acquisition)	216	218
FTS EPS - Basic (Prior to Acquisition)	1.78	1.84
FTS Operating Income (Pro-Forma)	516	539
FTS Shares Outstanding - Basic (Pro-Forma)	275	277
FTS EPS - Basic (Pro-Forma)	1.88	1.95
<b>Total EPS Accretion</b>	<b>0.10</b>	<b>0.11</b>

Source: Company Reports, TD Securities.

- **Provides Diversification:** UNS Energy would increase the diversification of Fortis' regulated assets and earnings by geographic location and regulatory jurisdiction.

## Exhibit 3. Fortis: Segmented Earnings Breakdown (2013E and 2015E)



Source: Company Reports, TD Securities.

- **Supportive Regulatory Regime:** UNS Energy operates within a supportive regulatory environment regulated by the Arizona Corporation Commission (ACC) on a cost-of-service basis, with rate-design structures that pass through costs related to fuel, purchased power, environmental compliance, renewable resources, energy efficiency and distributed generation.

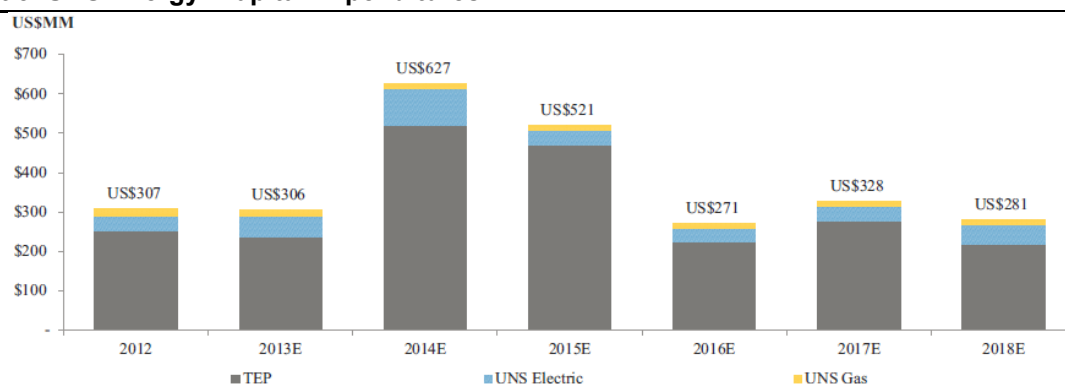
## Exhibit 4. UNS Energy: ROEs and Equity Thickness

	TEP	UNSElectric	UNSGas
ROE	10.0%	9.5%	9.75%
Equity Thickness	43.5%	52.6%	50.82%

Source: Company Reports, TD Securities.

- **Significant Rate Base Growth:** UNS Energy is forecasting capital investments totalling approximately US\$2.3 billion from 2013 through to 2018. Rate base is expected to grow at a CAGR of approximately 7% through 2018, which should result in similar earnings growth, in our view. Growth in the region should be supported by favourable local economic conditions, and should result in continued investment in UNS Energy's electric and gas businesses.

## Exhibit 5. UNS Energy: Capital Expenditures



Source: Company Reports.



- **Building a Significant Platform in the US Southwest:** UNS Energy will further Fortis' strategy of entering into the US regulated electric and gas distribution business with what we view to be a significant utility operating in a favourable jurisdiction.
- **Well Run Utility with an Experienced Management Team:** UNS Energy is a well-run utility with an experienced management team. Management has demonstrated strong regulatory expertise, completing each of the past three rate cases in approximately one year on average.

## Valuation

### Exhibit 6. Peer Valuation

Power & Utility Companies		Curr.	Shares	Market	Ind.	EPS (f.d.)				AFFO Per Shr (f.d.)			P/E		AFFO Yield		
	Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E	
	Fortis Inc.	FTS	\$30.21	212.7	\$6,426	\$1.28	4.2%	\$1.70	\$1.64	\$1.65	\$2.70	\$2.55	\$2.31	18.4x	18.3x	8.4%	7.7%
	ATCO Ltd.	ACO.X	\$47.65	115.2	\$5,488	\$0.86	1.8%	\$3.22	\$3.45	\$3.60	\$4.51	\$4.77	\$4.78	13.8x	13.2x	10.0%	10.0%
	Canadian Utilities Ltd.	CU	\$36.76	260.0	\$9,559	\$1.07	2.9%	\$2.02	\$2.22	\$2.36	\$2.63	\$2.78	\$2.76	16.5x	15.6x	7.6%	7.5%
	Capital Power Corp.	CPX	\$22.52	98.8	\$2,225	\$1.26	5.6%	\$1.29	\$1.63	\$1.29	\$2.63	\$3.27	\$2.82	13.8x	17.5x	14.5%	12.5%
	Emera Inc.	EMA	\$31.44	141.8	\$4,458	\$1.45	4.6%	\$1.64	\$1.71	\$1.78	\$1.73	\$2.20	\$2.02	18.3x	17.6x	7.0%	6.4%
	TransAlta Corp.	TA, TAC	\$14.38	268.2	\$3,857	\$1.16	8.1%	\$0.50	\$0.52	\$0.50	(\$0.25)	\$0.58	\$1.28	27.8x	29.0x	4.0%	8.9%
	TransAlta Renewables Inc.	RNW	\$11.27	114.7	\$1,293	\$0.77	6.8%	-	\$0.39	\$0.38	-	\$1.06	\$1.09	28.8x	29.5x	9.4%	9.7%
	Valener Inc.	VNR	\$15.31	37.7	\$577	\$1.00	6.5%	\$0.81	\$0.90	\$0.99	\$1.89	\$2.05	\$2.17	17.0x	15.5x	13.4%	14.2%
	Average					5.5%								20.1x	20.4x	9.2%	9.5%

Source: Thomson, TD Securities.

## Justification of Target Price

Our \$36.00 target price is predicated 25% and 75% on our 2014 and 2015 financial estimates, respectively, as follows: 1) 25% EV/EBITDA multiple of 11.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 8.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

## Key Risks to Target Price

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory decisions and surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

## TD Investment Conclusion

If successful, we view the UNS acquisition positively as the transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction with the potential to expand in the U.S. Southwest.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the US. We believe investors will find the company's low-risk, utility-dominated business model attractive, and given the implied returns to our target, we are upgrading the stock to BUY.





## Exhibit 7. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,426	<b>Debt-to-Capitalization</b>	59.0%
<b>Recent Share Price</b>	\$30.21	<b>Net Debt (\$mm)</b>	7,082	<b>BVPS</b>	22.07
<b>52 Week Range</b>	\$29.51-\$35.14	<b>EV (\$mm)</b>	15,092	<b>Ex-div date</b>	02/12/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	213	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	4.2%	<b>Float O/S (mm)</b>	212		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013E	2014E	2015E	Valuation	2012A	2013E	2014E	2015E
Operating EPS (f.d.)	1.70	1.64	1.65	1.87	P/E - EPS (f.d.)	17.8x	18.4x	18.3x	16.2x
Operating EPS (basic)	1.71	1.65	1.66	1.88	P/E - EPS (basic)	17.7x	18.3x	18.2x	16.1x
Free Cash Flow Per Share (AFFO)	2.70	2.55	2.31	3.38	AFFO Yield	8.9%	8.4%	7.7%	11.2%
Dividend Per Share	1.20	1.24	1.28	1.32	Dividend Yield	4.0%	4.1%	4.2%	4.4%
Income Statement (\$mm)	2012A	2013E	2014E	2015E	Ratios	2012A	2013E	2014E	2015E
FortisBC (Gas)	138	130	130	137	Payout Ratio (EPS - f.d.)	71%	76%	78%	71%
FortisAlberta	96	97	98	100	Payout Ratio (EPS - basic)	70%	75%	77%	70%
FortisBC (Electric)	50	50	51	51	Payout Ratio (AFFO)	44%	49%	55%	39%
Newfoundland Power	37	36	37	37	Debt-to-Capitalization	53%	51%	53%	53%
Other Canadian Electric Utilities	24	24	24	25	Segmented Breakdown ( % of Op. Income)	2012A	2013E	2014E	2015E
Central Hudson	-	21	44	48	FortisBC (Gas)	34%	32%	30%	22%
UNS Energy	-	-	-	159	FortisAlberta	24%	24%	22%	16%
Regulated Electric Utilities - Caribbean	19	18	19	19	FortisBC (Electric)	12%	12%	12%	8%
Non-Regulated Fortis Generation	17	16	17	32	Newfoundland Power	9%	9%	8%	6%
Other Non-Regulated Businesses	22	19	20	21	Other Canadian Electric Utilities	6%	6%	6%	4%
Corporate and Other	(78)	(78)	(86)	(112)	Central Hudson	0%	5%	10%	8%
<b>Operating Income</b>	<b>325</b>	<b>334</b>	<b>356</b>	<b>518</b>	UNS Energy	0%	0%	0%	25%
Non-Recurring Items	(10)	12	(81)	0	Regulated Electric Utilities - Caribbean	5%	4%	4%	3%
<b>Net Income</b>	<b>315</b>	<b>346</b>	<b>275</b>	<b>518</b>	Non-Regulated Fortis Generation	4%	4%	4%	5%
					Other Non-Regulated Businesses	5%	5%	5%	3%
Cash Flow Statement (\$mm)	2012A	2013E	2014E	2015E		100%	100%	100%	100%
Income	371	395	327	592	Free Cash Flow	2012A	2013E	2014E	2015E
Other Items Not Involving Cash	527	544	593	892	CF from Continuing Operations	898	939	919	1,484
Change in Non-cash Working Capital	78	0	0	0	Preferred Dividends & Minority Interest	(55)	(49)	(52)	(74)
Cash from Operations	976	939	919	1,484	Maintenance Capital Expenditures	(330)	(374)	(372)	(478)
					<b>Free Cash Flow</b>	<b>513</b>	<b>515</b>	<b>496</b>	<b>932</b>
Capital Expenditures & Acquisitions	(1,151)	(2,283)	(4,118)	(1,582)	Degree of Regulation	2012A			
Other	71	68	68	70	Highly Regulated	90%			
Cash from Investing	(1,080)	(2,215)	(4,050)	(1,512)	Loosely Regulated	0%			
					Unregulated	10%			
Dividends Paid	(225)	(300)	(326)	(438)	Business Mix	2012A			
Change in Debt	85	653	1,148	348	Natural Gas Distribution	34%			
Common Shares	24	665	1,810	109	Electricity Transmission & Distribution	56%			
Preferred Shares	194	115	500	0	Power Generation	4%			
Other	93	0	0	0	Marketing and Other	5%			
Cash from Financing	171	1,133	3,132	19					
<b>Total Cash Flow</b>	<b>67</b>	<b>(144)</b>	<b>2</b>	<b>(8)</b>					
Balance Sheet (\$mm)	2012A	2013E	2014E	2015E					
Cash and Cash Equivalents	154	10	12	4					
Other Current Assets	939	923	1,395	1,326					
Property, Plant and Equipment	11,764	13,556	20,915	21,652					
Other Non-Current Assets	2,093	1,620	263	296					
<b>Total Assets</b>	<b>14,950</b>	<b>16,110</b>	<b>22,585</b>	<b>23,279</b>					
Other Liabilities	3,807	3,486	4,367	4,375					
Debt	6,043	6,696	9,927	10,275					
Total Liabilities	9,850	10,182	14,294	14,650					
Non-Controlling Interests	310	310	310	310					
Preferred Shares	1,108	1,223	1,723	1,723					
Total Shareholders' Equity	3,682	4,395	6,257	6,595					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>16,110</b>	<b>22,585</b>	<b>23,279</b>					

Source: Thomson, TD Securities.



## TD Securities Equity Research Disclosures

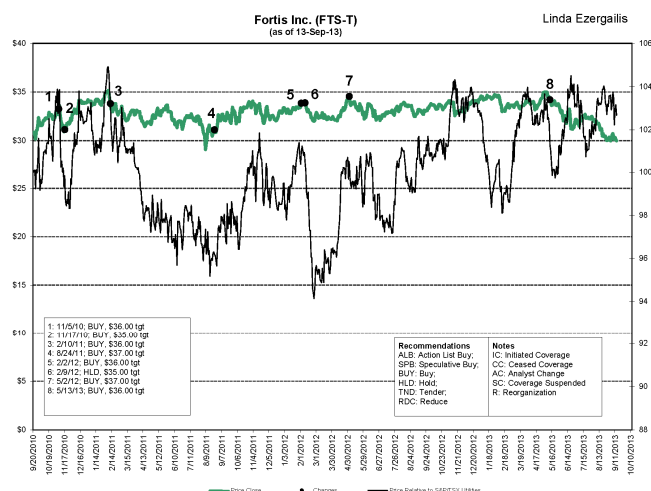
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

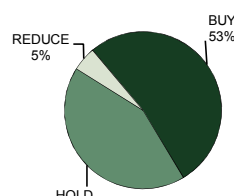
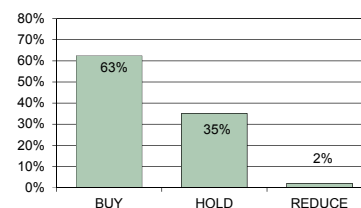
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of January 6, 2014

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (5% of coverage universe), Medium (31%), High (52%), Speculative (12%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents of this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$36.00**  
*Unchanged*

**12-Month Dividend:** **C\$1.28**

**12-Month Total Return:** **21.6%**

**Market Data (C\$)**

Current Price	\$30.65
52-Wk Range	\$29.51-\$35.14
Mkt Cap (f.d.)(mm)	\$6,534.6
Current Dividend	\$1.28
Dividend Yield	4.2%
Avg. Daily Trading Vol. (3M-All Exch)	586016

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	213.2
Float Shares (mm)	212.7
Net Debt/Tot Cap	59.0%
BVPS (basic)	\$22.38
ROE	7.8%

**Estimates (C\$)**

Year	2012A	2013A	2014E	2015E
EPS (basic)	1.71	1.68	1.69	1.89
EPS (basic)(old)	1.71	1.65	1.66	1.88
EPS (f.d.)	1.70	1.68	1.68	1.87
EPS (f.d.)(old)	1.70	1.64	1.65	1.87
DIVIDEND	1.20	1.24	1.28	1.32

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2012A	2013A	2014E	2015E
Q1	0.64	0.65	0.66	--
Q2	0.34	0.33	--	--
Q3	0.24	0.24	--	--
Q4	0.45	0.47	--	--

**Valuations**

Year	2012A	2013A	2014E	2015E
P/E (f.d.)	18.0x	18.2x	18.2x	16.4x

Notes: 2012+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$30.65

### A Solid End to 2013: 2014 Capital Plan of \$1.4 Billion Announced

**Event**

Fortis Q4/13 normalized EPS of \$0.47 was in line with the recent consensus of \$0.48, but slightly above our \$0.44 estimate and Q4/12 normalized EPS of \$0.45.

**Impact****NEUTRAL.**

The results were slightly higher than our forecasts, primarily as a result of: 1) growth in the Caribbean regulated electric utilities earnings, and 2) lower corporate and other expenses. We have revised our forecasts to reflect the quarter's results, revised foreign exchange assumptions, and updated capital plan. We remain a BUY with a \$36 target price.

**Details**

**FortisBC Energy** Q4/13 earnings of \$50 million increased by \$1 million y/y, largely because of lower finance charges and rate base growth. This was partially offset by the impact of a lower allowed ROE and equity component of capital structure.

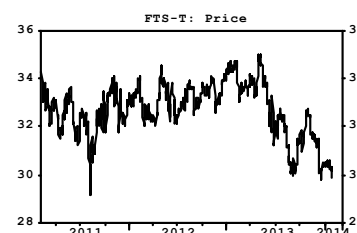
**Regulated Electric Utilities — Canadian** Q4/13 normalized earnings of \$44 million were \$4 million lower y/y.

- **FortisAlberta** earnings of \$18 million decreased by \$4 million y/y, largely because of the timing of depreciation and operating expenses, along with lower net transmission revenues. This decline was partially offset by rate base growth and an increase in customers.
- **FortisBC Electric** earnings of \$13 million increased by \$1 million y/y, primarily because of rate base growth from investments and the acquisition of the City of Kelowna's electrical utility (March 2013).
- **Newfoundland Power** normalized earnings of \$9 million were flat y/y.

Please see the final pages of this document for important disclosure information.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, U.S., Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



- **Other Canadian Electric Utilities** earnings of \$4 million declined by \$2 million y/y, largely because of the impact of the cumulative return adjustment on smart meter investments at FortisOntario in 2012, partially offset by the timing of a regulatory adjustment at Maritime Electric in 2013.

**Central Hudson (Regulated Utilities — US)** earnings for Q4/13 were \$11 million and were consistent with expectations and comparable with Q4/12 results. Electricity sales in Q4/13 were 1,209 GWh, comparable to 1,210 GWh in Q4/12. Gas volumes in Q4/13 were 5 PJs versus 6 PJs in Q4/12, largely because of decreased volumes delivered to a power-generating facility as a result of lower facility operations and volumes for resale.

**Regulated Utilities — Caribbean** earnings of \$8 million were \$5 million higher than Q4/12, and were driven by the capitalization of overhead costs of \$3 million in Turks & Caicos, as approved by the government in December 2013. In addition, Caribbean Utilities earnings benefited from a 1.8% increase in base customer growth and higher electricity sales.

**Non-Regulated Fortis Generation** earnings of \$4 million increased by \$3 million y/y, primarily because of higher electricity production in Belize.

**Other Non-Regulated Businesses** earnings of \$3 million were \$2 million lower y/y. Fortis Properties earnings were \$5 million for the quarter, while seasonal net losses at the non-regulated operations at CH Energy (scheduled to be sold) were \$2 million.

Normalized **Corporate and Other Expenses** in Q4/13 of \$19 million were flat y/y, as a foreign exchange gain of \$3 million and an income tax recovery helped offset higher finance charges associated with the CH Energy Group acquisition.

#### Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)

	Q4/13	Q4/12	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$50	\$49	\$1	2%
FortisAlberta <sup>1</sup>	18	22	(4)	-17%
FortisBC Electric	13	12	1	8%
Newfoundland Power <sup>2</sup>	9	9	-	0%
Other Canadian Electric Utilities	4	6	(2)	-27%
Regulated Electric Utilities - Canadian	44	48	(4)	-9%
Regulated Utilities - US (Central Hudson)	11	-	11	n.a.
Regulated Utilities - Caribbean	8	3	5	167%
<b>Total Regulated Utilities</b>	<b>113</b>	<b>100</b>	<b>13</b>	<b>13%</b>
<b>Non-Regulated Fortis Generation<sup>3</sup></b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>167%</b>
<b>Other Non-Regulated Businesses</b>	<b>3</b>	<b>5</b>	<b>(2)</b>	<b>-40%</b>
<b>Corporate<sup>4</sup></b>	<b>(19)</b>	<b>(19)</b>	<b>-</b>	<b>0%</b>
<b>Operating Earnings</b>	<b>101</b>	<b>88</b>	<b>13</b>	<b>15%</b>
Adjustments	(1)	(1)	(0)	50%
<b>Reported Earnings</b>	<b>100</b>	<b>87</b>	<b>13</b>	<b>15%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.47</b>	<b>\$0.45</b>	<b>\$0.02</b>	<b>5%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.47</b>	<b>\$0.45</b>	<b>\$0.02</b>	<b>4%</b>

Notes: Earnings have been normalized for the following items:

1) \$1 million in Q4/12 as a result of a distribution revenue requirements decision received in April 2012 related to other periods.

2) \$1 million gain on sale of land in Q4/13.

3) \$0.5 million gain recognized in Q4/12 on the disposition of assets.

4) \$2 million of expenses related to the UNS Energy acquisition in Q4/13 and a \$3 million provision recognized in Q4/12 associated with the company's investment in CWLP.

Source: Company reports, TD Securities.

**Outlook**

**Update on UNS Energy Acquisition:** Recently, the Arizona Corporation Commission's (ACC) approval process for the UNS Energy acquisition was released (Exhibit 2). It was in line with management's expectations. If the ALJ hearing commences as expected, Fortis still expects the transaction to close by the end of Q4/14. As a reminder, the acquisition is subject to UNS Energy common shareholder approval and certain regulatory and government approvals, including approval by the ACC and Federal Energy Regulatory Commission, and the satisfaction of customary closing conditions.

**Exhibit 2. Schedule of Key Regulatory Events**

Date	Event
22-Apr-14	ACC Staff / Intervenor Testimony
28-Apr-14	Settlement Discussions Begin
12-May-14	Settlement Agreement Filed
30-May-14	Testimony in Support of/ Opposition to Settlement Agreement
13-Jun-14	Settlement Agreement Responsive Testimony
7-May-14	Rebuttal Testimony (if No Settlement)
30-May-14	ACC Staff / Intervenor Rebuttal Testimony (if No Settlement)
13-Jun-14	UNSEnergy and Fortis Rejoinder Testimony (if No Settlement)
16-Jun-14	ALJ Hearing Commences

Source: Company reports.

**Capital Expenditure Update:** For 2014, management expects consolidated capital expenditures of \$1.4 billion, up from \$1.2 billion in 2013, with the y/y increase primarily coming from higher spending at FortisBC Energy, Central Hudson (full-year effect), and FortisBC Electric. Over the five-year period 2014 through 2018, consolidated gross capital expenditures (excluding UNS Energy) are expected to exceed \$6.5 billion. UNS Energy has forecast capex of approximately US\$1.4 billion during 2015–2018.

**Regulatory Outlook:** In 2014, PBR (performance-based regulation) and cost of capital proceedings continue in Alberta and BC. Central Hudson is scheduled to file a GRA (general rate application) in mid-2014 for rates effective mid-2015.

**Q1/14 Preview:** We are forecasting Q1/14 EPS of \$0.66, slightly above Q1/13 results of \$0.65. Increased earnings, largely as a result of contribution from the CH Energy acquisition and rate base growth could be offset by increased financing costs, along with a higher number of shares outstanding.

**Valuation****Exhibit 3. Valuation**

Power & Utility Companies		Curr.	Shares	Market	Ind.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield		
	Symbol	Price	O/S (mm)	Cap (mm)	Div.		2012A	2013E	2014E	2012A	2013E	2014E	2013E	2014E	2013E	2014E	
	Fortis Inc.	FTS	\$30.65	213.2	\$6,535	\$1.28	4.2%	\$1.70	\$1.68	\$1.68	\$2.70	\$2.48	\$2.71	18.3x	18.2x	8.1%	8.8%
	ATCO Ltd.	ACO.X	\$50.11	115.2	\$5,772	\$0.86	1.7%	\$3.22	\$3.45	\$3.60	\$4.51	\$4.77	\$4.78	14.5x	13.9x	9.5%	9.5%
	Canadian Utilities Ltd.	CU	\$38.40	260.0	\$9,986	\$1.07	2.8%	\$2.02	\$2.22	\$2.36	\$2.63	\$2.78	\$2.76	17.3x	16.3x	7.2%	7.2%
	Capital Power Corp.	CPX	\$23.36	98.8	\$2,308	\$1.26	5.4%	\$1.29	\$1.63	\$1.29	\$2.63	\$3.27	\$2.82	14.3x	18.1x	14.0%	12.1%
	Emera Inc.	EMA	\$31.54	141.8	\$4,472	\$1.45	4.6%	\$1.64	\$1.71	\$1.78	\$1.73	\$2.20	\$2.02	18.4x	17.7x	7.0%	6.4%
	TransAlta Corp.	TA, TAC	\$14.58	268.2	\$3,910	\$1.16	8.0%	\$0.50	\$0.52	\$0.50	(\$0.25)	\$0.58	\$1.28	28.2x	29.4x	4.0%	8.8%
	TransAlta Renewables Inc.	RNW	\$11.00	114.7	\$1,262	\$0.77	7.0%	-	\$0.39	\$0.38	-	\$1.06	\$1.09	28.1x	28.8x	9.7%	9.9%
	Valener Inc.	VNR	\$15.56	37.7	\$587	\$1.00	6.4%	\$0.81	\$0.90	\$0.99	\$1.89	\$2.05	\$2.17	17.3x	15.7x	13.2%	13.9%
	Average						5.5%							20.3x	20.6x	9.0%	9.6%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$36.00 target price is predicated on our 2015 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 9.0%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

**Key Risks to Target Price**

Key risks to our target price include: 1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) pending acquisitions.

**TD Investment Conclusion**

2014 will be another busy year for the company as it works towards closing the UNS Energy acquisition, along with executing its \$1.4 billion capital program.

Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and we view it as a core holding. We expect the company's growth to be largely driven by utility investment in Canada and the U.S. We believe that investors will find the company's low-risk, utility-dominated business model attractive, and given the implied returns to our target price, we are maintaining our BUY recommendation.





## Exhibit 4. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	6,519	<b>Debt-to-Capitalization</b>	59.0%
<b>Recent Share Price</b>	\$30.65	<b>Net Debt (\$mm)</b>	7,082	<b>BVPS</b>	22.07
<b>52 Week Range</b>	\$29.51–\$35.14	<b>EV (\$mm)</b>	15,185	<b>Ex-div date</b>	02/12/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	213	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	4.2%	<b>Float O/S (mm)</b>	213		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2012A	2013A	2014E	2015E	Valuation	2012A	2013A	2014E	2015E
Operating EPS (f.d.)	1.70	1.68	1.68	1.87	P/E - EPS (f.d.)	18.0x	18.3x	18.2x	16.4x
Operating EPS (basic)	1.71	1.68	1.69	1.89	P/E - EPS (basic)	17.9x	18.2x	18.1x	16.3x
Free Cash Flow Per Share (AFFO)	2.70	2.48	2.71	3.40	AFFO Yield	8.8%	8.1%	8.8%	11.1%
Dividend Per Share	1.20	1.24	1.28	1.32	Dividend Yield	3.9%	4.0%	4.2%	4.3%
Income Statement (\$mm)	2012A	2013A	2014E	2015E	Ratios	2012A	2013A	2014E	2015E
FortisBC (Gas)	138	131	135	141	Payout Ratio (EPS - f.d.)	71%	74%	76%	71%
FortisAlberta	96	93	97	99	Payout Ratio (EPS - basic)	70%	74%	76%	70%
FortisBC (Electric)	50	51	51	51	Payout Ratio (AFFO)	44%	50%	47%	39%
Newfoundland Power	37	35	38	39	Debt-to-Capitalization	53%	54%	55%	55%
Other Canadian Electric Utilities	24	22	24	25	Segmented Breakdown ( % of Op. Income)	2012A	2013A	2014E	2015E
Central Hudson	-	23	44	46	FortisBC (Gas)	34%	32%	30%	22%
UNS Energy	-	-	-	159	FortisAlberta	24%	23%	22%	16%
Regulated Electric Utilities - Caribbean	19	23	20	21	FortisBC (Electric)	12%	12%	11%	8%
Non-Regulated Fortis Generation	17	17	20	31	Newfoundland Power	9%	8%	9%	6%
Other Non-Regulated Businesses	22	18	19	19	Other Canadian Electric Utilities	6%	5%	5%	4%
Corporate and Other	(78)	(73)	(84)	(111)	Central Hudson	0%	6%	10%	7%
<b>Operating Income</b>	<b>325</b>	<b>341</b>	<b>363</b>	<b>520</b>	UNS Energy	0%	0%	0%	25%
Non-Recurring Items	(10)	12	(77)	0	Regulated Electric Utilities - Caribbean	5%	6%	5%	3%
<b>Net Income</b>	<b>315</b>	<b>353</b>	<b>287</b>	<b>520</b>	Non-Regulated Fortis Generation	4%	4%	5%	5%
					Other Non-Regulated Businesses	5%	4%	4%	3%
Cash Flow Statement (\$mm)	2012A	2013A	2014E	2015E		100%	100%	100%	100%
Income	371	420	348	604	Free Cash Flow	2012A	2013A	2014E	2015E
Other Items Not Involving Cash	527	524	666	894	CF from Continuing Operations	898	944	1,014	1,498
Change in Non-cash Working Capital	78	(45)	0	0	Preferred Dividends & Minority Interest	(55)	(67)	(62)	(84)
Cash from Operations	976	899	1,014	1,498	Maintenance Capital Expenditures	(330)	(374)	(371)	(477)
					<b>Free Cash Flow</b>	<b>513</b>	<b>503</b>	<b>581</b>	<b>937</b>
Capital Expenditures & Acquisitions	(1,151)	(2,230)	(4,137)	(1,602)	Degree of Regulation	2012A			
Other	71	66	54	70	Highly Regulated	90%			
Cash from Investing	(1,080)	(2,164)	(4,083)	(1,532)	Loosely Regulated	0%			
					Unregulated	10%			
Dividends Paid	(225)	(248)	(336)	(448)	Business Mix	2012A			
Change in Debt	85	658	1,148	348	Natural Gas Distribution	34%			
Common Shares	24	596	1,810	109	Electricity Transmission & Distribution	56%			
Preferred Shares	194	117	500	0	Power Generation	4%			
Other	93	63	0	0	Marketing and Other	5%			
Cash from Financing	171	1,186	3,122	9					
<b>Total Cash Flow</b>	<b>67</b>	<b>(79)</b>	<b>53</b>	<b>(24)</b>					
Balance Sheet (\$mm)	2012A	2013A	2014E	2015E					
Cash and Cash Equivalents	154	72	125	101					
Other Current Assets	939	1,224	1,542	1,473					
Property, Plant and Equipment	11,764	13,939	21,333	22,109					
Other Non-Current Assets	2,093	2,673	2,087	2,110					
<b>Total Assets</b>	<b>14,950</b>	<b>17,908</b>	<b>25,088</b>	<b>25,793</b>					
Other Liabilities	3,807	4,536	6,172	6,180					
Debt	6,043	7,371	10,602	10,950					
Total Liabilities	9,850	11,907	16,774	17,130					
Non-Controlling Interests	310	375	375	375					
Preferred Shares	1,108	1,229	1,729	1,729					
Total Shareholders' Equity	3,682	4,397	6,209	6,558					
<b>Total Liabilities &amp; Equity</b>	<b>14,950</b>	<b>17,908</b>	<b>25,088</b>	<b>25,793</b>					

Source: TD Securities.



## TD Securities Equity Research Disclosures

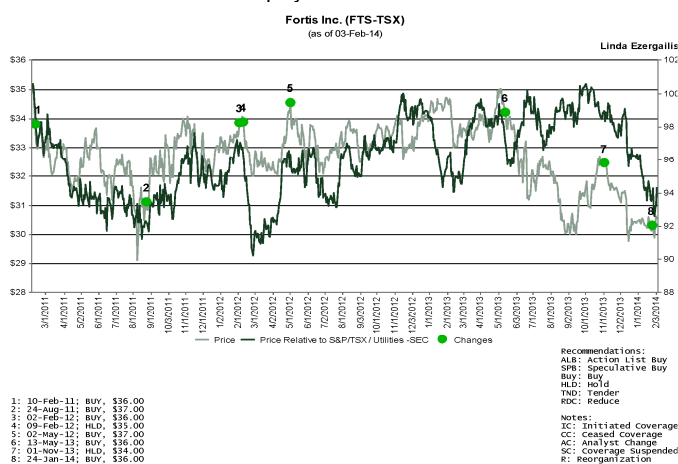
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

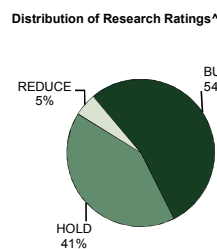
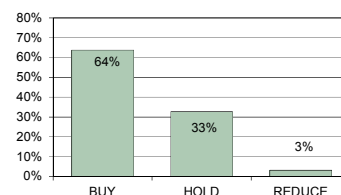
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Investment Banking Services Provided<sup>\*</sup>

Current as of February 4, 2014

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6% of coverage universe), Medium (32%), High (51%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at** <https://www.tdsresearch.com/equities/welcome.important.disclosure.action>  
**by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$38.00↑**

**Prior:** **C\$36.00**

**12-Month Dividend (Est.):** **C\$1.29**

**12-Month Total Return:** **21.3%**

**Market Data (C\$)**

Current Price \$32.38  
52-Wk Range \$29.51-\$35.14  
Mkt Cap (f.d.)(mm) \$7,152.7  
Current Dividend \$1.28  
Dividend Yield 4.0%  
Avg. Daily Trading Vol. (3M-All Exch) 531854

**Financial Data (C\$)**

Fiscal Y-E December  
Shares O/S (f.d.)(mm) 220.9  
Float Shares (mm) 215.5  
Net Debt/Tot Cap 58.0%  
BVPS (basic) \$22.89  
ROE 7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.74	2.00	2.17
EPS (basic)(old)	1.68	1.69	1.89	--
EPS (f.d.)	1.68	1.73	1.99	2.14
EPS (f.d.)(old)	1.68	1.68	1.87	--
DIVIDEND	1.24	1.28	1.34	1.40
DIVIDEND (old)	1.24	1.28	1.32	--

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.34	--	--
Q3	0.24	--	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	19.3x	18.7x	16.3x	15.1x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$32.38

### Q1 Ahead of Expectations; BC Hydro and LNG Projects Progressing

**Event**

Fortis reported normalized Q1/14 EPS (f.d.) of \$0.70, above our \$0.66 estimate, recent consensus of \$0.64, and Q1/13 normalized EPS (f.d.) of \$0.65.

**Impact**

**SLIGHTLY POSITIVE.**

**Higher Rainfall in Belize and Load Growth in the Caribbean:** The Non-Regulated Generation segment benefited more than expected from higher rainfall in Belize increasing hydro sales, and increased production in Upstate New York (a generating unit returned to service in October 2013). In addition, the Caribbean Regulated Utilities' Q1/14 earnings increased by two-thirds y/y, driven by higher sales of electricity.

**Increase in Forecasts and Target Price; Introducing Estimates for 2016:**

We have updated our forecasts with a number of changes, including the quarter's results, revised financing assumptions, and updated capital spend in addition to introducing our forecasts for 2016. Our 2016E EPS of \$2.17 increases by 9% over our 2015E EPS, primarily a result of rate base growth in the Canadian and U.S. utilities, and a full-year contribution from the Waneta Expansion project. Our target price increases by \$2 to \$38 as a result of rolling forward our target price derivation by a quarter to be one-quarter based off 2016 estimates.

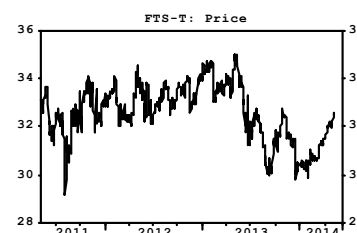
**TD Investment Conclusion**

2014 will be another busy year for the company as it works toward closing the UNS Energy acquisition, along with executing its \$1.4-billion capital program. Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

**Please see the final pages of this document for important disclosure information.**

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



**Details**

**FortisBC Energy** Q1/14 earnings of \$79 million decreased y/y as a result of lower ROE and equity thickness resulting from the regulatory decision (stage one of the GCOC Proceeding) received in Q2/13. The cumulative effect of the decision was recognized in Q2/13.

**Regulated Electric Utilities — Canadian** Q1/14 earnings of \$60 million were \$6 million higher y/y.

- **FortisAlberta** earnings of \$25 million increased by \$1 million over adjusted Q1/13 results, largely as a result of rate base and customer growth.
- **FortisBC Electric** earnings of \$18 million were flat versus Q1/13.
- **Newfoundland Power** earnings of \$10 million were up \$3 million y/y, largely owing to rebasing of customer electricity rates, effective July 1, 2013.
- **Other Canadian Electric Utilities** earnings of \$7 million increased \$1 million y/y, primarily driven by growth in sales of electricity at FortisOntario.

**Central Hudson (Regulated Utilities — US)** (acquired in June 2013) earnings for Q1/14 were \$18 million and up slightly y/y. Electricity sales in Q1/14 were 1,407 GWh and gas volumes were 10 PJs, both of which increased versus Q1/13 because of colder weather.

**Regulated Utilities — Caribbean** earnings of \$5 million were \$2 million higher than Q1/13, largely because of the warmer temperature in Grand Cayman driving air conditioner load and an improvement in tourism and the number of customers in the Turks & Caicos Islands.

**Non-Regulated Fortis Generation** earnings of \$6 million increased by \$4 million y/y, primarily because of an increase in the production of electricity in Belize and Upstate New York.

Normalized **Corporate and Other expenses** of \$17 million in Q1/14 were in line with Q1/13 results.

**Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)**

	Q1/14	Q1/13	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$79	\$85	(\$6)	-7%
FortisAlberta <sup>1</sup>	25	24	1	4%
FortisBC Electric	18	18	1	3%
Newfoundland Power	10	7	3	43%
Other Canadian Electric Utilities	7	6	1	17%
Regulated Electric Utilities - Canadian	60	55	6	10%
Regulated Utilities - US (Central Hudson)	18	-	18	n.a.
Regulated Utilities - Caribbean	5	3	2	67%
<b>Total Regulated Utilities</b>	<b>162</b>	<b>143</b>	<b>20</b>	<b>14%</b>
<b>Non-Regulated Fortis Generation<sup>2</sup></b>	<b>6</b>	<b>2</b>	<b>4</b>	<b>200%</b>
<b>Corporate<sup>3-5</sup></b>	<b>(17)</b>	<b>(18)</b>	<b>1</b>	<b>-3%</b>
<b>Operating Earnings<sup>6</sup></b>	<b>151</b>	<b>127</b>	<b>24</b>	<b>19%</b>
Adjustments	(8)	24	(32)	-134%
<b>Reported Earnings</b>	<b>143</b>	<b>151</b>	<b>(8)</b>	<b>-5%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.70</b>	<b>\$0.65</b>	<b>\$0.05</b>	<b>8%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.67</b>	<b>\$0.76</b>	<b>(\$0.09)</b>	<b>-12%</b>

Notes: Earnings have been normalized for the following items:

- 1) A \$2mm (after tax) adjustment recognized in Q1/13 related to the finalization of 2012 net transmission volume variances.
- 2) A \$22mm (after tax) gain in Q1/13 related to the settlement of the Exploits River Hydro Partnership.
- 3) \$11mm (after tax) of convertible debt interest related to the pending UNS Energy acquisition.
- 4) \$2mm (after tax) of costs related to the pending UNS Energy acquisition.
- 5) \$1mm (after tax) of costs incurred in Q1/13 related to the CH Energy acquisition.
- 6) \$5mm (after tax) of earnings from discontinued operations (Griffith Energy).

**Outlook**

**UNS Energy Update:** In March 2014, UNS Energy shareholders approved the acquisition of UNS Energy by Fortis, and in April 2014, the U.S. FERC approved the transaction. Also in April, the ACC (Arizona Corporation Commission) Staff and other Intervenor indicated in filings of direct testimony in the merger proceeding that they would support the merger subject to certain conditions. Management believes that the approval process is progressing well, and expects the acquisition to close by the end of 2014. Excluding one-time acquisition-related costs, the transaction is expected to be accretive to EPS in the first full year after closing.

**Exhibit 2. UNS Energy: Schedule of Key Regulatory Events**

Date	Event
16-May-14	Settlement Agreement Filed
2-Jun-14	Testimony in Support of/ Opposition to Settlement Agreement
13-Jun-14	Settlement Agreement Responsive Testimony
16-May-14	Rebuttal Testimony (if No Settlement)
2-Jun-14	ACC Staff / Intervenor Rebuttal Testimony (if No Settlement)
13-Jun-14	UNS Energy and Fortis Rejoinder Testimony (if No Settlement)
16-Jun-14	ALJ Hearing Commences

Source: Company reports.

**Regulatory Update:** The Alberta cost-of-capital proceeding is continuing in Alberta, and 2014-2018 PBR (performance-based regulation) applications are progressing in BC. In H2/14, Central Hudson will file a GRA (general rate application) for rates effective mid-2015.

**Exhibit 3. Regulatory Proceedings Underway**

Utility	Application / Proceeding	Filing Date	Expected Decision
FEI	Multi-Year PBR Plan (2014-2018)	June 2013	H2 / 2014
FortisBC Electric	Multi-Year PBR Plan (2014-2018)	July 2013	H2 / 2014
FortisAlberta	Generic Cost of Capital - 2013 and 2014	n.a.	Late 2014
	Capital Tracker Applications - 2013 to 2015	May 2014	TBD
Central Hudson	General Rate Application (for Mid-2015)	H2 / 2014	H1 / 2015

Source: Company reports.

**Project Updates:**

- **Waneta Expansion:** The \$900 million 335 MW expansion of the Waneta hydroelectric generating facility in BC is continuing on time and on budget, with \$603 million invested to date, and completion scheduled for spring 2015.
- **Tilbury LNG:** Fortis has commenced preliminary work related to the \$400-million expansion of its existing Tilbury LNG facility in B.C., which includes a second LNG tank and a new liquefier. The project is scheduled to be completed in 2016, subject to certain approvals.
- **Similkameen Hydro:** Fortis continues to develop other power generation opportunities, and is currently exploring a potential 50–60 MW hydroelectric dam and generating facility in B.C., costing approximately \$200 million–\$300 million. Fortis would likely structure an agreement similar to a long-term PPA with off-takers, with zero commodity exposure. Other benefits of the project would include providing water management and summer irrigation to downstream states, which could help to improve the project economics. The company will continue with its consultations and feasibility studies, and could be in a position to announce an investment decision in 2014.



- **Woodfibre LNG Gas Opportunity:** Fortis is also evaluating a potential project that could involve providing natural gas pipeline capacity to the proposed Woodfibre LNG export project. The investment would be in the range of \$400 million and could involve pipeline expansions or the addition of compression.

**2014 Capital Plan and Five-Year Outlook Remain Robust:** Fortis' consolidated capital forecast of \$1.4 billion for 2014 is unchanged. Over the five-year period from 2014 through 2018, consolidated gross capital expenditures (excluding UNS Energy) are expected to exceed \$6.5 billion. UNS Energy has a forecast capex of approximately US\$1.4 billion from 2015–2018.

**Q2/14 Preview:** We are forecasting Q2/14 EPS of \$0.34, slightly above the Q2/13 result of \$0.33. Increased earnings, largely driven by contribution from the CH Energy acquisition and rate base growth, could be offset by increased financing costs, along with a higher number of shares outstanding.

## Valuation

### Exhibit 4. Valuation

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$32.38	220.9	\$7,153	\$1.28	4.0%	\$1.68	\$1.73	\$1.99	\$2.48	\$2.95	\$3.56	18.8x	16.3x	9.1%	11.0%
ATCO Ltd.	ACO.X	\$54.19	115.1	\$6,239	\$0.86	1.6%	\$3.38	\$3.42	\$3.60	\$4.36	\$4.26	\$4.50	15.8x	15.0x	7.9%	8.3%
Canadian Utilities Ltd.	CU	\$40.40	262.0	\$10,586	\$1.07	2.6%	\$2.21	\$2.27	\$2.43	\$2.69	\$2.66	\$2.80	17.8x	16.6x	6.6%	6.9%
Capital Power Corp.	CPX	\$24.68	100.4	\$2,479	\$1.26	5.1%	\$1.69	\$1.30	\$1.51	\$3.31	\$2.69	\$3.51	19.0x	16.4x	10.9%	14.2%
Emera Inc.	EMA	\$34.26	146.7	\$5,026	\$1.45	4.2%	\$1.86	\$2.05	\$1.88	\$2.72	\$2.30	\$2.17	16.7x	18.2x	6.7%	6.3%
TransAlta Corp.	TA, TAC	\$12.98	270.4	\$3,510	\$0.72	5.5%	\$0.31	\$0.44	\$0.46	\$0.33	\$1.23	\$1.25	29.7x	28.4x	9.5%	9.6%
TransAlta Renewables Inc.	RNW	\$11.39	114.7	\$1,306	\$0.77	6.8%	\$0.48	\$0.39	\$0.39	\$1.24	\$1.09	\$1.09	29.2x	29.2x	9.6%	9.6%
Valener Inc.	VNR	\$15.60	37.8	\$590	\$1.00	6.4%	\$0.90	\$1.05	\$1.08	\$2.05	\$2.13	\$2.23	14.8x	14.4x	13.7%	14.3%
Average						5.0%							20.9x	19.9x	9.4%	10.3%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

### Justification of Target Price

Our \$38.00 target price is predicated 75% and 25% on our financial estimates for 2015 and 2016, respectively, as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free-cash-flow yield of 9.50%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

### Key Risks to Target Price

Key risks to target price include: 1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) closing of pending acquisitions.





## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	7,153	<b>Debt-to-Capitalization</b>	58.0%
<b>Recent Share Price</b>	\$32.38	<b>Net Debt (\$mm)</b>	6,701	<b>BVPS</b>	22.89
<b>52 Week Range</b>	\$29.51–\$34.88	<b>EV (\$mm)</b>	15,476	<b>Ex-div date</b>	05/14/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	221	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	4.0%	<b>Float O/S (mm)</b>	216		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014E	2015E	2016E	Valuation	2013A	2014E	2015E	2016E
Operating EPS (f.d.)	1.68	1.73	1.99	2.14	P/E - EPS (f.d.)	19.3x	18.8x	16.3x	15.1x
Operating EPS (basic)	1.68	1.74	2.00	2.17	P/E - EPS (basic)	19.3x	18.6x	16.2x	14.9x
Free Cash Flow Per Share (AFFO)	2.48	2.95	3.56	3.95	AFFO Yield	7.7%	9.1%	11.0%	12.2%
Dividend Per Share	1.24	1.28	1.34	1.40	Dividend Yield	3.8%	4.0%	4.1%	4.3%
Income Statement (\$mm)	2013A	2014E	2015E	2016E	Ratios	2013A	2014E	2015E	2016E
FortisBC (Gas)	131	136	147	153	Payout Ratio (EPS - f.d.)	74%	74%	67%	65%
FortisAlberta	93	97	109	133	Payout Ratio (EPS - basic)	74%	74%	67%	65%
FortisBC (Electric)	51	51	55	58	Payout Ratio (AFFO)	50%	43%	38%	35%
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	54%	54%	53%
Other Canadian Electric Utilities	22	24	26	28					
Central Hudson	23	44	50	59					
UNS Energy	-	-	164	175					
Regulated Electric Utilities - Caribbean	23	21	22	23					
Non-Regulated Fortis Generation	17	20	32	35					
Other Non-Regulated Businesses	18	19	20	21					
Corporate and Other	(73)	(77)	(114)	(121)					
<b>Operating Income</b>	<b>341</b>	<b>373</b>	<b>552</b>	<b>604</b>					
Non-Recurring Items	10	(72)	0	0					
<b>Net Income</b>	<b>351</b>	<b>302</b>	<b>552</b>	<b>604</b>					
Cash Flow Statement (\$mm)	2013A	2014E	2015E	2016E	Segmented Breakdown ( % of Op. Income)	2013A	2014E	2015E	2016E
Income	420	363	646	704	FortisBC (Gas)	32%	30%	22%	21%
Other Items Not Involving Cash	524	701	907	983	FortisAlberta	23%	22%	16%	18%
Change in Non-cash Working Capital	(45)	0	0	0	FortisBC (Electric)	12%	11%	8%	8%
Cash from Operations	899	1,064	1,553	1,687	Newfoundland Power	8%	8%	6%	6%
					Other Canadian Electric Utilities	5%	5%	4%	4%
Capital Expenditures & Acquisitions	(2,230)	(4,187)	(1,783)	(1,574)	Central Hudson	6%	10%	8%	8%
Other	66	54	70	70	UNS Energy	0%	0%	25%	24%
Cash from Investing	(2,164)	(4,133)	(1,713)	(1,504)	Regulated Electric Utilities - Caribbean	6%	5%	3%	3%
					Non-Regulated Fortis Generation	4%	4%	5%	5%
Dividends Paid	(248)	(336)	(463)	(490)	Other Non-Regulated Businesses	4%	4%	3%	3%
Change in Debt	658	948	448	206		100%	100%	100%	100%
Common Shares	596	1,810	111	117					
Preferred Shares	117	700	0	0					
Other	63	0	0	0					
Cash from Financing	1,186	3,122	96	(167)					
<b>Total Cash Flow</b>	<b>(79)</b>	<b>53</b>	<b>(64)</b>	<b>16</b>					
Balance Sheet (\$mm)	2013A	2014E	2015E	2016E	Free Cash Flow	2013A	2014E	2015E	2016E
Cash and Cash Equivalents	72	125	62	78	CF from Continuing Operations	944	1,064	1,553	1,687
Other Current Assets	1,224	1,542	1,473	1,473	Preferred Dividends & Minority Interest	(67)	(62)	(93)	(100)
Property, Plant and Equipment	13,939	21,384	22,328	22,994	Maintenance Capital Expenditures	(374)	(371)	(477)	(487)
Other Non-Current Assets	2,673	2,088	2,119	2,280	<b>Free Cash Flow</b>	<b>503</b>	<b>631</b>	<b>983</b>	<b>1,100</b>
<b>Total Assets</b>	<b>17,908</b>	<b>25,139</b>	<b>25,982</b>	<b>26,825</b>					
Other Liabilities	4,536	6,172	6,180	6,386					
Debt	7,371	10,439	10,887	11,093					
Total Liabilities	11,907	16,611	17,067	17,479					
Non-Controlling Interests	375	375	375	375					
Preferred Shares	1,229	1,929	1,929	1,929					
Total Shareholders' Equity	4,397	6,224	6,611	7,042					
<b>Total Liabilities &amp; Equity</b>	<b>17,908</b>	<b>25,139</b>	<b>25,982</b>	<b>26,825</b>					

Source: TD Securities.



## TD Securities Equity Research Disclosures

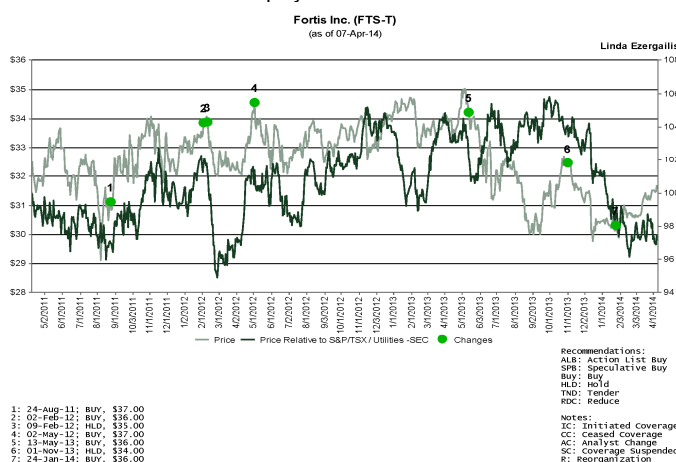
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

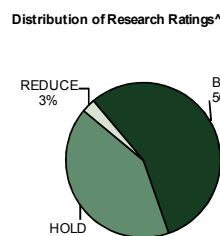
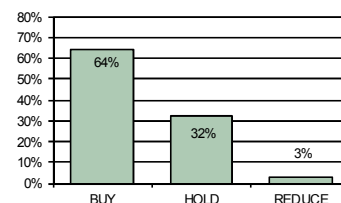
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Investment Banking Services Provided<sup>\*</sup>

Current as of May 2, 2014

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (6% of coverage universe), Medium (33%), High (50%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$38.00**  
*Unchanged*

**12-Month Dividend (Est.):** **C\$1.29**

**12-Month Total Return:** **21.3%**

**Market Data (C\$)**

Current Price	\$32.40
52-Wk Range	\$29.51-\$34.28
Mkt Cap (f.d.)(mm)	\$7,157.2
Current Dividend	\$1.28
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3M-All Exch)	550139

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	220.9
Float Shares (mm)	215.5
Net Debt/Tot Cap	58.0%
BVPS (basic)	\$22.89
ROE	7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.74	2.00	2.17
EPS (f.d.)	1.68	1.73	1.99	2.14
DIVIDEND	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.34	--	--
Q3	0.24	--	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	19.3x	18.7x	16.3x	15.1x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$32.40

### UNS Energy Settlement Agreement Filed With the ACC

**Event**

Fortis and UNS Energy (UNS-NYSE) have filed a Settlement Agreement with the Arizona Corporation Commission (ACC) requesting an approval of the proposed acquisition of UNS Energy by Fortis with certain conditions.

**Impact****SLIGHTLY POSITIVE.**

Given the Settlement Agreement was reviewed and agreed upon by key stakeholders, along with the transaction being deemed by the parties to be in the public's interest, we view the settlement as a positive step forward and an endorsement by the stakeholders that the ACC approve the acquisition of UNS Energy by Fortis.

**TD Investment Conclusion**

2014 will be another busy year for Fortis as it works toward closing the UNS Energy acquisition along with executing on its \$1.4 billion capital program. Fortis is the largest highly regulated investor-owned gas and electric distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the US, and believe investors will find the company's low-risk, utility-dominated business model attractive.

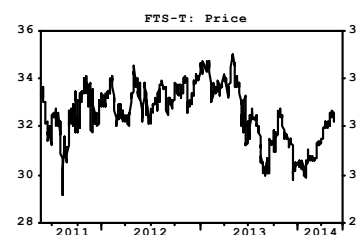
**Details**

**Filing Was Imminent:** In Fortis' Q1/14 release, management indicated that the Settlement Agreement was likely to be filed shortly, and that they viewed the approval process to be progressing well. On May 16, 2014, UNS Energy, Fortis, ACC Staff, the Residential Utility Consumer Office (RUCO) and other stakeholders entered into a settlement whereby the above parties agreed that the transaction was in the public's interest, and recommended approval by the ACC, subject to certain conditions. A summary of the conditions are below.

- **Customer Benefits:** UNS Energy will provide US\$30 million of direct customer benefits over five years, with \$10 million payable in year one, and \$5 million payable in each of years two through five. These benefits will be shared by the retail customers of Tucson Electric Power Company (TEP), UNS Electric, Inc. and UNS Gas, Inc. (the Regulated Utilities). In addition, the benefits from the sale of coal to third parties (otherwise used for TEP generation), will be passed onto TEP ratepayers.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

- **Ring-Fence Protection and Corporate Governance:** UNS Energy and the Regulated Utilities will establish appropriate ring fencing measures to protect the Regulated Utilities and its customers, along with establishing certain corporate governance provisions.
- **Dividend Restrictions at the Regulated Utilities:** The dividends paid from the Regulated Utilities to UNS Energy cannot exceed 60% of the Regulated Utilities' respective net income for a period of five years or until their respective equity capitalization reaches 50% of total capital (excluding goodwill). These dividend restrictions are contingent upon receiving consent from the lenders in UNS Energy's credit facility.
- **Equity Infusion Increased Slightly:** Fortis will make an equity infusion of US\$220 million (previously US\$200 million) through UNS Energy into the Regulated Utilities within 60 days of closing. However, if the acquisition closes after September 30, 2014, the equity infusion may be made into UNS Energy to retire debt.
- **Demonstrates Benefit to Customer Rates:** For all rate cases filed through 2020, with a test year after 2015, Fortis must demonstrate that the proposed rate increases are "demonstratively" lower than those that would have been proposed absent the acquisition of UNS Energy by Fortis.

### Outlook

**Process Remains On-Track; Next Steps:** Management noted that the process remains on-track for a closing prior to the end of 2014, with the next steps highlighted in Exhibit 1. Testimony with respect to the Settlement Agreement will occur in early June, and the Administrative Law Judge (ALJ) hearing should commence shortly thereafter. The ALJ's recommendation is an advisory opinion (not legally binding) that will be considered by the ACC in its final ruling on whether to approve the acquisition. If all goes well with the ALJ's recommendation, the matter could be placed on the docket for review by the ACC shortly thereafter as the committee meets once every month. In a very best case scenario, we believe Fortis would receive final ACC approval and the transaction could be completed as early as late September or early October. Once again, the ACC could approve, reject or require modifications as a condition of approval of the transaction. In addition to ACC approval, the merger is dependent on customary closing conditions and the following processes: 1) Hart-Scott Rodino, and 2) review by Committee on Foreign Investment in the United States.

### Exhibit 1. UNS Energy: Schedule of Key Regulatory Events

Date	Event
2-Jun-14	Testimony in Support of/ Opposition to Settlement Agreement
13-Jun-14	Settlement Agreement Responsive Testimony
16-Jun-14	ALJ Hearing Commences

Source: Company Reports.

### Valuation

#### Exhibit 2. Valuation

Power & Utility Companies		Curr.	Shares	Market	Ind.	EPS (f.d.)				AFFO Per Shr (f.d.)			P/E		AFFO Yield	
	Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$32.40	220.9	\$7,157	\$1.28	4.0%	\$1.68	\$1.73	\$1.99	\$2.48	\$2.95	\$3.56	18.8x	16.3x	9.1%	11.0%
ATCO Ltd.	ACO.X	\$52.01	115.1	\$5,988	\$0.86	1.7%	\$3.38	\$3.42	\$3.60	\$4.36	\$4.26	\$4.50	15.2x	14.4x	8.2%	8.7%
Canadian Utilities Ltd.	CU	\$39.31	262.0	\$10,301	\$1.07	2.7%	\$2.21	\$2.27	\$2.43	\$2.69	\$2.66	\$2.80	17.3x	16.2x	6.8%	7.1%
Capital Power Corp.	CPX	\$25.57	100.4	\$2,568	\$1.26	4.9%	\$1.69	\$1.30	\$1.51	\$3.31	\$2.69	\$3.51	19.7x	17.0x	10.5%	13.7%
Emera Inc.	EMA	\$33.92	146.7	\$4,976	\$1.45	4.3%	\$1.86	\$2.05	\$1.88	\$2.72	\$2.30	\$2.17	16.5x	18.0x	6.8%	6.4%
TransAlta Corp.	TA, TAC	\$13.27	270.4	\$3,588	\$0.72	5.4%	\$0.31	\$0.44	\$0.46	\$0.33	\$1.23	\$1.25	30.4x	29.1x	9.3%	9.4%
TransAlta Renewables Inc.	RNW	\$11.35	114.7	\$1,302	\$0.77	6.8%	\$0.48	\$0.39	\$0.39	\$1.24	\$1.09	\$1.09	29.1x	29.1x	9.6%	9.6%
Valener Inc.	VNR	\$15.75	38.0	\$598	\$1.00	6.3%	\$0.90	\$1.05	\$1.08	\$2.05	\$2.13	\$2.21	15.0x	14.6x	13.5%	14.0%
Average						4.9%							21.0x	20.0x	9.4%	10.2%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

**Justification of Target Price**

Our \$38.00 target price is predicated 75% and 25% on our 2015 and 2016 financial estimates, respectively, as follows:

**Exhibit 3. Target Derivation**

(25% Weight)			(25% Weight)			(50% Weight)			Blended Target Price
1. EV / EBITDA			2. Relative Dividend Yield			3. Free Cash Flow Yield			
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,216	10.5x	\$ 38.86	\$ 1.36	150%	\$ 36.13	\$ 3.66	9.5%	\$ 38.52	\$ 38.01

10-Year Government of Canada Bond Yield Assumption **2.50%**

Source: TD Securities

**Key Risks to Target Price**

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) access to capital markets, and 8) closing of pending acquisitions.





## Exhibit 4. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	7,157	<b>Debt-to-Capitalization</b>	58.0%
<b>Recent Share Price</b>	\$32.40	<b>Net Debt (\$mm)</b>	6,701	<b>BVPS</b>	22.89
<b>52 Week Range</b>	\$29.51–\$34.28	<b>EV (\$mm)</b>	15,480	<b>Ex-div date</b>	08/13/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	221	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	4.0%	<b>Float O/S (mm)</b>	216		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014E	2015E	2016E	Valuation	2013A	2014E	2015E	2016E
Operating EPS (f.d.)	1.68	1.73	1.99	2.14	P/E - EPS (f.d.)	19.3x	18.8x	16.3x	15.1x
Operating EPS (basic)	1.68	1.74	2.00	2.17	P/E - EPS (basic)	19.3x	18.6x	16.2x	14.9x
Free Cash Flow Per Share (AFFO)	2.48	2.95	3.56	3.95	AFFO Yield	7.7%	9.1%	11.0%	12.2%
Dividend Per Share	1.24	1.28	1.34	1.40	Dividend Yield	3.8%	4.0%	4.1%	4.3%
Income Statement (\$mm)	2013A	2014E	2015E	2016E	Ratios	2013A	2014E	2015E	2016E
FortisBC (Gas)	131	136	147	153	Payout Ratio (EPS - f.d.)	74%	74%	67%	65%
FortisAlberta	93	97	109	133	Payout Ratio (EPS - basic)	74%	74%	67%	65%
FortisBC (Electric)	51	51	55	58	Payout Ratio (AFFO)	50%	43%	38%	35%
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	54%	54%	53%
Other Canadian Electric Utilities	22	24	26	28					
Central Hudson	23	44	50	59					
UNS Energy	-	-	164	175					
Regulated Electric Utilities - Caribbean	23	21	22	23					
Non-Regulated Fortis Generation	17	20	32	35					
Other Non-Regulated Businesses	18	19	20	21					
Corporate and Other	(73)	(77)	(114)	(121)					
<b>Operating Income</b>	<b>341</b>	<b>373</b>	<b>552</b>	<b>604</b>					
Non-Recurring Items	10	(72)	0	0					
<b>Net Income</b>	<b>351</b>	<b>302</b>	<b>552</b>	<b>604</b>					
Cash Flow Statement (\$mm)	2013A	2014E	2015E	2016E	Segmented Breakdown ( % of Op. Income)	2013A	2014E	2015E	2016E
Income	420	363	646	704	FortisBC (Gas)	32%	30%	22%	21%
Other Items Not Involving Cash	524	701	907	983	FortisAlberta	23%	22%	16%	18%
Change in Non-cash Working Capital	(45)	0	0	0	FortisBC (Electric)	12%	11%	8%	8%
Cash from Operations	899	1,064	1,553	1,687	Newfoundland Power	8%	8%	6%	6%
					Other Canadian Electric Utilities	5%	5%	4%	4%
Capital Expenditures & Acquisitions	(2,230)	(4,187)	(1,783)	(1,574)	Central Hudson	6%	10%	8%	8%
Other	66	54	70	70	UNS Energy	0%	0%	25%	24%
Cash from Investing	(2,164)	(4,133)	(1,713)	(1,504)	Regulated Electric Utilities - Caribbean	6%	5%	3%	3%
					Non-Regulated Fortis Generation	4%	4%	5%	5%
Dividends Paid	(248)	(336)	(463)	(490)	Other Non-Regulated Businesses	4%	4%	3%	3%
Change in Debt	658	948	448	206		100%	100%	100%	100%
Common Shares	596	1,810	111	117					
Preferred Shares	117	700	0	0					
Other	63	0	0	0					
Cash from Financing	1,186	3,122	96	(167)					
<b>Total Cash Flow</b>	<b>(79)</b>	<b>53</b>	<b>(64)</b>	<b>16</b>					
Balance Sheet (\$mm)	2013A	2014E	2015E	2016E	Free Cash Flow	2013A	2014E	2015E	2016E
Cash and Cash Equivalents	72	125	62	78	CF from Continuing Operations	944	1,064	1,553	1,687
Other Current Assets	1,224	1,542	1,473	1,473	Preferred Dividends & Minority Interest	(67)	(62)	(93)	(100)
Property, Plant and Equipment	13,939	21,384	22,328	22,994	Maintenance Capital Expenditures	(374)	(371)	(477)	(487)
Other Non-Current Assets	2,673	2,088	2,119	2,280	<b>Free Cash Flow</b>	<b>503</b>	<b>631</b>	<b>983</b>	<b>1,100</b>
<b>Total Assets</b>	<b>17,908</b>	<b>25,139</b>	<b>25,982</b>	<b>26,825</b>					
Other Liabilities	4,536	6,172	6,180	6,386					
Debt	7,371	10,439	10,887	11,093					
Total Liabilities	11,907	16,611	17,067	17,479					
Non-Controlling Interests	375	375	375	375					
Preferred Shares	1,229	1,929	1,929	1,929					
Total Shareholders' Equity	4,397	6,224	6,611	7,042					
<b>Total Liabilities &amp; Equity</b>	<b>17,908</b>	<b>25,139</b>	<b>25,982</b>	<b>26,825</b>					

Source: TD Securities.





## TD Securities Equity Research Disclosures

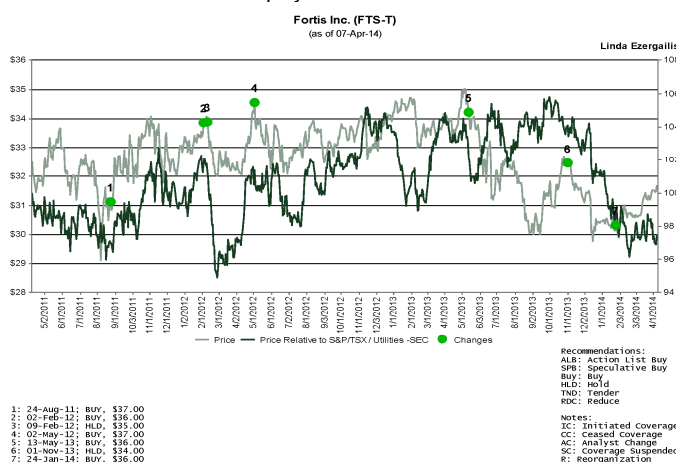
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

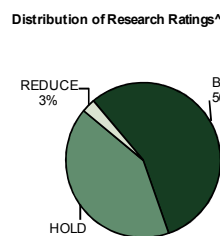
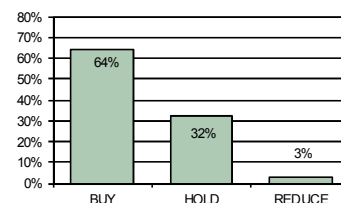
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Investment Banking Services Provided<sup>\*</sup>

Current as of May 2, 2014

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (6% of coverage universe), Medium (33%), High (50%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$38.00**  
*Unchanged*

**12-Month Dividend (Est.):** **C\$1.30**

**12-Month Total Return:** **18.8%**

**Market Data (C\$)**

Current Price	\$33.09
52-Wk Range	\$29.51-\$32.96
Mkt Cap (f.d.)(mm)	\$7,346.0
Current Dividend	\$1.28
Dividend Yield	3.9%
Avg. Daily Trading Vol. (3M-All Exch)	545729

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	222.0
Float Shares (mm)	215.0
Net Debt/Tot Cap	58.2%
BVPS (basic)	\$22.73
ROE	7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.72	1.98	2.15
EPS (basic)(old)	1.68	1.74	2.00	2.17
EPS (f.d.)	1.68	1.71	1.97	2.13
EPS (f.d.)(old)	1.68	1.73	1.99	2.14
DIVIDEND	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.30	--	--
Q3	0.24	0.25	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	19.7x	19.4x	16.8x	15.5x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$33.09

### Q2 Below Expectations; UNS Energy Could Close by August End

#### Event

Fortis reported normalized Q2/14 EPS (f.d.) of \$0.30, below our \$0.34 estimate but above the recent consensus of \$0.28. Q2/13 normalized EPS (f.d.) was \$0.33.

#### Impact: SLIGHTLY NEGATIVE

- **Results Affected by Timing and F/X:** The results were below our expectations on lower FortisBC Electric earnings because of the timing of operating and maintenance expenses, and higher corporate expenses largely related to F/X losses.
- **Revising Forecasts:** We have updated our forecasts, largely to reflect an updated UNS Energy closing date (now assumed in late August), along with a slight increase in corporate costs. We are also rolling forward our target price derivation by a quarter to be based 50% on each of our forecasts for 2015 and 2016. We are maintaining our \$38.00 target price and BUY recommendation.

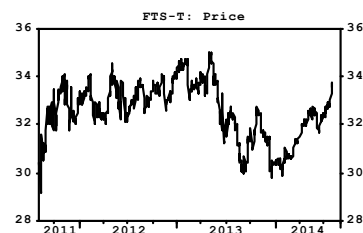
#### TD Investment Conclusion

2014 will be another busy year for the company as it works toward closing the UNS Energy acquisition, along with executing its \$1.4-billion capital program. Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

Please see the final pages of this document for important disclosure information.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



**Details**

**FortisBC Energy** Q2/14 earnings of \$12 million were flat y/y versus normalized Q2/13 results.

**Regulated Electric Utilities — Canadian** Q2/14 earnings of \$49 million were \$2 million lower than Q2/13 normalized results.

- **FortisAlberta** earnings of \$26 million increased by \$1 million over Q2/13 results, largely a result of rate base and customer growth.
- **FortisBC Electric** earnings of \$7 million were \$3 million lower y/y versus Q2/13 normalized results, largely because of the timing of operating and maintenance expenses.
- **Newfoundland Power** earnings of \$11 million were consistent versus Q2/13 normalized results.
- **Other Canadian Electric Utilities** earnings of \$5 million were flat versus Q2/13 normalized results.

**Central Hudson (Regulated Utilities — U.S.)** (acquired in June 2013) earnings for Q2/14 were \$7 million. The results declined slightly versus Q2/13 because of higher depreciation and expenses.

**Regulated Utilities — Caribbean** earnings of \$8 million were \$2 million higher than that in Q2/13, largely driven by increased sales growth and favourable F/X.

**Non-Regulated Fortis Generation** earnings of \$6 million increased by \$3 million y/y, driven by increased production of electricity, mainly from Belize.

**Other Non-Regulated** business earnings of \$7 million decreased by \$2 million y/y because of lower Fortis Properties earnings, which declined as a result of lower Hospitality Division performance and higher depreciation expense.

**Corporate and Other** normalized expenses of \$25 million in Q2/14 were \$8 million higher than Q2/13 results, primarily as a result of \$4 million of F/X losses realized in Q2/14, along with increased finance charges and operating expenses.

**Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)**

	Q2/14	Q2/13	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy) <sup>1</sup>	\$12	\$12	\$0	0%
FortisAlberta	26	25	1	4%
FortisBC Electric <sup>2</sup>	7	10	(3)	-26%
Newfoundland Power <sup>3</sup>	11	11	-	0%
Other Canadian Electric Utilities <sup>4</sup>	5	5	-	0%
Regulated Electric Utilities - Canadian	49	51	(2)	-3%
Regulated Utilities - US (Central Hudson)	7	-	7	n.a.
Regulated Utilities - Caribbean	8	6	2	33%
<b>Total Regulated Utilities</b>	<b>76</b>	<b>69</b>	<b>8</b>	<b>11%</b>
<b>Non-Regulated Fortis Generation</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>100%</b>
<b>Other Non-Regulated Businesses</b>	<b>7</b>	<b>9</b>	<b>(2)</b>	<b>n.a.</b>
<b>Corporate<sup>5-9</sup></b>	<b>(25)</b>	<b>(17)</b>	<b>(8)</b>	<b>47%</b>
<b>Operating Earnings</b>	<b>64</b>	<b>64</b>	<b>1</b>	<b>1%</b>
Adjustments	(17)	(10)	(8)	79%
<b>Reported Earnings</b>	<b>47</b>	<b>54</b>	<b>(7)</b>	<b>-13%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.30</b>	<b>\$0.33</b>	<b>(\$0.03)</b>	<b>-9%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.22</b>	<b>\$0.28</b>	<b>(\$0.06)</b>	<b>-22%</b>

Notes: Earnings have been normalized for the following items:

- 1) \$6mm related to the BCUC decision for the decrease in ROE and equity component in Q2/13.
- 2) \$2mm related to the BCUC decision for the decrease in ROE and equity component in Q2/13.
- 3) \$13mm of income tax recovery in Q2/13 due to the enactment of higher tax deductions.
- 4) \$4mm of income tax recovery in Q2/13 due to the enactment of higher tax deductions.
- 5) \$32mm of costs incurred in Q2/13 related to the CH Energy acquisition.
- 6) \$13mm of recoveries related to income taxes in Q2/13.
- 7) \$13mm of convertible debt interest related to the pending UNS Energy acquisition in Q2/14.
- 8) \$1mm of costs related to the pending UNS Energy acquisition in Q2/14.
- 9) \$3 million of retirement expenses recognized in Q2/14.

Source: Company reports, TD Securities Inc.

**Outlook**

**Acquisition of UNS Energy Could Close Earlier than Expected:** On July 29, 2014, the Administrative Law Judge issued an opinion and order recommending the approval of the UNS Energy acquisition, as conditioned by the settlement agreement. A final vote has tentatively been scheduled for the ACC's meeting to be held during August 12–13, 2014. If the transaction is approved at this meeting, the acquisition is expected to close by the end of August 2014. Previously, we had assumed that the earliest close could be the end of September 2014.

**2014 Capital Plan and Five-year Outlook Remain Robust:** The gross capex forecast of \$1.4 billion for 2014 remains unchanged. Over the next five years (2014–2018), gross consolidated capex is expected to exceed \$6.5 billion. Additionally, UNS Energy has a forecasted capital program (2015–2018) of approximately \$1.5 billion. Energy infrastructure investment to serve Fortis' customers is expected to grow by an average annual rate of 7% over the next five years.

**Project Updates:**

- **Waneta Expansion:** The \$900-million 335 MW expansion of the Waneta hydroelectric generating facility in BC is continuing on time and on budget, with \$633 million invested to date, and completion is scheduled for spring 2015.
- **Tilbury LNG:** Fortis has commenced preliminary work related to the \$400-million expansion of its existing Tilbury LNG facility in BC, which will include a second LNG tank and a new liquefier. The project is scheduled to be completed in H2/16. FortisBC is also exploring the potential for a further expansion of Tilbury, which could involve the export of LNG. Fortis would look to structure agreements without any commodity or logistics risk.

- **Woodfibre LNG Pipeline Project:** FortisBC is also pursuing a potential pipeline expansion for the proposed Woodfibre LNG site in BC. The project could consist of adding additional pipeline and compression, and could represent an investment of approximately \$600 million.
- **Similkameen Hydro:** Fortis continues to develop other power generation opportunities, and is currently exploring a potential 50–60 MW hydroelectric dam and generating facility in BC. Fortis would likely structure an agreement similar to a long-term PPA with off-takers, with zero commodity exposure.

**Regulatory Update:** The 2014–2018 performance based regulation (PBR) applications are progressing in BC, while an Alberta cost-of-capital decision is pending and FortisAlberta's Capital Tracker Applications are continuing. Central Hudson also filed a general rate application (GRA) in July 2014 for rates effective July 1, 2015.

## Exhibit 2. Regulatory Decisions

Utility	Application / Proceeding	Filing Date	Expected Decision
FEI	Multi-Year PBR Plan (2014-2018)	June 2013	H2 / 2014
FortisBC Electric	Multi-Year PBR Plan (2014-2018)	July 2013	H2 / 2014
FortisAlberta	Generic Cost of Capital - 2013 and 2014	n.a.	Q4 2014
	Capital Tracker Applications - 2013 to 2015	May 2014	Q1 2015
Central Hudson	General Rate Application (for Mid-2015)	July 2014	H1 / 2015

Source: Company reports, TD Securities Inc.

**Investor Day 2014:** Fortis is hosting an Investor Day on October 1, 2014, in Toronto. Barry Perry, President and incoming Chief Executive Officer, along with the company's executive vice presidents and members of the senior management team, will provide an update on operations, recent developments, and strategic outlook.

**Q3/14 Preview:** We are forecasting Q3/14 EPS of \$0.25, slightly above the Q3/13 result of \$0.24. Increased earnings, largely driven by a potential contribution from UNS Energy and rate base growth, could be offset by increased financing costs, along with a higher number of shares outstanding.

## Valuation

### Exhibit 3. Valuation

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$33.09	222.2	\$7,353	\$1.28	3.9%	\$1.68	\$1.71	\$1.97	\$2.48	\$2.85	\$3.54	19.3x	16.8x	8.6%	10.7%
ATCO Ltd.	ACO.X	\$47.19	115.5	\$5,450	\$0.86	1.8%	\$3.38	\$3.28	\$3.55	\$4.36	\$3.96	\$4.40	14.4x	13.3x	8.4%	9.3%
Canadian Utilities Ltd.	CU	\$40.23	262.8	\$10,571	\$1.07	2.7%	\$2.21	\$2.16	\$2.39	\$2.69	\$2.46	\$2.77	18.6x	16.8x	6.1%	6.9%
Capital Power Corp.	CPX	\$26.87	101.0	\$2,714	\$1.36	5.1%	\$1.69	\$1.15	\$1.59	\$3.31	\$2.57	\$3.59	23.5x	16.9x	9.6%	13.4%
Emera Inc.	EMA	\$33.52	146.7	\$4,917	\$1.45	4.3%	\$1.86	\$2.05	\$1.88	\$2.72	\$2.30	\$2.17	16.3x	17.8x	6.9%	6.5%
TransAlta Corp.	TA, TAC	\$12.49	272.0	\$3,397	\$0.72	5.8%	\$0.31	\$0.33	\$0.39	\$0.33	\$1.04	\$1.20	37.9x	32.1x	8.3%	9.6%
TransAlta Renewables Inc.	RNW	\$11.57	114.7	\$1,327	\$0.77	6.7%	\$0.48	\$0.39	\$0.41	\$1.24	\$1.07	\$1.10	29.6x	27.9x	9.3%	9.5%
Valener Inc.	VNR	\$15.81	38.0	\$600	\$1.00	6.3%	\$0.90	\$1.05	\$1.08	\$2.05	\$2.13	\$2.21	15.1x	14.6x	13.5%	14.0%
Average						5.0%							22.9x	20.4x	8.9%	10.1%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities Inc.

**Justification of Target Price**

Our \$38.00 target price is predicated 50% on each of our financial estimates for 2015 and 2016, as follows:

**Exhibit 4. Target Price Derivation**

(25% Weight) 1. EV / EBITDA			(25% Weight) 2. Relative Dividend Yield			(50% Weight) 3. Free Cash Flow Yield			Blended Target Price
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,247	10.5x	\$ 38.92	\$ 1.37	150%	\$ 36.53	\$ 3.73	9.5%	\$ 39.31	\$ 38.52
10-Year Government of Canada Bond Yield Assumption						2.50%			

Source: TD Securities Inc.

**Key Risks to Target Price**

Key risks to target price include: 1) Higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) unexpected large acquisitions; 5) sovereign risk; 6) escalating construction costs; 7) access to capital markets; and 8) closing of pending acquisitions.





## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	7,353	<b>Debt-to-Capitalization</b>	58.2%
<b>Recent Share Price</b>	\$33.09	<b>Net Debt (\$mm)</b>	6,652	<b>BVPS</b>	22.73
<b>52 Week Range</b>	\$29.51–\$33.88	<b>EV (\$mm)</b>	15,629	<b>Ex-div date</b>	08/13/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	222	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.9%	<b>Float O/S (mm)</b>	215		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014E	2015E	2016E	Valuation	2013A	2014E	2015E	2016E
Operating EPS (f.d.)	1.68	1.71	1.97	2.13	P/E - EPS (f.d.)	19.7x	19.3x	16.8x	15.6x
Operating EPS (basic)	1.68	1.72	1.98	2.15	P/E - EPS (basic)	19.7x	19.2x	16.7x	15.4x
Free Cash Flow Per Share (AFFO)	2.48	2.85	3.54	3.93	AFFO Yield	7.5%	8.6%	10.7%	11.9%
Dividend Per Share	1.24	1.28	1.34	1.40	Dividend Yield	3.7%	3.9%	4.0%	4.2%
Income Statement (\$mm)	2013A	2014E	2015E	2016E	Ratios	2013A	2014E	2015E	2016E
FortisBC (Gas)	131	136	147	153	Payout Ratio (EPS - f.d.)	74%	75%	68%	66%
FortisAlberta	93	97	109	133	Payout Ratio (EPS - basic)	74%	74%	68%	65%
FortisBC (Electric)	51	51	55	58	Payout Ratio (AFFO)	50%	45%	38%	36%
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	54%	54%	53%
Other Canadian Electric Utilities	22	24	26	28					
Central Hudson	23	46	50	59	<b>Segmented Breakdown ( % of Op. Income)</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
UNS Energy	-	32	164	175	FortisBC (Gas)	32%	28%	22%	21%
Regulated Electric Utilities - Caribbean	23	21	22	23	FortisAlberta	23%	20%	16%	18%
Non-Regulated Fortis Generation	17	20	32	35	FortisBC (Electric)	12%	10%	8%	8%
Other Non-Regulated Businesses	18	19	20	21	Newfoundland Power	8%	8%	6%	6%
Corporate and Other	(73)	(91)	(119)	(126)	Other Canadian Electric Utilities	5%	5%	4%	4%
<b>Operating Income</b>	<b>341</b>	<b>394</b>	<b>547</b>	<b>599</b>	Central Hudson	6%	10%	8%	8%
Non-Recurring Items	10	(72)	0	0	UNS Energy	0%	7%	25%	24%
<b>Net Income</b>	<b>351</b>	<b>322</b>	<b>547</b>	<b>599</b>	Regulated Electric Utilities - Caribbean	6%	4%	3%	3%
					Non-Regulated Fortis Generation	4%	4%	5%	5%
					Other Non-Regulated Businesses	4%	4%	3%	3%
						100%	100%	100%	100%
Cash Flow Statement (\$mm)	2013A	2014E	2015E	2016E	Free Cash Flow	2013A	2014E	2015E	2016E
Income	420	384	641	699	CF from Continuing Operations	944	1,085	1,548	1,682
Other Items Not Involving Cash	524	701	907	983	Preferred Dividends & Minority Interest	(67)	(62)	(93)	(100)
Change in Non-cash Working Capital	(45)	0	0	0	Maintenance Capital Expenditures	(374)	(371)	(477)	(487)
Cash from Operations	899	1,085	1,548	1,682	<b>Free Cash Flow</b>	<b>503</b>	<b>652</b>	<b>978</b>	<b>1,095</b>
Capital Expenditures & Acquisitions	(2,230)	(4,187)	(1,783)	(1,574)					
Other	66	54	70	70	<b>Degree of Regulation</b>	<b>2013E</b>			
Cash from Investing	(2,164)	(4,133)	(1,713)	(1,504)	Highly Regulated	92%			
Dividends Paid	(248)	(354)	(463)	(491)	Loosely Regulated	0%			
Change in Debt	658	948	448	206	Unregulated	8%			
Common Shares	596	1,816	111	117					
Preferred Shares	117	700	0	0	<b>Business Mix</b>	<b>2013E</b>			
Other	63	0	0	0	Natural Gas Distribution	33%			
Cash from Financing	1,186	3,110	96	(167)	Electricity Transmission & Distribution	59%			
<b>Total Cash Flow</b>	<b>(79)</b>	<b>61</b>	<b>(69)</b>	<b>11</b>	Power Generation	4%			
					Marketing and Other	4%			
Balance Sheet (\$mm)	2013A	2014E	2015E	2016E					
Cash and Cash Equivalents	72	133	64	75					
Other Current Assets	1,224	1,542	1,473	1,473					
Property, Plant and Equipment	13,939	21,384	22,328	22,994					
Other Non-Current Assets	2,673	2,088	2,119	2,280					
<b>Total Assets</b>	<b>17,908</b>	<b>25,147</b>	<b>25,984</b>	<b>26,822</b>					
Other Liabilities	4,536	6,172	6,180	6,386					
Debt	7,371	10,439	10,887	11,093					
Total Liabilities	11,907	16,611	17,067	17,479					
Non-Controlling Interests	375	375	375	375					
Preferred Shares	1,229	1,929	1,929	1,929					
Total Shareholders' Equity	4,397	6,232	6,614	7,040					
<b>Total Liabilities &amp; Equity</b>	<b>17,908</b>	<b>25,147</b>	<b>25,984</b>	<b>26,822</b>					

Source: TD Securities Inc.



## TD Securities Equity Research Disclosures

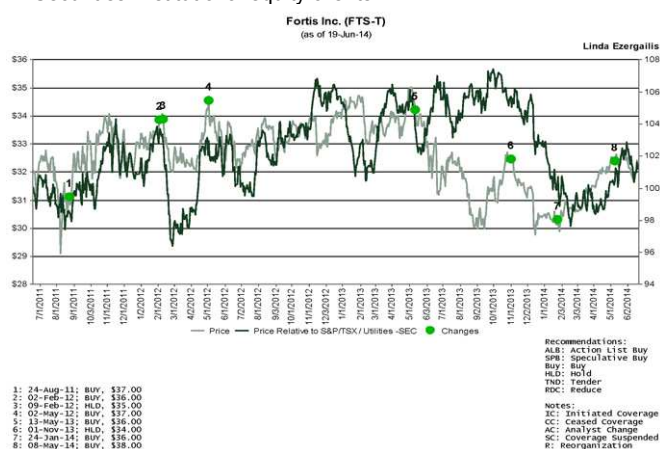
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

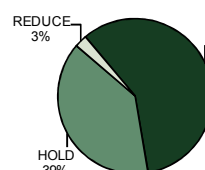
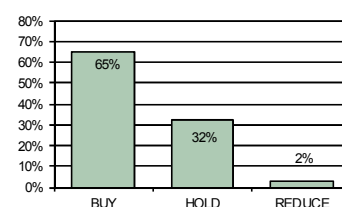
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of July 3, 2014

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6% of coverage universe), Medium (34%), High (50%), Speculative (10%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$39.00↑**

**Prior:** **C\$38.00**

**12-Month Dividend (Est.):** **C\$1.30**

**12-Month Total Return:** **17.4%**

**Market Data (C\$)**

Current Price \$34.33

52-Wk Range \$29.51-\$34.64

Mkt Cap (f.d.)(mm) \$7,621.3

Current Dividend \$1.28

Dividend Yield 3.7%

Avg. Daily Trading Vol. (3M-All Exch) 576690

**Financial Data (C\$)**

Fiscal Y-E December

Shares O/S (f.d.)(mm) 222.0

Float Shares (mm) 215.0

Net Debt/Tot Cap 58.2%

BVPS (basic) \$22.73

ROE 7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.72	1.98	2.15
EPS (f.d.)	1.68	1.71	1.97	2.13
DIVIDEND	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.30	--	--
Q3	0.24	0.25	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	20.4x	20.1x	17.4x	16.1x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$34.33

### BCUC Releases PBR Decision for FEI and FBC

**Event**

The BC Utilities Commission (BCUC) released its decision on Fortis' performance-based regulation (PBR) application for its FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) utilities.

**Impact: SLIGHTLY POSITIVE**

Our overall impression of the ruling is neutral as there were a number of puts and takes in the decision, and we believe that the BCUC's amendments are not onerous for the utilities to comply with. Both FEI and FBC will need to resubmit a compliance filing within 60 days of the Order.

The regulator also determined that a PBR decision could be rendered given the substantial evidence presented, and would not need a further process on the design of the PBR, which we view as a slight positive. The decision also likely dictates the regulatory framework for the utilities over the next several years. At this point, we do not believe this to be material to our financial forecasts and they remain unchanged. Our financial forecasts remain unchanged and our target price increases to \$39 from \$38 to reflect the passage of some regulatory risk.

As a reminder, on April 25, 2014, FEI and FBC filed a final joint application for a Multi-Year Performance Based Ratemaking Plan for 2014 through 2018.

**TD Investment Conclusion**

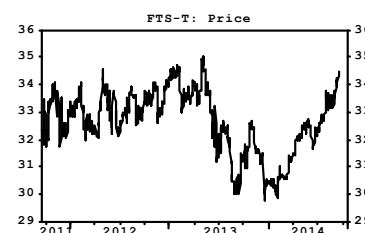
The BCUC's decision on FEI and FBC's multi-year PBR plan will likely dictate the regulatory framework for the utilities over the next several years, and even though there were a number of amendments in the decision, we believe that they are all minor in nature.

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

**Please see the final pages of this document for important disclosure information.**

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



**Details**

**Overview of PBR Framework:** Under the PBR framework, utility rates will be set using a formula that adjusts for inflation, productivity, exogenous events, and capital invested. The PBR framework is designed to incentivize utilities to be more efficient while also reducing regulatory burden and cost. Key points of the PBR decision include:

- **Term:** The PBR is expected to have a six-year term extending through the end of 2019.
- **Inflation Factor (I-Factor):** The I-Factor represents an inflation factor that will be applied to adjust rates upwards each year. The BCUC determined that the CPI-BC as calculated by Statistics Canada and BC-AWE indexes are most appropriate for use in determining the I-Factor. In addition, the I-Factor used in the formula will be the actual index results of the previous year.
- **Productivity Factor (X-Factor):** Rates will be adjusted downwards by an expected productivity growth factor set by the regulator. The productivity factor will be initially set at 1.03 for FBC and 1.10 for FEI.

**Exhibit 1. X-Factor Derivation**

Utility	TFP	Stretch	
		Factor	X-Factor
FBC	0.93	0.1	1.03
FEI	0.90	0.2	1.10

Source: Company reports, TD Securities Inc.

- **Exogenous Events Factor (Z-Factor):** The use of a Z-Factor to adjust for exogenous events, and would need to meet the following criteria:
  - The costs/savings must be attributable entirely to events outside the control of a prudently operated utility
  - The costs/savings must be directly related to the exogenous event and clearly outside the base upon which the rates were originally derived
  - The impact of the event was unforeseen
  - The costs must be prudently incurred
  - The costs/savings related to each exogenous event must exceed the Commission-defined materiality threshold (0.5% of each utility's 2013 Base O&M)
- **Earnings Sharing Mechanism:** Under the decision, an earnings-sharing mechanism will be used, split 50/50 between shareholders and ratepayers.
- **Slight Changes to Flow-through Costs and Deferral Accounts:** The regulator has disallowed certain costs to be flow-through to ratepayers, along with the discontinuing of some deferral accounts. However, we view these to be within the range of expectations.
- **Inclusion of Service Quality Indicators:** The Commission has determined that penalties could be applied if the Service Quality Indicators are not met.
- **PBR Off-ramps Granted:** Under the decision, if a utility's achieved return lands sufficiently outside the allowed threshold, the PBR framework could be re-opened and reviewed. The two financial thresholds for consideration of a re-opening and review of the PBR are: 1) if earnings in any one year vary from the approved ROE by more than +/- 200 basis points (post sharing), and 2) if earnings average more than +/- 150 basis points (post sharing) from the approved ROE for two consecutive years. The first stage would involve amending or re-calibrating the PBR plan to allow it to continue. If a resolution is not met at this stage, reversion back to a cost of service mythology or a re-design of PBR would occur.



- **Introduction of a Comprehensive Annual Review:** An Annual Review process will be instated to build trust among all stakeholders and to ensure that PBR functions as intended.

### Outlook

**Regulatory Update:** The Alberta cost-of-capital decision is pending and FortisAlberta's Capital Tracker Applications are progressing. Central Hudson also filed a general rate application (GRA) in July 2014 for rates effective July 1, 2015.

### Exhibit 2. Upcoming Regulatory Decisions

Utility	Application / Proceeding	Filing Date	Expected Decision
FortisAlberta	Generic Cost of Capital - 2013 and 2014	n.a.	Q4 2014
	Capital Tracker Applications - 2013 to 2015	May 2014	Q1 2015
Central Hudson	General Rate Application (for Mid-2015)	July 2014	H1 / 2015

Source: Company reports, TD Securities Inc.

### Valuation

#### Exhibit 3. Valuation

Power & Utility Companies		Curr.	Shares	Market	Ind.	EPS (f.d.)				AFFO Per Shr (f.d.)			P/E		AFFO Yield	
	Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$34.33	222.2	\$7,628	\$1.28	3.7%	\$1.68	\$1.71	\$1.97	\$2.48	\$2.85	\$3.54	20.1x	17.5x	8.3%	10.3%
ATCO Ltd.	ACO.X	\$45.58	115.5	\$5,264	\$0.86	1.9%	\$3.38	\$3.28	\$3.55	\$4.36	\$3.96	\$4.40	13.9x	12.8x	8.7%	9.7%
Canadian Utilities Ltd.	CU	\$40.23	262.8	\$10,571	\$1.07	2.7%	\$2.21	\$2.16	\$2.39	\$2.69	\$2.46	\$2.77	18.6x	16.8x	6.1%	6.9%
Capital Power Corp.	CPX	\$27.66	101.0	\$2,794	\$1.36	4.9%	\$1.69	\$1.15	\$1.59	\$3.31	\$2.57	\$3.59	24.2x	17.4x	9.3%	13.0%
Emera Inc.	EMA	\$33.67	143.5	\$4,832	\$1.45	4.3%	\$1.86	\$2.04	\$1.87	\$2.72	\$2.30	\$2.16	16.5x	18.0x	6.8%	6.4%
TransAlta Corp.	TA, TAC	\$12.12	272.0	\$3,297	\$0.72	5.9%	\$0.31	\$0.33	\$0.39	\$0.33	\$1.04	\$1.20	36.8x	31.2x	8.6%	9.9%
TransAlta Renewables Inc.	RNW	\$11.67	114.7	\$1,339	\$0.77	6.6%	\$0.48	\$0.39	\$0.41	\$1.24	\$1.07	\$1.10	29.8x	28.2x	9.2%	9.4%
Valener Inc.	VNR	\$15.84	38.0	\$603	\$1.00	6.3%	\$0.90	\$1.01	\$1.06	\$2.05	\$2.08	\$2.19	15.7x	14.9x	13.1%	13.8%
Average						4.9%							23.1x	20.6x	8.8%	10.0%

Source: Thomson, TD Securities Inc.

### Justification of Target Price

Our \$39.00 target price is predicated 50% on each of our financial estimates for 2015 and 2016 as follows:

### Exhibit 4. Target Price Derivation

(25% Weight) 1. EV / EBITDA			(25% Weight) 2. Relative Dividend Yield			(50% Weight) 3. Free Cash Flow Yield			Blended Target Price
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,247	10.5x	\$ 38.92	\$ 1.37	150%	\$ 36.53	\$ 3.73	9.5%	\$ 39.31	\$ 38.52

10-Year Government of Canada Bond Yield Assumption **2.50%**

Source: TD Securities Inc.

### Key Risks to Target Price

Key risks to target price include: 1) Higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) unexpected large acquisitions; 5) sovereign risk; 6) escalating construction costs; and 7) access to capital markets.





## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	7,628	<b>Debt-to-Capitalization</b>	58.2%
<b>Recent Share Price</b>	\$34.33	<b>Net Debt (\$mm)</b>	6,652	<b>BVPS</b>	22.73
<b>52 Week Range</b>	\$29.51-\$34.64	<b>EV (\$mm)</b>	15,904	<b>Ex-div date</b>	10/22/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	222	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.7%	<b>Float O/S (mm)</b>	215		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014E	2015E	2016E	Valuation	2013A	2014E	2015E	2016E		
Operating EPS (f.d.)	1.68	1.71	1.97	2.13	P/E - EPS (f.d.)	20.5x	20.1x	17.5x	16.1x		
Operating EPS (basic)	1.68	1.72	1.98	2.15	P/E - EPS (basic)	20.4x	19.9x	17.3x	16.0x		
Free Cash Flow Per Share (AFFO)	2.48	2.85	3.54	3.93	AFFO Yield	7.2%	8.3%	10.3%	11.4%		
Dividend Per Share	1.24	1.28	1.34	1.40	Dividend Yield	3.6%	3.7%	3.9%	4.1%		
Income Statement (\$mm)	2013A	2014E	2015E	2016E	Ratios	2013A	2014E	2015E	2016E		
FortisBC (Gas)	131	136	147	153	Payout Ratio (EPS - f.d.)	74%	75%	68%	66%		
FortisAlberta	93	97	109	133	Payout Ratio (EPS - basic)	74%	74%	68%	65%		
FortisBC (Electric)	51	51	55	58	Payout Ratio (AFFO)	50%	45%	38%	36%		
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	54%	54%	53%		
Other Canadian Electric Utilities	22	24	26	28	<b>Segmented Breakdown ( % of Op. Income)</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>		
Central Hudson	23	46	50	59		FortisBC (Gas)	32%	28%	22%	21%	
UNS Energy	-	32	164	175		FortisAlberta	23%	20%	16%	18%	
Regulated Electric Utilities - Caribbean	23	21	22	23		FortisBC (Electric)	12%	10%	8%	8%	
Non-Regulated Fortis Generation	17	20	32	35		Newfoundland Power	8%	8%	6%	6%	
Other Non-Regulated Businesses	18	19	20	21	Other Canadian Electric Utilities	5%	5%	4%	4%		
Corporate and Other	(73)	(91)	(119)	(126)	Central Hudson	6%	10%	8%	8%		
<b>Operating Income</b>	<b>341</b>	<b>394</b>	<b>547</b>	<b>599</b>	UNS Energy	0%	7%	25%	24%		
Non-Recurring Items	10	(72)	0	0	Regulated Electric Utilities - Caribbean	6%	4%	3%	3%		
<b>Net Income</b>	<b>351</b>	<b>322</b>	<b>547</b>	<b>599</b>	Non-Regulated Fortis Generation	4%	4%	5%	5%		
<b>Cash Flow Statement (\$mm)</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	Other Non-Regulated Businesses	4%	4%	3%	3%		
	Income	420	384	641	699		100%	100%	100%	100%	
	Other Items Not Involving Cash	524	701	907	983	<b>Free Cash Flow</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	
	Change in Non-cash Working Capital	(45)	0	0	0		CF from Continuing Operations	944	1,085	1,548	1,682
	Cash from Operations	899	1,085	1,548	1,682		Preferred Dividends & Minority Interest	(67)	(62)	(93)	(100)
Capital Expenditures & Acquisitions	(2,230)	(4,187)	(1,783)	(1,574)	Maintenance Capital Expenditures		(374)	(371)	(477)	(487)	
Other	66	54	70	70	<b>Free Cash Flow</b>	<b>503</b>	<b>652</b>	<b>978</b>	<b>1,095</b>		
Cash from Investing	(2,164)	(4,133)	(1,713)	(1,504)	<b>Degree of Regulation</b>	<b>2013E</b>					
Dividends Paid	(248)	(354)	(463)	(491)		Highly Regulated	92%				
Change in Debt	658	948	448	206		Loosely Regulated	0%				
Common Shares	596	1,816	111	117		Unregulated	8%				
Preferred Shares	117	700	0	0	<b>Business Mix</b>	<b>2013E</b>					
Other	63	0	0	0		Natural Gas Distribution	33%				
Cash from Financing	1,186	3,110	96	(167)		Electricity Transmission & Distribution	59%				
<b>Total Cash Flow</b>	<b>(79)</b>	<b>61</b>	<b>(69)</b>	<b>11</b>		Power Generation	4%				
<b>Balance Sheet (\$mm)</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	Marketing and Other	4%					
	Cash and Cash Equivalents	72	133	64	75						
	Other Current Assets	1,224	1,542	1,473	1,473						
	Property, Plant and Equipment	13,939	21,384	22,328	22,994						
	Other Non-Current Assets	2,673	2,088	2,119	2,280						
<b>Total Assets</b>	<b>17,908</b>	<b>25,147</b>	<b>25,984</b>	<b>26,822</b>							
Other Liabilities	4,536	6,172	6,180	6,386							
Debt	7,371	10,439	10,887	11,093							
Total Liabilities	11,907	16,611	17,067	17,479							
Non-Controlling Interests	375	375	375	375							
Preferred Shares	1,229	1,929	1,929	1,929							
Total Shareholders' Equity	4,397	6,232	6,614	7,040							
<b>Total Liabilities &amp; Equity</b>	<b>17,908</b>	<b>25,147</b>	<b>25,984</b>	<b>26,822</b>							

Source: TD Securities Inc.





## TD Securities Equity Research Disclosures

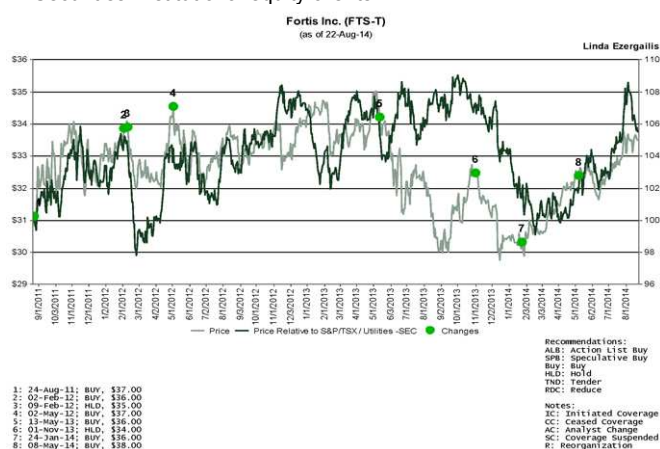
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

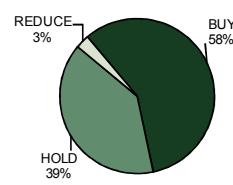
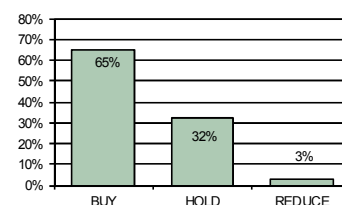
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>B</sup>

Current as of September 3, 2014

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7% of coverage universe), Medium (33%), High (49%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$39.00**  
*Unchanged*

**12-Month Dividend (Est.):** **C\$1.30**

**12-Month Total Return:** **16.6%**

**Market Data (C\$)**

Current Price	\$34.56
52-Wk Range	\$29.51-\$34.72
Mkt Cap (f.d.)(mm)	\$7,672.3
Current Dividend	\$1.28
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3M-All Exch)	569505

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	222.0
Float Shares (mm)	215.0
Net Debt/Tot Cap	58.2%
BVPS (basic)	\$22.73
ROE	7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.72	1.98	2.15
EPS (f.d.)	1.68	1.71	1.97	2.13
DIVIDEND	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.30	--	--
Q3	0.24	0.25	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	20.6x	20.2x	17.5x	16.2x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$34.56

### Announces Strategic Review of Properties Business

#### Event

Fortis has announced a strategic review of its hotel and commercial real estate business.

#### Impact: POTENTIALLY POSITIVE

- **Re-focusing on Energy Infrastructure:** We believe that this announcement will be positively received by some shareholders who have historically viewed the Properties business as a non-core asset.
- **Tax Planning Less of a Factor:** Our understanding is that the Properties business was part of the company's historical consolidated tax planning strategy. However, with the Waneta Expansion project scheduled to provide taxable income (in-service in Spring 2015), the Properties division will likely become less important in Fortis' tax-planning initiatives.
- **Incoming CEO Busy:** In advance of the company's first ever investor day this coming Wednesday (October 1), it appears that the new incoming CEO is wasting no time in exploring investor-friendly ways to potentially surface value.
- **Potential Share Uplift of \$1.00:** Based on our calculations, we believe that a transaction involving the Properties division could surface up to a dollar per share for FTS shareholders based on the trading multiples for comparable REITs. Although we are not REIT experts, depending on the quality mix of the assets, we see an approximate 1.0x-4.0x multiple delta between the value of the Properties EBITDA stream and that of comparable publicly traded REITs. Given the discrepancy in current valuation between Fortis and that of comparable publicly trading REITs, we would be surprised to see the strategic review yield no results. We believe that private equity funds would also be interested in the assets.

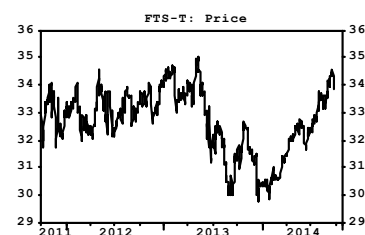
#### TD Investment Conclusion

We believe that the strategic review of the Properties business could be a potential positive, assuming that any proceeds are redeployed into projects with higher returns and/or into utility acquisitions.

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

**Exhibit 1. Comparable Publicly Traded Real Estate Companies**

Company Name	Ticker	Current Price	Mkt Cap (\$mm)	EV (\$mm)	AFFO Yield '14E	AFFO Yield '15E	EV / EBITDA 14E	EV / EBITDA 15E
<b><u>Retail-focused</u></b>								
RioCan REIT	REI-UN	\$25.55	\$7,857	\$14,026	5.6%	5.9%	18.5x	17.5x
Choice Properties REIT	CHP-UN	\$10.30	\$3,952	\$7,639	7.1%	7.3%	15.7x	14.7x
First Capital Realty Inc.	FCR	\$17.44	\$3,755	\$7,389	5.2%	5.5%	19.0x	18.0x
Calloway REIT	CWT-UN	\$25.58	\$3,464	\$6,431	6.8%	7.2%	16.2x	15.8x
CT REIT	CRT-UN	\$11.10	\$2,014	\$3,851	6.6%	6.8%	14.9x	13.8x
Crombie REIT	CRR-UN	\$12.87	\$1,680	\$3,686	7.0%	7.1%	16.0x	15.8x
Retrocom REIT	RMM-UN	\$4.26	\$362	\$1,073	8.2%	8.9%	17.3x	14.5x
<b>Total / Average</b>					<b>6.6%</b>	<b>7.0%</b>	<b>16.8x</b>	<b>15.7x</b>
<b><u>Office-focused</u></b>								
Dream Office REIT	D-UN	\$27.88	\$3,014	\$6,604	8.5%	8.5%	14.8x	15.3x
Brookfield Canada Office Properties	BOX-UN	\$27.20	\$2,538	\$4,786	4.9%	5.0%	19.6x	19.6x
Allied Properties REIT	AP-UN	\$33.95	\$2,529	\$3,678	5.3%	6.1%	19.4x	16.0x
<b>Total / Average</b>					<b>6.2%</b>	<b>6.5%</b>	<b>17.9x</b>	<b>17.0x</b>
<b><u>Hotels</u></b>								
InnVest REIT	INN-UN	\$5.29	\$501	\$1,435	6.4%	8.3%	11.9x	11.2x

Source: TD Securities Inc. estimates (Real Estate team)

**Details**

**Fortis Properties Description:** The Properties business has been a part of Fortis since 1989, and consists of 23 hotels in eight Canadian provinces, representing over 4,400 rooms and 2.8 million square feet of commercial and retail real estate, primarily in Atlantic Canada. Its major hotel brands include Delta, Sheraton, Hilton, Holiday Inn, Ramada, and Best Western. Some of its prominent real estate holdings in Atlantic Canada include Cabot Place, Maritime Centre, and the Blue Cross Centre. See Exhibit 2 for a summary of the assets.

**Properties Contribution:** In 2013, Fortis Properties generated revenues of approximately \$250 million and EBITDA of approximately \$80 million. Approximately 58% of Fortis Properties' operating income in 2013 was derived from hotel investments (2012 – 57%). The assets currently comprise ~3% of the corporation's total assets.

**Timing:** The strategic options include, but are not limited to, a sale of all or a portion of the assets, a sale of shares of Fortis Properties, or an IPO. We believe that a sale of the assets presents the lowest risk option for the company. The process is expected to commence in the coming weeks and continue through the rest of 2014 and into 2015.

**Exhibit 2. Fortis Properties: Assets**

<b>Hospitality Holdings</b>	<b>Province</b>	<b>City</b>	<b>Number of Rooms</b>
Delta St. John's Hotel and Conference Centre	Newfoundland and Labrador	St. John's	403
Holiday Inn St. John's-Government Centre	Newfoundland and Labrador	St. John's	252
Sheraton Hotel Newfoundland	Newfoundland and Labrador	St. John's	301
Mount Peyton Hotel	Newfoundland and Labrador	Grand Falls-Windsor	150
Greenwood Inn and Suites Corner Brook	Newfoundland and Labrador	Corner Brook	102
Holiday Inn Sydney-Waterfront	Nova Scotia	Sydney	152
Four Points by Sheraton	Nova Scotia	Halifax	177
Delta Brunswick	New Brunswick	Saint John	254
Holiday Inn Sarnia	Ontario	Sarnia	217
Holiday Inn Kitchener-Waterloo	Ontario	Kitchener	183
Holiday Inn Cambridge	Ontario	Cambridge	143
Holiday Inn Peterborough-Waterfront	Ontario	Peterborough	153
Holiday Inn and Suites Windsor	Ontario	Windsor	214
Station Park All Suite Hotel	Ontario	London	126
Best Western Plus Winnipeg Airport Hotel	Manitoba	Winnipeg	213
Hilton Winnipeg Airport Suites	Manitoba	Winnipeg	160
Delta Regina	Saskatchewan	Regina	274
Ramada Plaza Calgary Airport Hotel and Conference Centre	Alberta	Calgary	213
Holiday Inn Conference Centre Edmonton South	Alberta	Edmonton	224
Holiday Inn Lethbridge	Alberta	Lethbridge	119
Holiday Inn Express and Suites Medicine Hat	Alberta	Medicine Hat	93
Best Western Plus Sun Country	Alberta	Medicine Hat	122
Holiday Inn Express Kelowna Conference Centre Hotel	British Columbia	Kelowna	190
<b>Total</b>			<b>4,435</b>

<b>Real Estate Holdings</b>	<b>Province</b>	<b>City</b>	<b>Square Feet</b>
Cabot Place	Newfoundland and Labrador	St. John's	134,534
Fortis Building	Newfoundland and Labrador	St. John's	83,279
TD Place	Newfoundland and Labrador	St. John's	94,432
Fort William Building	Newfoundland and Labrador	St. John's	188,170
Water Street Properties	Newfoundland and Labrador	St. John's	74,386
Fortis Place (opening Fall 2014)	Newfoundland and Labrador	St. John's	145,000
Fortis Tower	Newfoundland and Labrador	Corner Brook	69,025
Marystown Mall (Retail Properties)	Newfoundland and Labrador	Marystown	87,281
Millbrook Mall (Retail Properties)	Newfoundland and Labrador	Corner Brook	117,974
Fraser Mall (Retail Properties)	Newfoundland and Labrador	Gander	98,957
Maritime Centre	Nova Scotia	Halifax	564,486
Brunswick Square	New Brunswick	Saint John	512,050
Kings Place	New Brunswick	Fredericton	292,267
Blue Cross Centre	New Brunswick	Moncton	323,468
Delta Regina	Saskatchewan	Regina	Not Disclosed
<b>Total</b>			<b>2,785,309</b>

Source: Company reports, TD Securities Inc.

**Outlook**

**Redeployment of Capital toward Growth Plan:** We believe that any monetary proceeds resulting from the Properties' strategic review could be positively redeployed toward Fortis' capital growth plan. Over the next five years (2014–2018), gross consolidated capex is expected to exceed \$8.0 billion (including UNS Energy), and Energy infrastructure investment to serve Fortis' customers is expected to grow by an average annual rate of 7% over the next five years.

**Large Capital Projects under Development:**

- **Waneta Expansion:** The \$900-million 335 MW expansion of the Waneta hydroelectric generating facility in BC is continuing and ~\$633 million has been invested to-date. Completion is expected in spring 2015.
- **Tilbury LNG:** Fortis has commenced preliminary work related to the \$400-million expansion of its existing Tilbury LNG facility in BC, which will include a second LNG tank and a new liquefier. The project is scheduled to be completed in H2/16. FortisBC is also exploring the potential for a further expansion of Tilbury, which could involve the export of LNG.
- **Woodfibre LNG Pipeline Project:** FortisBC is also pursuing a potential pipeline expansion for the proposed Woodfibre LNG site in BC. The project could consist of adding more pipeline and compression, and could represent an investment of approximately \$600 million.

**Valuation****Exhibit 3. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$34.56	222.2	\$7,679	\$1.28	3.7%	\$1.68	\$1.71	\$1.97	\$2.48	\$2.85	\$3.54	20.2x	17.6x	8.3%	10.3%
ATCO Ltd.	ACO.X	\$45.37	115.5	\$5,240	\$0.86	1.9%	\$3.38	\$3.28	\$3.55	\$4.36	\$3.96	\$4.40	13.8x	12.8x	8.7%	9.7%
Canadian Utilities Ltd.	CU	\$40.23	262.8	\$10,571	\$1.07	2.7%	\$2.21	\$2.16	\$2.39	\$2.69	\$2.46	\$2.77	18.6x	16.8x	6.1%	6.9%
Capital Power Corp.	CPX	\$26.77	101.0	\$2,704	\$1.36	5.1%	\$1.69	\$1.15	\$1.59	\$3.31	\$2.57	\$3.59	23.4x	16.9x	9.6%	13.4%
Emera Inc.	EMA	\$34.72	143.5	\$4,982	\$1.55	4.5%	\$1.86	\$2.04	\$1.87	\$2.72	\$2.30	\$2.16	17.0x	18.5x	6.6%	6.2%
TransAlta Corp.	TA, TAC	\$11.73	272.0	\$3,191	\$0.72	6.1%	\$0.31	\$0.33	\$0.39	\$0.33	\$1.04	\$1.20	35.6x	30.2x	8.9%	10.2%
TransAlta Renewables Inc.	RNW	\$11.51	114.7	\$1,320	\$0.77	6.7%	\$0.48	\$0.39	\$0.41	\$1.24	\$1.07	\$1.10	29.4x	27.8x	9.3%	9.5%
Valener Inc.	VNR	\$15.72	38.0	\$598	\$1.00	6.4%	\$0.90	\$1.01	\$1.06	\$2.05	\$2.08	\$2.19	15.6x	14.8x	13.2%	13.9%
Average						5.0%							22.8x	20.4x	8.9%	10.1%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities Inc.

**Justification of Target Price**

Our \$39.00 target price is predicated 50% on each of our financial estimates for 2015 and 2016 as follows:

**Exhibit 4. Target Price Derivation**

(25% Weight)			(25% Weight)			(50% Weight)			Blended Target Price
1. EV / EBITDA			2. Relative Dividend Yield			3. Free Cash Flow Yield			
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,247	10.5x	\$ 38.92	\$ 1.37	150%	\$ 36.53	\$ 3.73	9.5%	\$ 39.31	

10-Year Government of Canada Bond Yield Assumption **2.50%**

Source: TD Securities Inc.

**Key Risks to Target Price**

Key risks to target price include: 1) Higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) unexpected large acquisitions; 5) sovereign risk; 6) escalating construction costs; and 7) access to capital markets.





## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	7,679	<b>Debt-to-Capitalization</b>	58.2%
<b>Recent Share Price</b>	\$34.56	<b>Net Debt (\$mm)</b>	6,652	<b>BVPS</b>	19.94
<b>52 Week Range</b>	\$29.51-\$34.72	<b>EV (\$mm)</b>	16,555	<b>Ex-div date</b>	10/22/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	222	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.7%	<b>Float O/S (mm)</b>	215		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014E	2015E	2016E	Valuation	2013A	2014E	2015E	2016E
EBITDA	1,302	1,396	2,165	2,329	EV/EBITDA	12.7x	11.9x	10.5x	9.9x
Operating EPS (f.d.)	1.68	1.71	1.97	2.13	P/E - EPS (f.d.)	20.6x	20.2x	17.6x	16.3x
Operating EPS (basic)	1.68	1.72	1.98	2.15	P/E - EPS (basic)	20.6x	20.1x	17.4x	16.1x
Free Cash Flow Per Share (AFFO)	2.48	2.85	3.54	3.93	AFFO Yield	7.2%	8.3%	10.3%	11.4%
Dividend Per Share	1.24	1.28	1.34	1.40	Dividend Yield	3.6%	3.7%	3.9%	4.1%

*Note: EV/EBITDA for 2015+ reflects the full financing related to the UNS Energy acquisition (includes the conversion of subscription receipts).*

Income Statement (\$mm)	2013A	2014E	2015E	2016E	Ratios	2013A	2014E	2015E	2016E
FortisBC (Gas)	131	136	147	153	Payout Ratio (EPS - f.d.)	74%	75%	68%	66%
FortisAlberta	93	97	109	133	Payout Ratio (EPS - basic)	74%	74%	68%	65%
FortisBC (Electric)	51	51	55	58	Payout Ratio (AFFO)	50%	45%	38%	36%
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	54%	54%	53%
Other Canadian Electric Utilities	22	24	26	28					
Central Hudson	23	46	50	59					
UNS Energy	-	32	164	175					
Regulated Electric Utilities - Caribbean	23	21	22	23					
Non-Regulated Fortis Generation	17	20	32	35					
Other Non-Regulated Businesses	18	19	20	21					
Corporate and Other	(73)	(91)	(119)	(126)					
<b>Operating Income</b>	<b>341</b>	<b>394</b>	<b>547</b>	<b>599</b>					
Non-Recurring Items	10	(72)	0	0					
<b>Net Income</b>	<b>351</b>	<b>322</b>	<b>547</b>	<b>599</b>					

Cash Flow Statement (\$mm)	2013A	2014E	2015E	2016E	Segmented Breakdown ( % of Op. Income)	2013A	2014E	2015E	2016E
Income	420	384	641	699	FortisBC (Gas)	32%	28%	22%	21%
Other Items Not Involving Cash	524	701	907	983	FortisAlberta	23%	20%	16%	18%
Change in Non-cash Working Capital	(45)	0	0	0	FortisBC (Electric)	12%	10%	8%	8%
Cash from Operations	899	1,085	1,548	1,682	Newfoundland Power	8%	8%	6%	6%
					Other Canadian Electric Utilities	5%	5%	4%	4%
Capital Expenditures & Acquisitions	(2,230)	(4,187)	(1,783)	(1,574)	Central Hudson	6%	10%	8%	8%
Other	66	54	70	70	UNS Energy	0%	7%	25%	24%
Cash from Investing	(2,164)	(4,133)	(1,713)	(1,504)	Regulated Electric Utilities - Caribbean	6%	4%	3%	3%
					Non-Regulated Fortis Generation	4%	4%	5%	5%
Dividends Paid	(248)	(354)	(463)	(491)	Other Non-Regulated Businesses	4%	4%	3%	3%
Change in Debt	658	948	448	206		100%	100%	100%	100%
Common Shares	596	1,816	111	117					
Preferred Shares	117	700	0	0					
Other	63	0	0	0					
Cash from Financing	1,186	3,110	96	(167)					
<b>Total Cash Flow</b>	<b>(79)</b>	<b>61</b>	<b>(69)</b>	<b>11</b>					

Free Cash Flow	2013A	2014E	2015E	2016E	Degree of Regulation	2013E
CF from Continuing Operations	944	1,085	1,548	1,682	Highly Regulated	92%
Preferred Dividends & Minority Interest	(67)	(62)	(93)	(100)	Loosely Regulated	0%
Maintenance Capital Expenditures	(374)	(371)	(477)	(487)	Unregulated	8%
<b>Free Cash Flow</b>	<b>503</b>	<b>652</b>	<b>978</b>	<b>1,095</b>		

Business Mix	2013E
Natural Gas Distribution	33%
Electricity Transmission & Distribution	59%
Power Generation	4%
Marketing and Other	4%

Balance Sheet (\$mm)	2013A	2014E	2015E	2016E
Cash and Cash Equivalents	72	133	64	75
Other Current Assets	1,224	1,542	1,473	1,473
Property, Plant and Equipment	13,939	21,384	22,328	22,994
Other Non-Current Assets	2,673	2,088	2,119	2,280
<b>Total Assets</b>	<b>17,908</b>	<b>25,147</b>	<b>25,984</b>	<b>26,822</b>
Other Liabilities	4,536	6,172	6,180	6,386
Debt	7,371	10,439	10,887	11,093
Total Liabilities	11,907	16,611	17,067	17,479
Non-Controlling Interests	375	375	375	375
Preferred Shares	1,229	1,929	1,929	1,929
Total Shareholders' Equity	4,397	6,232	6,614	7,040
<b>Total Liabilities &amp; Equity</b>	<b>17,908</b>	<b>25,147</b>	<b>25,984</b>	<b>26,822</b>





## TD Securities Equity Research Disclosures

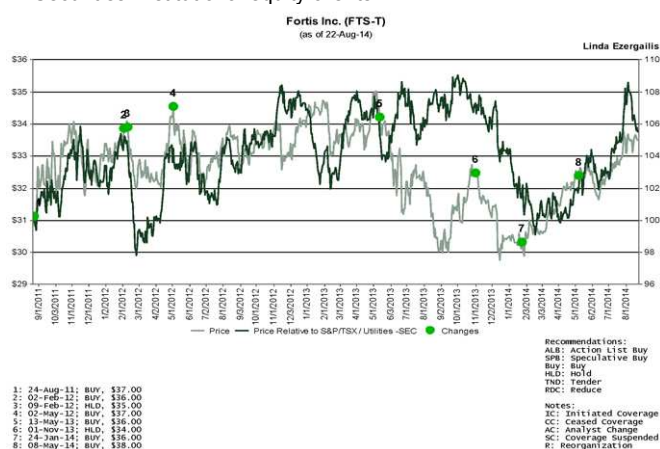
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

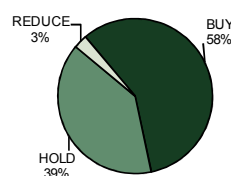
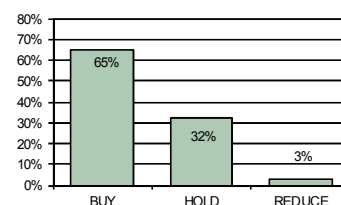
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of September 3, 2014

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7% of coverage universe), Medium (33%), High (49%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$39.00**  
*Unchanged*

**12-Month Dividend (Est.):** **C\$1.30**

**12-Month Total Return:** **16.6%**

**Market Data (C\$)**

Current Price	\$34.57
52-Wk Range	\$29.51-\$34.81
Mkt Cap (f.d.)(mm)	\$7,674.5
Current Dividend	\$1.28
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3M-All Exch)	573726

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	222.0
Float Shares (mm)	215.0
Net Debt/Tot Cap	58.2%
BVPS (basic)	\$22.73
ROE	7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.72	1.98	2.15
EPS (f.d.)	1.68	1.71	1.97	2.13
DIVIDEND	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.30	--	--
Q3	0.24	0.25	--	--
Q4	0.47	--	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	20.6x	20.2x	17.5x	16.2x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$34.57

### Investor Day Takeaways

#### Event

Fortis held its inaugural Investor Day in Toronto.

#### Impact: POSITIVE

#### TD Investment Conclusion

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investments in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

#### Details

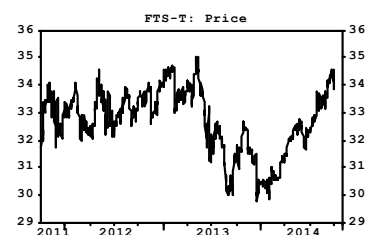
#### Strategy Takeaways:

- **Organic Growth is a Focus:** Executing on the organic growth plan appears to be the company's current priority, with a focus on delivering a strong 2015 to shareholders, and maintaining the company's 41-year track record of consecutive hikes in dividend. Growth through acquisitions could also be possible; however, the preference is to look to build assets in the company's existing footprint, leveraging its regional knowledge and positioning to find incremental investment opportunities where possible.
- **High Regulation is in the DNA:** With the recent announcement regarding the Properties business, the proportion of the company's regulated earnings could increase further. Unregulated generation through contracted renewable power (hydro, utility-scale solar, wind generation) could become ~10% of the company in the future. However, management is not targeting a certain mix between regulated and unregulated contribution, and would continue to look for regulated or low-risk, long-term contracted investment opportunities with strong counterparties to grow the company, even if this meant being 100% regulated.

Please see the final pages of this document for important disclosure information.

#### Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



**Western Canadian Operations Takeaways:**

- **Positive Capital Tracker Decision could Present Upside:** The AUC's interim approval regarding the capital tracker (currently set at 60% of the capital tracker) gives rise to revenue shortfalls in 2013 and 2014. If 100% of the capital tracker is granted, the capital shortfall would be put back into rate base. A decision is expected in Q1/15.

**Exhibit 1. Rate Revenue Associated with Capital Tracker (\$mm)**

	2013	2014	2015
100% (Capital Tracker Application)	23.2	48.1	68.9
60% (AUC Interim Approval)	14.6	29.2	TBD
Shortfall	8.6	18.9	TBD

Source: Company reports

- **LNG Development Stimulating Investment:** The development of an LNG industry off the west coast of BC is resulting in significant investment opportunities at FortisBC, which is well positioned given its existing footprint and infrastructure in the region. The company is progressing on its \$400-million Tilbury LNG (Phase 1A) project, which is expected to add 1 million GJ of storage capacity and up to 36,000 GJ/day of liquefaction capacity (Q4/16 in-service). The Tilbury site spans 35 acres (all zoned for LNG), which lends itself to significant potential expansions. A contemplated Tilbury LNG (Phase 1B) investment of \$450 million could add an additional 140,000 GJ/day of liquefaction and is currently underpinned by a conditional contract with Hawaiian Electric (awaiting final regulatory approvals). A full build-out of the site could yield 3 million metric tonnes per annum (MTPA) or 450,000 GJ/day of liquefaction and additional storage capacity.

**Exhibit 2. Tilbury Site**

Source: Company reports

- **Woodfibre LNG Pipeline Opportunity:** Fortis is also undergoing pipeline and design permitting for an approximate \$600-million project that could involve providing natural gas pipeline capacity to the proposed Woodfibre LNG export project near Squamish, BC. The Woodfibre LNG project (2.1 MTPA) is subject to various approvals and could be operational by Q1/17.

**UNS Energy Takeaways:**

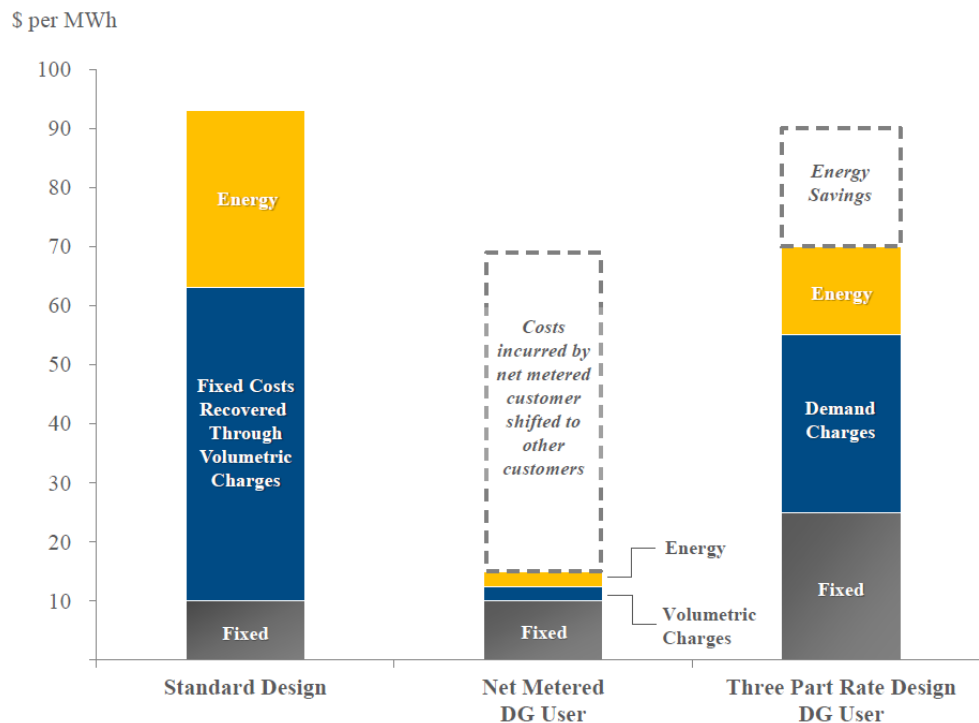
- **Changing Supply Mix; EPA's CO<sub>2</sub> Regulations Harsh:** Tucson Electric Power (TEP) will continue to implement its resource diversification strategy by reducing its coal-fired generation reliance through unit retirements and fuel switching, while replacing coal capacity with gas-fired generation as the utility slowly migrates toward the EPA's carbon reduction targets for Arizona. The EPA's State-by-state goals put Arizona near the top of the list for CO<sub>2</sub> reduction targets (based on the calculation methodology), which the company believes poses an unfair burden on the utilities in the state.

**Exhibit 3. EPA Proposed Carbon Reduction by State (CO<sub>2</sub>lbs / MWh)**

State	2012 Rate	2020 Goal	2030 Goal	Reduction from 2012
Washington	756	264	215	72%
Arizona	1,453	735	702	52%
S. Carolina	1,587	840	772	51%
Oregon	717	407	372	48%
New Hampshire	905	546	486	46%
Arkansas	1,634	968	910	44%
Georgia	1,500	891	834	44%
.....				
Rhode Island	907	822	782	14%
Hawaii	1,540	1,378	1,306	15%

Source: Company reports

- **Revised Rate Design for Distributed Generation:** The utility is proposing a new rate design to include increased fixed and demand charges for distributed generation (DG) participants as a means to maintain revenue stability. Under the standard rate design, costs incurred by net metered DG users are shifted onto other customers.

**Exhibit 4. Rate Design for Distributed Generation**

Source: Company reports

**Central Hudson Takeaways:**

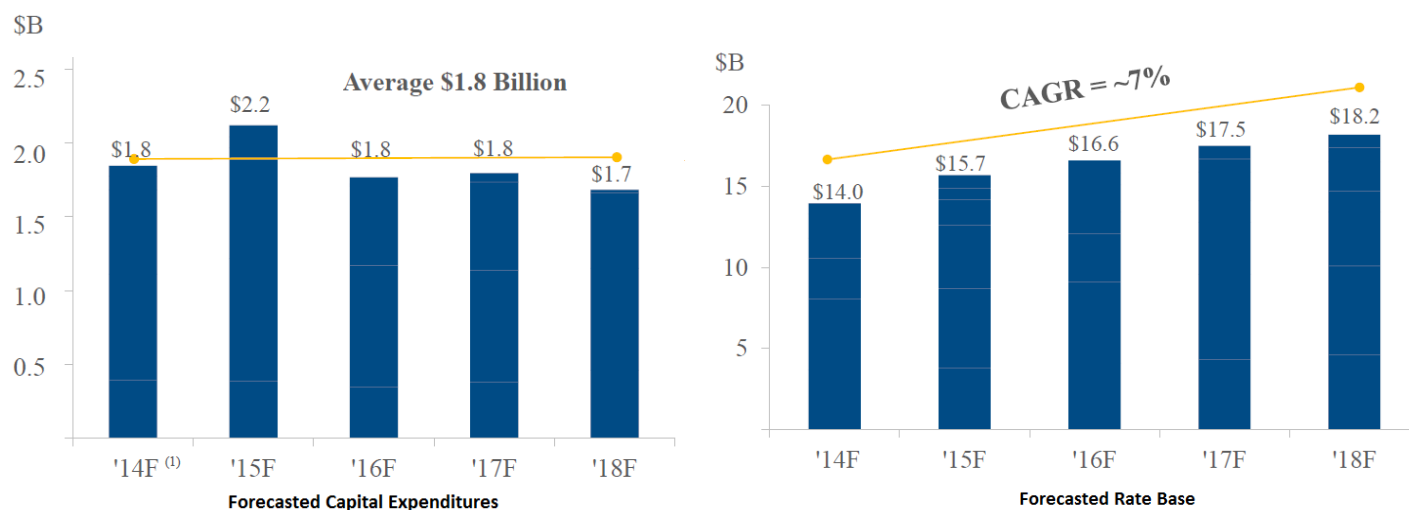
- **Rate Filing Decision:** The utility made a July 2014 rate filing for new rates effective July 1, 2015. The company intends to use the balance of the acquisition customer benefit fund to help reduce rates for customers and will seek to reach a multi-year settlement to achieve cost recovery certainty.
- **Reforming the Energy Vision and Other Potential Transmission Investments:** A priority will be participating in New York State's Reforming the Energy Vision proceeding, which is aimed at redefining the utilities' role and help them align with New York State policy goals. With respect to future investments, Central Hudson could contribute (through the formation of a New York Transco) a potential US\$50 million to help develop infrastructure to ease transmission congestion in the region. The utility is also looking to help bring Marcellus gas to southern New York by constructing a potential pipeline, which could represent a US\$250million–US\$500 million investment.

**Eastern Canadian and Caribbean Operations Takeaways:** In Eastern Canada, the top priorities will be to help manage customer rate pressures in Newfoundland, participate in the review of energy issues in Newfoundland and Labrador, executing on transmission and generation connections at Maritime Electric, and navigating through Ontario's regulatory framework. In the Caribbean, the company is pursuing additional electricity generation to reduce the reliance on high-cost diesel-fuelled generation with the intention of lowering the cost of electricity for customers.



**Financing Takeaways:**

- **Base Capital Program is Significant:** Over the next five years (2014–2018), gross consolidated capex is expected to be approximately \$9.3 billion (\$10.3 billion including the potential LNG projects). This translates into a rate base CAGR from 2014 year-end to 2018 of ~7.0% (~8.5% including the potential LNG projects).

**Exhibit 5. Fortis Inc.: Capital Expenditures and Rate Base**

Source: Company reports

- **Redeployment of Properties' Capital toward Acquisitions and Growth:** We believe that any cash proceeds resulting from the Properties' strategic review will likely be used toward helping to permanently finance the UNS Energy acquisition, in addition to being redeployed toward Fortis' consolidated capital program. After receiving proceeds from the final installment of the convertible debentures (expected in October 2014), approximately US\$500 million of the UNS Energy acquisition will need to be permanently financed. It was explicitly stated that no additional new common equity will be used for this funding. However, financing the potential LNG opportunities could require some additional new common equity, in addition to using any monetary proceeds from the Properties' strategic review.

**Valuation****Exhibit 6. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$34.57	222.2	\$7,681	\$1.28	3.7%	\$1.68	\$1.71	\$1.97	\$2.48	\$2.85	\$3.54	20.2x	17.6x	8.3%	10.3%
ATCO Ltd.	ACO.X	\$45.11	115.5	\$5,209	\$0.86	1.9%	\$3.38	\$3.28	\$3.55	\$4.36	\$3.96	\$4.40	13.7x	12.7x	8.8%	9.8%
Canadian Utilities Ltd.	CU	\$40.23	262.8	\$10,571	\$1.07	2.7%	\$2.21	\$2.16	\$2.39	\$2.69	\$2.46	\$2.77	18.6x	16.8x	6.1%	6.9%
Capital Power Corp.	CPX	\$26.73	101.0	\$2,700	\$1.36	5.1%	\$1.69	\$1.15	\$1.59	\$3.31	\$2.57	\$3.59	23.3x	16.8x	9.6%	13.4%
Emera Inc.	EMA	\$35.10	143.5	\$5,037	\$1.55	4.4%	\$1.86	\$2.04	\$1.87	\$2.72	\$2.30	\$2.16	17.2x	18.8x	6.5%	6.1%
TransAlta Corp.	TA, TAC	\$11.77	272.0	\$3,201	\$0.72	6.1%	\$0.31	\$0.33	\$0.39	\$0.33	\$1.04	\$1.20	35.7x	30.3x	8.8%	10.2%
TransAlta Renewables Inc.	RNW	\$11.39	114.7	\$1,306	\$0.77	6.8%	\$0.48	\$0.39	\$0.41	\$1.24	\$1.07	\$1.10	29.1x	27.5x	9.4%	9.6%
Valener Inc.	VNR	\$15.72	38.0	\$598	\$1.00	6.4%	\$0.90	\$1.01	\$1.06	\$2.05	\$2.08	\$2.19	15.6x	14.8x	13.2%	13.9%
Average						5.0%							22.8x	20.4x	8.9%	10.1%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities Inc.



**Justification of Target Price**

Our \$39.00 target price is predicated 50% on each of our financial estimates for 2015 and 2016 as follows:

**Exhibit 7. Target Price Derivation**

(25% Weight) 1. EV / EBITDA			(25% Weight) 2. Relative Dividend Yield			(50% Weight) 3. Free Cash Flow Yield			Blended Target Price
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,247	10.5x	\$ 38.92	\$ 1.37	150%	\$ 36.53	\$ 3.73	9.5%	\$ 39.31	\$ 38.52
10-Year Government of Canada Bond Yield Assumption									2.50%

Source: TD Securities Inc.

**Key Risks to Target Price**

Key risks to target price include: 1) Higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) unexpected large acquisitions; 5) sovereign risk; 6) escalating construction costs; and 7) access to capital markets.



## TD Securities Equity Research Disclosures

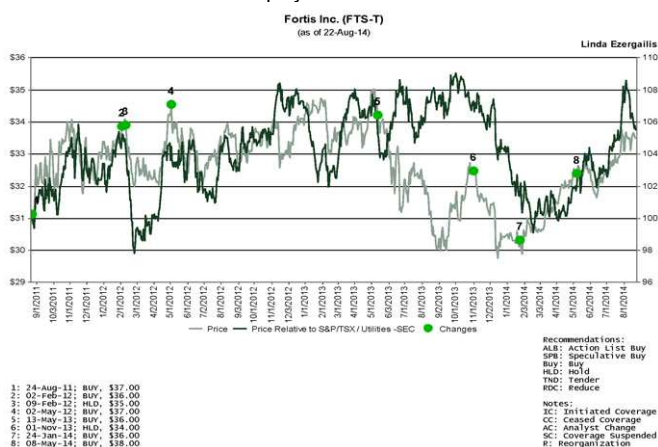
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

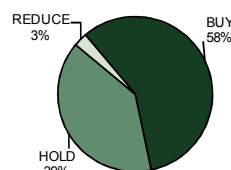
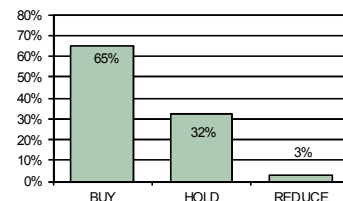
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>B</sup>

Current as of September 3, 2014

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (7% of coverage universe), Medium (33%), High (49%), Speculative (11%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at** <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> **by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$40.00↑**

**Prior:** **C\$39.00**

**12-Month Dividend (Est.):** **C\$1.34**

**12-Month Total Return:** **9.9%**

**Market Data (C\$)**

Current Price \$37.63

52-Wk Range \$29.51-\$37.63

Mkt Cap (f.d.)(mm) \$10,585.3

Current Dividend \$1.28

Dividend Yield 3.4%

Avg. Daily Trading Vol. (3M-All Exch) 619398

**Financial Data (C\$)**

Fiscal Y-E December

Shares O/S (f.d.)(mm) 281.3

Float Shares (mm) 274.0

Net Debt/Tot Cap 58.2%

BVPS (basic) \$22.56

ROE 7.8%

**Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
EPS (basic)	1.68	1.77	2.00	2.16
EPS (basic)(old)	1.68	1.72	1.98	2.15
EPS (f.d.)	1.68	1.75	1.98	2.14
EPS (f.d.)(old)	1.68	1.71	1.97	2.13
DIVIDEND	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014E	2015E	2016E
Q1	0.65	0.70	--	--
Q2	0.33	0.30	--	--
Q3	0.24	0.26	--	--
Q4	0.47	0.48	--	--

**Valuations**

Year	2013A	2014E	2015E	2016E
P/E (f.d.)	22.4x	21.5x	19.0x	17.6x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$37.63

### Q3 Benefits From UNS Energy; Capital Program Remains Robust

**Event**

Fortis reported normalized Q3/14 EPS (f.d.) of \$0.26, above our \$0.25 estimate, recent consensus of \$0.25, and Q3/13 normalized EPS (f.d.) of \$0.24.

**Impact**

**SLIGHTLY POSITIVE.**

- **Summer Demand for Electricity Strong in Arizona:** As expected, Fortis benefited from the closing of the UNS Energy acquisition on August 15, 2014. Stronger than expected contributions from the regulated utilities in the Caribbean was somewhat offset by lower rainfall in Belize affecting generation production and earnings.
- **Revising Forecasts and Target:** We have updated our forecasts to reflect revisions at the regulated utilities (largely at UNS Energy) along with a slight increase in corporate costs. We are also rolling forward our target price derivation by a quarter to be based 75% on our 2016 forecasts. As a result, we are increasing our target by \$1 to \$40.

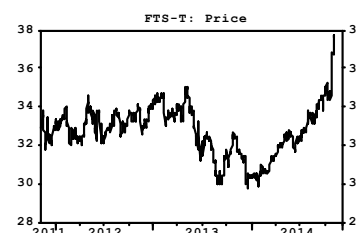
**TD Investment Conclusion**

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

**Please see the final pages of this document for important disclosure information.**

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



**Details**

**FortisBC Energy** Q3/14 earnings of (\$13) million increased slightly y/y versus normalized Q3/13 results.

**Regulated Electric Utilities — Canadian** Q3/14 earnings of \$49 million were \$3 million lower than Q3/13 normalized results.

- **FortisAlberta** earnings of \$27 million increased by \$1 million over Q3/13 normalized results largely as a result of higher income tax recoveries and growth in the rate base and number of customers, partially offset by the timing of certain expenses.
- **FortisBC Electric** earnings of \$9 million were \$2 million lower y/y versus Q3/13 results largely due to lower than expected finance charges in Q3/13 and the timing of operating expenses.
- **Eastern Canadian Electric Utilities** earnings of \$13 million were down \$2 million y/y versus Q3/13 normalized results. The decrease was mostly due to the rebasing of electricity rates at Newfoundland Power as a result of the 2013/2014 General Rate Application decision effective July 1, 2013.

**Central Hudson (Regulated Utilities — U.S.)** earnings for Q3/14 were \$8 million. The results declined \$4 million versus Q3/13 due to higher depreciation and operating expenses.

**UNS Energy (Regulated Utilities – U.S.)** earnings for Q3/14 were \$37 million from the date of acquisition.

**Regulated Utilities — Caribbean** earnings of \$8 million were \$2 million higher than Q3/13 largely as a result of increased electricity sales growth and favourable F/X.

**Non-Regulated Fortis Generation** earnings of \$4 million decreased by \$4 million y/y. This decrease was caused by lower electricity production, mainly from Belize.

**Other Non-Regulated** business earnings of \$9 million increased by \$3 million y/y due to a net loss of \$2.5 million from Griffith in Q3/13. Excluding this, the earnings from the other non-regulated business were consistent quarter to quarter.

**Corporate and Other** normalized expenses of \$45 million in Q3/14 were \$26 million higher than Q3/13 results primarily from increased financing costs from the UNS Energy acquisition.

**Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)**

	Q3/14	Q3/13	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	(\$13)	(\$14)	\$1	-7%
FortisAlberta <sup>1</sup>	27	26	1	4%
FortisBC Electric	9	11	(2)	-18%
Eastern Canadian Electric Utilities	13	15	(2)	-13%
Regulated Electric Utilities - Canadian	49	52	(3)	-6%
Regulated Utilities - Central Hudson	8	12	(4)	-33%
Regulated Utilities - UNS Energy	37	-	37	n.a.
Regulated Utilities - Caribbean	8	6	2	33%
<b>Total Regulated Utilities</b>	<b>89</b>	<b>56</b>	<b>33</b>	<b>59%</b>
<b>Non-Regulated Fortis Generation</b>	<b>4</b>	<b>8</b>	<b>(4)</b>	<b>-50%</b>
<b>Other Non-Regulated Businesses</b>	<b>9</b>	<b>6</b>	<b>3</b>	<b>50%</b>
<b>Corporate<sup>2,3,4</sup></b>	<b>(45)</b>	<b>(19)</b>	<b>(26)</b>	<b>137%</b>
<b>Operating Earnings</b>	<b>57</b>	<b>51</b>	<b>6</b>	<b>12%</b>
Adjustments	(43)	(3)	(40)	1333%
<b>Reported Earnings</b>	<b>14</b>	<b>48</b>	<b>(34)</b>	<b>-71%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.26</b>	<b>\$0.24</b>	<b>\$0.02</b>	<b>10%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.06</b>	<b>\$0.23</b>	<b>(\$0.16)</b>	<b>-71%</b>

Notes: Earnings have been normalized for the following items:

- 1) \$1mm of costs related to flooding in southern Alberta in Q3/13.
- 2) \$2mm of costs related to the redemption of preferred shares in Q3/13.
- 3) \$35mm of UNS Energy-related acquisition expenses and customer benefits in Q3/14.
- 4) \$8mm of after-tax retirement expenses and share-based compensation in Q3/14.

Source: Company reports, TD Securities.

**Outlook**

**Focus on Integrating UNS Energy; Accretion Tracking Above Previous Expectations:** With the transaction closed, Fortis is expected to now focus on the full integration of UNS Energy over the next 12-18 months. Management also commented that the earnings accretion from the acquisition is expected to surpass its previous expectations largely on the impact of F/X and lower costs associated with financing the transaction.

**Capital Plan Remains Robust; Incremental Investments Could Materialize:** The incoming CEO emphasized that Fortis is entering a period of significant organic growth following a decade of acquisitive growth. Over the next five years (2014–2018), gross consolidated capex is expected to exceed \$9.0 billion, which translates into a four-year rate base CAGR of ~7.0%. If Fortis proceeds with its Tilbury Phase 1B expansion, and the Woodfibre pipeline expansion, the 5-year capital plan would increase to over \$10.0 billion, which would translate into a rate base CAGR of ~8.5% over this timeframe.

**FortisAlberta Regulatory Updates:**

- **Capital Tracker Applications:** A hearing related to the combined 2013-2015 Capital Tracker Application was held in October 2014. FortisAlberta is currently recognizing capital tracker revenue based on the interim regulatory decision granting 60% of the applied for capital tracker amounts. Any upwards adjustment by the regulator to the interim decision could result in a positive adjustment to FortisAlberta's revenue.
- **2015 Rates Application:** FortisAlberta filed its 2015 Annual Rates Application in September 2014, which proposed an increase of approximately 10% to the distribution component of customer rates (effective on an interim basis starting January 1, 2015). The increase reflects a combined inflation and productivity factor of 1.49%, a K factor placeholder of approximately \$69 million (which is 100% of the 2015 depreciation and return associated with the rate base resulting from the 2013 actual, and 2014 and 2015 forecast capital tracker expenditures filed in the May 2014 Capital Tracker Application), and a net refund of Y factor balances of approximately \$1 million.

**Exhibit 2. Regulatory Decisions**

Utility	Application / Proceeding	Filing Date	Expected Decision
FortisAlberta	Generic Cost of Capital - 2013 and 2014	n.a.	Q4 2014
	Capital Tracker Applications - 2013 to 2015	May 2014	Q1 2015
	2015 Annual Rates Application	Sept 2015	Q4 2014
Central Hudson	General Rate Application (for Mid-2015)	July 2014	H1 / 2015

Source: Company reports, TD Securities.

**Project Updates:**

- **Waneta Expansion:** The \$900 million 335 MW expansion of the Waneta hydroelectric generating facility in BC is continuing with \$648 million invested to date, and completion scheduled for spring 2015 (April to May).
- **Tilbury LNG (1A) Project:** In October 2014, FortisBC commenced construction of its \$400 million expansion of the existing Tilbury LNG facility in BC, which will add over 1 million GJ of storage capacity and approximately 40,000 GJ/day of liquefaction capacity. The project is scheduled to be completed in H2/16.
- **Tilbury LNG (1B) Expansion:** A contemplated Tilbury LNG (Phase 1B) investment of \$450 million could add an 140,000+ GJ/day of liquefaction and is currently underpinned by a conditional contract with Hawaiian Electric (awaiting final regulatory approval from the Hawaiian Public Utility Commission).
- **Woodfibre LNG Pipeline Opportunity:** Fortis is working on a transmission services agreement that could involve providing natural gas pipeline capacity to the proposed Woodfibre LNG export project near Squamish, BC. The Woodfibre LNG project (2.1 MTPA) is subject to various approvals and could be operational by Q1/17. The investment could be approximately \$600 million.





**Q4/14 Preview:** We are forecasting Q4/14 EPS of \$0.48, above Q4/13 results of \$0.47. Increased earnings, largely driven by incremental contribution from UNS Energy and rate base growth, could be offset by increased financing costs, along with a higher number of shares outstanding.

## Valuation

### Exhibit 3. Valuation

Power & Utility Companies		Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
	Symbol						2013A	2014E	2015E	2013A	2014E	2015E	2014E	2015E	2014E	2015E
Fortis Inc.	FTS	\$37.63	281.3	\$10,585	\$1.28	3.4%	\$1.68	\$1.75	\$1.98	\$2.48	\$2.96	\$3.56	21.5x	19.0x	7.9%	9.5%
ATCO Ltd.	ACO.X	\$45.20	115.5	\$5,222	\$0.86	1.9%	\$3.38	\$3.18	\$3.33	\$4.36	\$3.92	\$4.13	14.2x	13.6x	8.7%	9.1%
Canadian Utilities Ltd.	CU	\$37.42	263.3	\$9,854	\$1.07	2.9%	\$2.21	\$2.13	\$2.22	\$2.69	\$2.48	\$2.55	17.6x	16.9x	6.6%	6.8%
Capital Power Corp.	CPX	\$26.31	105.7	\$2,781	\$1.36	5.2%	\$1.69	\$0.80	\$1.52	\$3.31	\$2.22	\$3.54	32.8x	17.3x	8.4%	13.5%
Emera Inc.	EMA	\$37.62	143.5	\$5,398	\$1.55	4.1%	\$1.86	\$2.04	\$1.87	\$2.72	\$2.30	\$2.16	18.5x	20.1x	6.1%	5.7%
TransAlta Corp.	TA, TAC	\$10.67	273.0	\$2,913	\$0.72	6.7%	\$0.31	\$0.21	\$0.31	\$0.33	\$0.80	\$1.11	50.8x	34.4x	7.5%	10.4%
TransAlta Renewables Inc.	RNW	\$12.35	114.7	\$1,417	\$0.77	6.2%	\$0.48	\$0.38	\$0.41	\$1.24	\$1.08	\$1.10	32.5x	29.8x	8.7%	8.9%
Valener Inc.	VNR	\$16.31	38.0	\$620	\$1.00	6.1%	\$0.90	\$1.01	\$1.06	\$2.05	\$2.08	\$2.19	16.1x	15.4x	12.8%	13.4%
Average						5.0%							27.1x	21.8x	8.3%	9.7%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

### Justification of Target Price

Our \$40.00 target price is predicated 25% and 75% on our financial estimates for 2015 and 2016, respectively, as follows:

### Exhibit 4. Target Derivation

(25% Weight)			(25% Weight)			(50% Weight)			Blended Target Price
1. EV / EBITDA			2. Relative Dividend Yield			3. Free Cash Flow Yield			
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,293	10.5x	\$ 40.23	\$ 1.39	150%	\$ 36.93	\$ 3.85	9.5%	\$ 40.47	

10-Year Government of Canada Bond Yield Assumption **2.50%**

Source: TD Securities.

### Key Risks to Target Price

Key risks to target price include: 1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.



## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	10,585	<b>Debt-to-Capitalization</b>	58.2%
<b>Recent Share Price</b>	\$37.63	<b>Net Debt (\$mm)</b>	13,101	<b>BVPS</b>	22.56
<b>52 Week Range</b>	\$29.51-\$37.93	<b>EV (\$mm)</b>	25,911	<b>Ex-div date</b>	10/22/14
<b>Dividend</b>	\$1.28	<b>Shares O/S (mm)</b>	281	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.4%	<b>Float O/S (mm)</b>	274		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014E	2015E	2016E	Valuation	2013A	2014E	2015E	2016E
Operating EPS (f.d.)	1.68	1.75	1.98	2.14	P/E - EPS (f.d.)	22.4x	21.5x	19.0x	17.6x
Operating EPS (basic)	1.68	1.77	2.00	2.16	P/E - EPS (basic)	22.4x	21.3x	18.8x	17.4x
Free Cash Flow Per Share (AFFO)	2.48	2.96	3.56	3.94	AFFO Yield	6.6%	7.9%	9.5%	10.5%
Dividend Per Share	1.24	1.28	1.34	1.40	Dividend Yield	3.3%	3.4%	3.6%	3.7%
Income Statement (\$mm)	2013A	2014E	2015E	2016E	Ratios	2013A	2014E	2015E	2016E
FortisBC (Gas)	131	130	147	153	Payout Ratio (EPS - f.d.)	74%	73%	68%	65%
FortisAlberta	93	97	109	133	Payout Ratio (EPS - basic)	74%	73%	67%	65%
FortisBC (Electric)	51	51	55	58	Payout Ratio (AFFO)	50%	43%	38%	35%
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	54%	54%	53%
Other Canadian Electric Utilities	22	24	26	28					
Central Hudson	23	46	50	58					
UNS Energy	-	54	164	175					
Regulated Electric Utilities - Caribbean	23	29	26	27					
Non-Regulated Fortis Generation	17	20	32	35					
Other Non-Regulated Businesses	18	19	20	21					
Corporate and Other	(73)	(114)	(119)	(126)					
Operating Income	341	394	551	603					
Non-Recurring Items	10	(68)	0	0					
Net Income	351	326	551	603					
Cash Flow Statement (\$mm)	2013A	2014E	2015E	2016E	Segmented Breakdown ( % of Op. Income)	2013A	2014E	2015E	2016E
Income	420	396	644	703	FortisBC (Gas)	32%	26%	22%	21%
Other Items Not Involving Cash	524	706	909	985	FortisAlberta	23%	19%	16%	18%
Change in Non-cash Working Capital	(45)	0	0	0	FortisBC (Electric)	12%	10%	8%	8%
Cash from Operations	899	1,102	1,552	1,687	Newfoundland Power	8%	8%	6%	6%
Capital Expenditures & Acquisitions	(2,230)	(4,194)	(1,783)	(1,574)	Other Canadian Electric Utilities	5%	5%	4%	4%
Other	66	54	70	70	Central Hudson	6%	9%	7%	8%
Cash from Investing	(2,164)	(4,140)	(1,713)	(1,504)	UNS Energy	0%	11%	25%	24%
Dividends Paid	(248)	(356)	(463)	(491)	Regulated Electric Utilities - Caribbean	6%	6%	4%	4%
Change in Debt	658	948	448	206	Non-Regulated Fortis Generation	4%	4%	5%	5%
Common Shares	596	1,814	111	117	Other Non-Regulated Businesses	4%	4%	3%	3%
Preferred Shares	117	700	0	0					
Other	63	0	0	0					
Cash from Financing	1,186	3,106	96	(167)					
Total Cash Flow	(79)	68	(65)	16					
Balance Sheet (\$mm)	2013A	2014E	2015E	2016E	Free Cash Flow	2013A	2014E	2015E	2016E
Cash and Cash Equivalents	72	140	75	91	CF from Continuing Operations	944	1,102	1,552	1,687
Other Current Assets	1,224	1,542	1,473	1,473	Preferred Dividends & Minority Interest	(67)	(70)	(93)	(100)
Property, Plant and Equipment	13,939	21,390	22,335	23,001	Maintenance Capital Expenditures	(374)	(371)	(477)	(487)
Other Non-Current Assets	2,673	2,121	2,151	2,311	Free Cash Flow	503	661	982	1,100
Total Assets	17,908	25,193	26,034	26,876					
Other Liabilities	4,536	6,202	6,210	6,416	Degree of Regulation	2013E			
Debt	7,371	10,439	10,887	11,093	Highly Regulated	92%			
Total Liabilities	11,907	16,641	17,097	17,509	Loosely Regulated	0%			
Non-Controlling Interests	375	405	405	405	Unregulated	8%			
Preferred Shares	1,229	1,929	1,929	1,929					
Total Shareholders' Equity	4,397	6,219	6,604	7,033					
Total Liabilities & Equity	17,908	25,193	26,034	26,876	Business Mix	2013E			
					Natural Gas Distribution	33%			
					Electricity Transmission & Distribution	59%			
					Power Generation	4%			
					Marketing and Other	4%			

Source: TD Securities.



## TD Securities Equity Research Disclosures

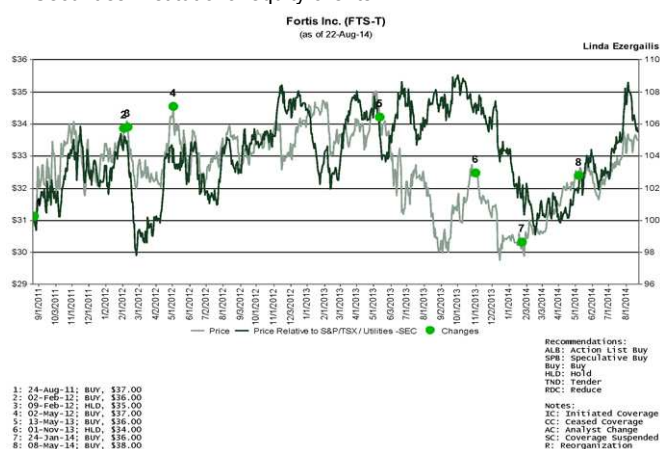
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

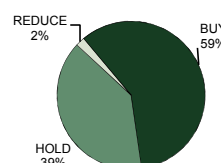
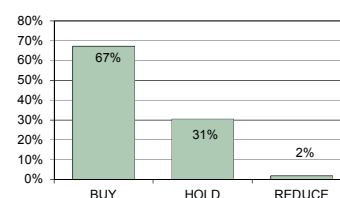
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of November 3, 2014

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2014 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$47.00**  
*Unchanged*

**12-Month Dividend (Est.):** **C\$1.36**

**12-Month Total Return:** **22.7%**

**Market Data (C\$)**

Current Price	\$39.41
52-Wk Range	\$30.50-\$42.23
Mkt Cap (f.d.)(mm)	\$10,877.2
Current Dividend	\$1.36
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3M-All Exch)	885762

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	276.0
Float Shares (mm)	276.0
Net Debt/Tot Cap	54.8%
BVPS (basic)	\$24.90
ROE	7.2%

**Estimates (C\$)**

Year	2013A	2014A	2015E	2016E
EPS (basic)	1.68	1.71	2.03	2.21
EPS (basic)(old)	1.68	1.77	2.00	2.16
EPS (f.d.)	1.68	1.71	2.01	2.19
EPS (f.d.)(old)	1.68	1.75	1.98	2.14
DIVIDEND	1.24	1.28	1.36	1.44
DIVIDEND (old)	1.24	1.28	1.34	1.40

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2013A	2014A	2015E	2016E
Q1	0.65	0.70	0.66	--
Q2	0.33	0.30	--	--
Q3	0.24	0.26	--	--
Q4	0.47	0.44	--	--

**Valuations**

Year	2013A	2014A	2015E	2016E
P/E (f.d.)	23.5x	23.0x	19.6x	18.0x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$39.41

### Growing U.S. Operations Contribute to 2014

**Event**

Fortis reported normalized Q4/14 EPS (f.d.) of \$0.44, below our \$0.48 estimate, recent consensus of \$0.49, and Q4/13 normalized EPS (f.d.) of \$0.47.

**Impact: MIXED.**

We have made numerous changes to our financial model, including updated capital expenditures, a relatively higher value U.S. dollar versus the Canadian dollar, and slightly more conservative incentive earnings in B.C. We are also rolling forward our target by a quarter to be fully based on our 2016 forecasts, and our target price remains \$47.00.

**TD Investment Conclusion**

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada, and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and we believe that investors will find the company's low-risk, utility-dominated business model attractive.

**Details**

**FortisBC Energy** Q4/14 earnings of \$49 million decreased slightly y/y versus normalized Q4/13 results, with limited benefit of cost sharing mechanisms in 2014.

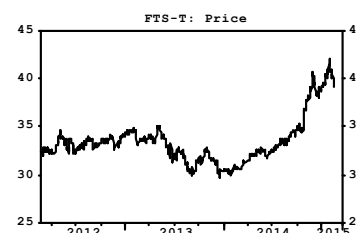
**Regulated Electric Utilities — Canadian** Q4/14 earnings of \$51 million were \$7 million higher than Q4/13 normalized results.

- **FortisAlberta** earnings of \$25 million increased by \$7 million over Q4/13 normalized results largely as a result of a higher number of customers and the timing of certain expenses.
- **FortisBC Electric** earnings of \$12 million were \$1 million lower y/y versus Q4/13 results largely due to lower financing charges in 2013.
- **Eastern Canadian Electric Utilities** earnings of \$14 million were up slightly y/y versus Q4/13 normalized results, benefiting from electricity sales growth.

**Central Hudson (Regulated Utilities — US)** earnings for Q4/14 were \$4 million. These results declined \$7 million versus Q4/13 due to higher expenses as well as higher storm restoration cost and other non-recurring expenses.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

**UNS Energy (Regulated Utilities – US)** earnings for Q4/14 were \$23 million. UNS Energy was acquired in 2014.

**Regulated Utilities — Caribbean** earnings of \$6 million were \$2 million lower than Q4/13, largely as a result of timing of higher operating expenses.

**Other Non-Regulated** business earnings of \$7 million increased by \$4 million y/y, primarily due to a net loss of \$2.5 million from Griffith in Q4/13.

**Corporate and Other** normalized expenses of \$30 million in Q4/14 were \$11 million higher than Q4/13 results, primarily from higher finance charges, preferred share dividends and convertible debentures interest expense, partially offset by higher income tax recovery.

### Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)

	Q4/14	Q4/13	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$49	\$50	(\$1)	-2%
FortisAlberta	25	18	7	39%
FortisBC Electric	12	13	(1)	-8%
Eastern Canadian Electric Utilities <sup>1</sup>	14	13	1	8%
Regulated Electric Utilities - Canadian	51	44	7	16%
Regulated Utilities - Central Hudson	4	11	(7)	-64%
Regulated Utilities - UNS Energy	23	-	23	n.a.
Regulated Utilities - Caribbean	6	8	(2)	-25%
<b>Total Regulated Utilities</b>	<b>133</b>	<b>113</b>	<b>20</b>	<b>18%</b>
<b>Non-Regulated Fortis Generation</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>0%</b>
<b>Other Non-Regulated Businesses</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>133%</b>
<b>Corporate<sup>2</sup></b>	<b>(30)</b>	<b>(19)</b>	<b>(11)</b>	<b>58%</b>
<b>Operating Earnings</b>	<b>114</b>	<b>101</b>	<b>13</b>	<b>13%</b>
Adjustments	(1)	(1)	-	0%
<b>Reported Earnings</b>	<b>113</b>	<b>100</b>	<b>13</b>	<b>13%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.44</b>	<b>\$0.47</b>	<b>(\$0.03)</b>	<b>-6%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.44</b>	<b>\$0.47</b>	<b>(\$0.03)</b>	<b>-6%</b>

Notes: Earnings have been normalized for the following items:

1) \$1 million gain on sale of land in Q4/13.

2) (\$1) million and (\$2) million of expenses related to the UNS Energy acquisition in Q4/14 and Q4/13 respectively.

Source: Company reports, TD Securities Inc.

### Outlook

**Capital Program Update:** Fortis' consolidated capital program is expected to be \$2.2 billion in 2015, nearly 30% larger than in 2014, and approach \$9 billion through 2019. Management expects the 5-year rate base CAGR through to 2019 to be approximately 6.5%, which potentially increases to 7.5% if further expansion of the Tilbury LNG facility and Woodfibre pipeline occurs. Management also indicated that there is the potential to have an expansion on the Southern Crossing pipeline with an estimated size of approximately \$400 million–\$500 million.

**Strategic Review:** Management expects to make a decision on the future of the Properties business (approximately 3% of Fortis' assets) in Q2/15. In September 2014, management had outlined that strategic options include a sale of all or a portion of the assets, a sale of shares of Fortis Properties or an IPO. Outside of Properties, management indicated that it sees very few assets that it would classify as non-core. In particular, management views the Caribbean assets as core and has a positive outlook on their future performance.



**Regulatory Updates:**

- **Capital Tracker Applications:** A generic cost of capital decision and the final decision on the capital tracker application are expected for FortisAlberta in Q1/15. The December 2014 interim capital tracker decision increased the rate to 90% from 60%. Per management, the difference between the revenue amounts applied for and the amounts received on an interim basis for 2013 and 2014 that would be recognized as a true-up in 2015 is approximately \$26 million.
- **Joint Settlement Proposal:** Central Hudson filed a Joint Settlement Proposal in February 2015 which provides new rates for a three-year period starting July 1, 2015. The proposal includes an ROE of 9.0% and a 48% common equity component of the capital structure. Earnings above a 9.5% ROE but less than or equal to 10% will be shared evenly with customers. Public statement hearings are expected in March/April with the proposal going to the regulator in June 2015.
- **General Rate Application:** Newfoundland Power is required to file a general rate application in the first half of 2015 in order to establish customer rates for 2016.

**Exhibit 2. Regulatory Decisions**

Utility	Application / Proceeding	Filing Date	Expected Decision
FEI	2015 Rates Approval (under PBR decision)	Jan 2015	H2 / 2015
FortisBC Electric	2015 Rates Approval (under PBR decision)	Feb 2015	H2 / 2015
FortisAlberta	Generic Cost of Capital - 2013 and 2014	n.a.	Q1 2015
	Capital Tracker Applications - 2013 to 2015	May 2014	Q1 2015
Central Hudson	Joint Settlement Proposal	Feb 2015	H2 / 2015
Newfoundland Power	General Rate Application (for 2016)	exp. H1 / 2015	TBD

Source: Company reports, TD Securities Inc.

**Project Updates:**

- **Waneta Expansion:** The \$900 million 335 MW expansion of the Waneta hydroelectric generating facility in B.C. is continuing on time and on-budget with completion scheduled for spring 2015 (April to May). Management expects Fortis' share of earnings for 2015 to be \$20 million to \$25 million.
- **Woodfibre LNG Pipeline Opportunity:** The Woodfibre LNG project (2.1 MTPA) is subject to various approvals and is expected to be operational by 2018. The investment could be approximately \$600 million. Fortis is currently negotiating a transportation services agreement with the owner.
- **Tilbury LNG (1B) Expansion:** A contemplated Tilbury LNG (Phase 1B) investment of \$450 million could add 140,000+ GJ/day of liquefaction and is currently underpinned by a 15-year conditional contract with Hawaiian Electric (awaiting final regulatory approval from the Hawaiian Public Utility Commission). In Q4/14, Fortis received an Order in Council from the B.C. government effectively providing approval for the estimated capital expenditures of over \$1 billion related to the Tilbury LNG (1B) expansion, Woodfibre LNG project and the upgrading of the existing coastal gas transmission system. The Tilbury approval is conditional on having 70% of the additional liquefaction capacity under long-term energy supply contracts. No further regulatory approval is required by the B.C. Utilities Commission.

**Foreign Exchange Exposure:** Management indicated that for each \$0.05 weakening of the Canadian dollar vs. the U.S. dollar would have an approximate \$0.04 positive impact on EPS on an annual basis.

**Q1/15 Preview:** We are forecasting Q1/15 EPS of \$0.66, below Q1/14 results of \$0.70. We expect increased financing costs, along with a higher number of shares outstanding, to more than offset the contribution from UNS Energy, acquired in H2/14.



Valuation**Exhibit 3. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2014E	2015E	2016E	2014E	2015E	2016E	2015E	2016E	2015E	2016E
Fortis Inc.	FTS	\$39.41	276.0	\$10,877	\$1.36	3.5%	\$1.71	\$2.01	\$2.19	\$2.12	\$2.61	\$3.01	19.6x	18.0x	6.6%	7.6%
ATCO Ltd.	ACO.X	\$46.77	115.5	\$5,404	\$0.99	2.1%	\$3.17	\$3.33	\$3.46	\$3.90	\$4.13	\$4.24	14.0x	13.5x	8.8%	9.1%
Canadian Utilities Ltd.	CU	\$40.95	263.3	\$10,782	\$1.18	2.9%	\$2.12	\$2.22	\$2.33	\$2.47	\$2.55	\$2.59	18.4x	17.6x	6.2%	6.3%
Capital Power Corp.	CPX	\$25.29	105.7	\$2,673	\$1.36	5.4%	\$0.78	\$1.48	\$1.46	\$2.17	\$3.15	\$3.46	17.1x	17.3x	12.5%	13.7%
Emera Inc.	EMA	\$41.76	147.8	\$6,172	\$1.55	3.7%	\$2.16	\$1.96	\$2.08	\$3.29	\$2.27	\$2.29	21.3x	20.1x	5.4%	5.5%
TransAlta Corp.	TA, TAC	\$11.42	277.0	\$3,163	\$0.72	6.3%	\$0.25	\$0.21	\$0.19	\$0.94	\$0.96	\$0.96	53.9x	61.2x	8.4%	8.4%
TransAlta Renewables Inc.	RNW	\$12.60	114.7	\$1,445	\$0.77	6.1%	\$0.43	\$0.42	\$0.42	\$1.12	\$1.12	\$1.13	29.7x	29.6x	8.9%	9.0%
Valener Inc.	VNR	\$17.19	38.0	\$654	\$1.04	6.1%	\$0.97	\$1.09	\$1.08	\$1.10	\$1.11	\$1.15	15.8x	15.9x	6.5%	6.7%
Average						4.8%							25.1x	25.7x	7.8%	8.2%

Source: Thomson, TD Securities Inc.

Justification of Target Price

Our \$47.00 target price is predicated on our financial estimates for 2016 as follows:

**Exhibit 4. Target Price Derivation**

(25% Weight) 1. EV / EBITDA			(25% Weight) 2. Relative Dividend Yield			(50% Weight) 3. Free Cash Flow Yield			Blended Target Price
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,471	11.0x	\$ 48.92	\$ 1.44	200%	\$ 48.00	\$ 3.01	6.5%	\$ 46.30	\$ 47.38
10-Year Government of Canada Bond Yield Assumption									1.50%

Source: TD Securities Inc.

Key Risks to Target Price

Key risks to target price include: 1) Higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) unexpected large acquisitions; 5) sovereign risk; 6) escalating construction costs; and 7) access to capital markets.

## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	10,877	<b>Debt-to-Capitalization</b>	54.8%
<b>Recent Share Price</b>	\$39.41	<b>Net Debt (\$mm)</b>	10,809	<b>BVPS</b>	24.90
<b>52 Week Range</b>	\$30.50–\$42.23	<b>EV (\$mm)</b>	23,927	<b>Ex-div date</b>	02/12/15
<b>Dividend</b>	\$1.36	<b>Shares O/S (mm)</b>	276	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.5%	<b>Float O/S (mm)</b>	276		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2013A	2014A	2015E	2016E	Valuation	2013A	2014A	2015E	2016E
Operating EPS (f.d.)	1.68	1.71	2.01	2.19	P/E - EPS (f.d.)	23.5x	23.1x	19.6x	18.0x
Operating EPS (basic)	1.68	1.71	2.03	2.21	P/E - EPS (basic)	23.4x	23.0x	19.4x	17.8x
Free Cash Flow Per Share (AFFO)	2.48	2.12	2.61	3.01	AFFO Yield	6.3%	5.4%	6.6%	7.6%
Dividend Per Share	1.24	1.28	1.36	1.44	Dividend Yield	3.1%	3.2%	3.5%	3.7%
<b>Income Statement (\$mm)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>Ratios</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>
FortisBC (Gas)	131	127	145	152	Payout Ratio (EPS - f.d.)	74%	75%	68%	66%
FortisAlberta	93	103	111	140	Payout Ratio (EPS - basic)	74%	75%	67%	65%
FortisBC (Electric)	51	46	53	55	Payout Ratio (AFFO)	50%	60%	52%	48%
Newfoundland Power	35	38	40	41	Debt-to-Capitalization	54%	55%	54%	53%
Other Canadian Electric Utilities	22	22	25	26					
Central Hudson	23	37	48	59					
UNS Energy	-	60	176	185	<b>Segmented Breakdown ( % of Op. Income)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>
Regulated Electric Utilities - Caribbean	23	27	28	29	FortisBC (Gas)	32%	25%	21%	20%
Non-Regulated Fortis Generation	17	20	33	36	FortisAlberta	23%	20%	16%	19%
Other Non-Regulated Businesses	18	23	25	26	FortisBC (Electric)	12%	9%	8%	7%
Corporate and Other	(73)	(117)	(120)	(29)	Newfoundland Power	8%	8%	6%	5%
<b>Operating Income</b>	<b>341</b>	<b>386</b>	<b>563</b>	<b>621</b>	Other Canadian Electric Utilities	5%	4%	4%	4%
Non-Recurring Items	10	(69)	0	0	Central Hudson	6%	7%	7%	8%
<b>Net Income</b>	<b>351</b>	<b>317</b>	<b>563</b>	<b>621</b>	UNS Energy	0%	12%	26%	25%
					Regulated Electric Utilities - Caribbean	6%	5%	4%	4%
<b>Cash Flow Statement (\$mm)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	Non-Regulated Fortis Generation	4%	4%	5%	5%
Income	420	390	657	721	Other Non-Regulated Businesses	4%	5%	4%	3%
Other Items Not Involving Cash	524	716	1,038	1,114		100%	100%	100%	100%
Change in Non-cash Working Capital	(45)	(124)	0	0	<b>Free Cash Flow</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>
Cash from Operations	899	982	1,695	1,835	CF from Continuing Operations	944	1,106	1,695	1,835
					Preferred Dividends & Minority Interest	(67)	(72)	(94)	(101)
Capital Expenditures & Acquisitions	(2,230)	(4,373)	(2,177)	(1,610)	Maintenance Capital Expenditures	(374)	(555)	(876)	(890)
Other	66	174	70	70	<b>Free Cash Flow</b>	<b>503</b>	<b>479</b>	<b>725</b>	<b>845</b>
Cash from Investing	(2,164)	(4,199)	(2,107)	(1,540)					
					<b>Degree of Regulation</b>	<b>2013A</b>			
Dividends Paid	(248)	(266)	(471)	(505)	Highly Regulated	92%			
Change in Debt	658	1,227	595	103	Loosely Regulated	0%			
Common Shares	596	1,776	113	121	Unregulated	8%			
Preferred Shares	117	586	0	0					
Other	63	38	0	0	<b>Business Mix</b>	<b>2013A</b>			
Cash from Financing	1,186	3,361	237	(281)	Natural Gas Distribution	33%			
<b>Total Cash Flow</b>	<b>(79)</b>	<b>144</b>	<b>(176)</b>	<b>15</b>	Electricity Transmission & Distribution	59%			
					Power Generation	4%			
<b>Balance Sheet (\$mm)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	Marketing and Other	4%			
Cash and Cash Equivalents	72	230	54	69					
Other Current Assets	1,224	1,733	1,575	1,575					
Property, Plant and Equipment	13,939	20,046	21,281	21,873					
Other Non-Current Assets	2,673	4,619	5,489	4,429					
<b>Total Assets</b>	<b>17,908</b>	<b>26,628</b>	<b>28,399</b>	<b>27,947</b>					
Other Liabilities	4,536	6,898	7,853	7,209					
Debt	7,371	11,039	11,334	11,087					
Total Liabilities	11,907	17,937	19,187	18,296					
Non-Controlling Interests	375	421	421	421					
Preferred Shares	1,229	1,820	1,820	1,820					
Total Shareholders' Equity	4,397	6,450	6,971	7,410					
<b>Total Liabilities &amp; Equity</b>	<b>17,908</b>	<b>26,628</b>	<b>28,399</b>	<b>27,947</b>					

Source: TD Securities Inc.



## TD Securities Equity Research Disclosures

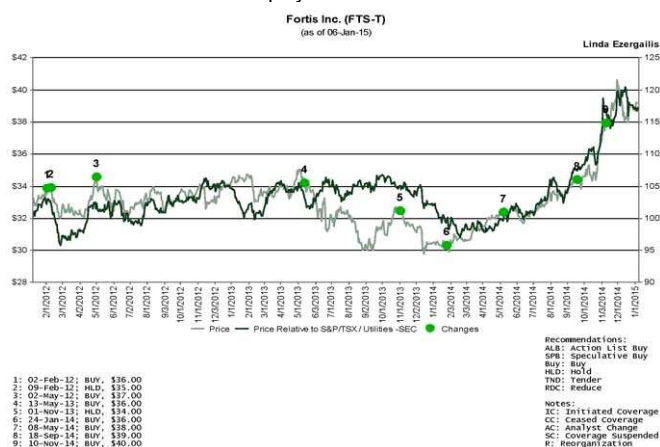
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

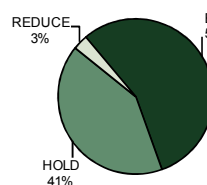
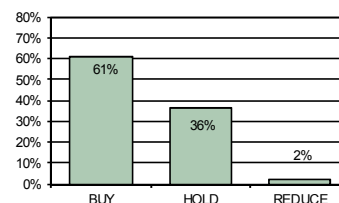
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>^</sup>Investment Banking Services Provided<sup>\*</sup>

Current as of February 2, 2015

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2015 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at** <https://www.tdsresearch.com/equities/welcome.important.disclosure.action>  
**by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities****Recommendation:** **BUY**  
*Unchanged***Risk:** **LOW****12-Month Target Price:** **C\$47.00**  
*Unchanged***12-Month Dividend (Est.):** **C\$1.36****12-Month Total Return:** **24.4%****Market Data (C\$)**

Current Price	\$38.89
52-Wk Range	\$31.26-\$42.23
Mkt Cap (f.d.)(mm)	\$11,040.9
Current Dividend	\$1.36
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3M-All Exch)	707559

**Financial Data (C\$)**

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	283.9
Float Shares (mm)	277.5
Net Debt/Tot Cap	53.6%
BVPS (basic)	\$26.39
ROE	7.2%

**Estimates (C\$)**

Year	2014A	2015E	2016E	2017E
EPS (basic)	1.71	2.07	2.19	2.28
EPS (basic)(old)	1.71	2.03	2.21	--
EPS (f.d.)	1.71	2.05	2.16	2.25
EPS (f.d.)(old)	1.71	2.01	2.19	--
DIVIDEND	1.28	1.36	1.44	1.52
DIVIDEND (old)	1.28	1.36	1.44	--

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2014A	2015E	2016E	2017E
Q1	0.70	0.68	--	--
Q2	0.30	0.45	--	--
Q3	0.26	--	--	--
Q4	0.44	--	--	--

**Valuations**

Year	2014A	2015E	2016E	2017E
P/E (f.d.)	22.7x	19.0x	18.0x	17.3x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

Linda Ezergailis, P.Eng.  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)Avery Haw (Associate)  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)**Fortis Inc.**  
**(FTS-T) C\$38.89****Q1/15 Results in Line; Waneta Expansion Up and Running****Event**

Fortis reported normalized EPS (f.d.) of \$0.68 in Q1/15, generally in line with our \$0.66 estimate and above the recent consensus of \$0.61, but below the normalized EPS (f.d.) of \$0.70 in Q1/14.

**Impact: NEUTRAL**

- **An In-line Quarter:** Despite the seasonally weak contribution from UNS Energy, the results were overall generally in line with expectations.
- **Revising Our Forecasts:** We have updated our estimates to reflect the regulatory decisions in Alberta, updated F/X assumptions, increased ownership in Caribbean Utilities, and revised financing assumptions.
- **Introducing Our Estimates for 2017; Rolling Forward Our Target Price Derivation:** We are introducing our EPS (f.d.) estimate of \$2.25 for 2017, which is 4% higher than our estimate for 2016, largely driven by growth in utility rate base. We are also rolling forward our target price derivation by one quarter to be based 25% on our forecasts for 2017. We are maintaining our \$47.00 target price and BUY rating.

**TD Investment Conclusion**

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

**Details**

**FortisBC Energy** — Earnings of \$88 million in Q1/15 increased \$9 million y/y, driven by the timing of regulatory flow-through deferral amounts, partially offset by a decrease in the allowed ROE.

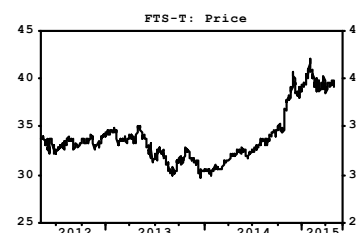
**Regulated Electric Utilities — Canadian** Q1/15 earnings of \$73 million were \$13 million higher than the normalized results in Q1/14.

- **FortisAlberta** normalized earnings of \$31 million increased by \$6 million over Q1/14 results, largely a result of growth in rate base, 2015 capital tracker revenue, and an increase in the number of customers.

Please see the final pages of this document for important disclosure information.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



- **FortisBC Electric** earnings of \$23 million were \$5 million higher y/y, largely driven by the timing of power purchase costs, regulatory deferral mechanisms, and growth in rate base.
- **Eastern Canadian Electric Utilities** earnings of \$19 million were up \$2 million y/y, benefitting from growth in electricity sales and lower operating costs.

**Central Hudson (Regulated Utilities — U.S.)** earnings in Q1/15 were \$22 million. These results increased by \$4 million versus Q1/14, driven by favourable F/X, a new gas contract, and energy-efficiency incentives earned, partially offset by higher operating expenses.

**UNS Energy (Regulated Utilities — U.S.)** earnings in Q1/15 were \$20 million. UNS Energy started contributing in Q3/14.

**Regulated Utilities — Caribbean** earnings of \$5 million were flat y/y, as higher depreciation was offset by favourable F/X.

**Non-regulated Fortis Generation** earnings of \$3 million decreased by \$3 million y/y, primarily from decreased production in Belize, Upstate New York, and Ontario, partially offset by non-recurring business development costs of \$1 million in Q1/14. The Waneta Expansion project was completed six weeks ahead of schedule and on-budget.

**Other Non-regulated** business earnings of (\$2) million decreased by \$2 million y/y owing to the costs of the ongoing Properties strategic review and higher finance charges.

**Corporate and Other** normalized expenses of \$21 million in Q1/15 were \$4 million higher than the Q1/14 results, primarily from increased preferred share dividends and interest costs associated with the acquisition of UNS Energy.

#### Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)

	Q1/15	Q1/14	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$88	\$79	\$9	11%
FortisAlberta <sup>1</sup>	31	25	6	24%
FortisBC Electric	23	18	5	28%
Eastern Canadian Electric Utilities	19	17	2	12%
Regulated Electric Utilities - Canadian	73	60	13	22%
Regulated Utilities - Central Hudson	22	18	4	22%
Regulated Utilities - UNS Energy	20	-	20	n.a.
Regulated Utilities - Caribbean	5	5	-	0%
<b>Total Regulated Utilities</b>	<b>208</b>	<b>162</b>	<b>46</b>	<b>28%</b>
<b>Non-Regulated Fortis Generation</b>	<b>3</b>	<b>6</b>	<b>(3)</b>	<b>-50%</b>
<b>Other Non-Regulated Businesses<sup>2</sup></b>	<b>(2)</b>	<b>0</b>	<b>(2)</b>	
<b>Corporate<sup>3,4</sup></b>	<b>(21)</b>	<b>(17)</b>	<b>(4)</b>	<b>24%</b>
<b>Operating Earnings</b>	<b>188</b>	<b>151</b>	<b>37</b>	<b>25%</b>
Adjustments	10	(8)	18	-225%
<b>Reported Earnings</b>	<b>198</b>	<b>143</b>	<b>55</b>	<b>38%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.68</b>	<b>\$0.70</b>	<b>(\$0.02)</b>	<b>-3%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.71</b>	<b>\$0.67</b>	<b>\$0.04</b>	<b>6%</b>

Notes: Earnings have been normalized for the following items:

- 1) In Q1/15, \$10mm (after tax) of capital tracker revenue related to 2013 and 2014.
- 2) \$5mm (after tax) of earnings from discontinued operations (Griffith Energy) in Q1/14.
- 3) (\$11)mm (after tax) of convertible debt interest incurred in Q1/14 related to the UNS Energy acquisition.
- 4) (\$2)mm (after tax) of costs incurred in Q1/14 related to the UNS Energy acquisition.



**Outlook**

**Capital Program Update:** Fortis' consolidated capital program is expected to be \$2.2 billion in 2015 and approach \$9 billion through 2019. Management expects the five-year rate base CAGR through to 2019 to be approximately 6.5%, which will potentially increase to 7.5% if further expansion of the Tilbury LNG facility (Phase 1B) and Woodfibre pipeline occur.

**Strategic Review of Properties Wrapping Up; Sale of Non-regulated Generation Assets:** Management expects to make a decision on the future of the Properties business by the end of Q2/15. In March 2015, Fortis agreed to sell its Upstate New York and Ontario non-regulated generation assets. The net book value of the assets is ~\$30 million and the sale is expected to close in Q2/15 (for the Upstate New York assets) and H2/15 (for the Ontario assets). A gain is expected to be recognized upon closing, with the proceeds to be used to pay down debt.

**Regulatory Updates:**

- **CH Energy Joint Settlement:** Regulatory hearings were held in March 2015 and a Final Joint Proposal was executed in April 2015, which included new rates for a three-year period from July 1, 2015, and an allowed ROE of 9.0% and a 48% equity thickness. Final approval is expected in Q2/15.
- **FEI and FortisBC Electric:** FEI and FortisBC Electric filed for 2015 rates under the PBR decisions, and a final ruling is expected in Q2/15. FEI is also expected to file an application (by November 30, 2015) to review the 2016 benchmark allowed ROE and equity thickness.
- **Alberta GCOC Decision:** In March 2015, the Alberta Utilities Commission (AUC) delivered its Generic Cost of Capital (GCOC) decision, which established the utility ROE and deemed common equity ratios for the 2013–2015 time period. The ROE was set at 8.3% for each of 2013, 2014, and 2015, which is a reduction from the 8.75% previously approved. Utility deemed common equity ratios were also reduced by 1% from what was previously approved. This decision will remain in place on an interim basis for 2016 and future years, unless changed by the AUC.
- **Capital Tracker Decision:** The AUC's final decision on FortisAlberta's 2013–2015 Capital Tracker applications was issued, with substantially all of the capital programs approved.
- **Additional Capital Tracker Filings:** FortisAlberta filed its Capital Tracker Compliance Filing in April 2015, which requested adjustments to the capital tracker revenue to be considered in the 2016 Annual Rates Application (expected to be filed in September 2015) to be reflected in customer rates beginning January 1, 2016. A decision is expected in H2/15. FortisAlberta will also file an AUC application for capital tracker revenue for 2016/2017 and a true-up to actual 2014 capital expenditures.
- **Newfoundland Power GRA:** Newfoundland Power is required to file a general rate application (GRA) before June 1, 2015 for 2016 rates barring any change by the regulator (PUB).

**Exhibit 2. Upcoming Regulatory Decisions**

Utility	Application / Proceeding	Filing Date	Expected Decision
Central Hudson	General Rate Application	July-14	Q2 / 2015
	Reforming the Energy Vision	n.a.	TBD
FEI	Annual Rates Application - 2015	Jan-15	Q2 / 2015
FortisBC Electric	Annual Rates Application - 2015	Feb-15	Q2 / 2015
FortisAlberta	Capital Tracker Compliance Filing	Apr-15	H2 / 2015
	Capital Tracker Application - 2016/2017	May-15	Q1 / 2016

Source: Company reports, TD Securities Inc.

**Preview for Q2/15:** We are forecasting EPS of \$0.45 in Q2/15, above the Q2/14 result of \$0.30, largely driven by earnings accretion from the acquisition of UNS Energy, along with the commissioning of the Waneta Expansion project.



**Valuation****Exhibit 3. Valuation**

Power & Utility Companies		Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
Symbol							2014A	2015E	2016E	2014A	2015E	2016E	2015E	2016E	2015E	2016E
Fortis Inc.	FTS	\$38.89	283.9	\$11,041	\$1.36	3.5%	\$1.71	\$2.05	\$2.16	\$2.12	\$2.69	\$3.00	19.0x	18.0x	6.9%	7.7%
ATCO Ltd.	ACO.X	\$44.33	115.4	\$5,116	\$0.99	2.2%	\$3.35	\$2.83	\$3.07	\$3.94	\$3.55	\$3.79	15.7x	14.4x	8.0%	8.5%
Canadian Utilities Ltd.	CU	\$37.52	264.5	\$9,924	\$1.18	3.1%	\$2.28	\$1.96	\$2.15	\$2.52	\$2.27	\$2.38	19.1x	17.5x	6.1%	6.3%
Capital Power Corp.	CPX	\$25.50	107.1	\$2,730	\$1.36	5.3%	\$0.72	\$1.24	\$1.21	\$2.80	\$2.80	\$3.08	20.5x	21.1x	11.0%	12.1%
Emera Inc.	EMA	\$40.63	147.8	\$6,005	\$1.60	3.9%	\$2.16	\$1.96	\$2.08	\$3.29	\$2.27	\$2.29	20.7x	19.5x	5.6%	5.6%
TransAlta Corp.	TA, TAC	\$11.75	277.0	\$3,255	\$0.72	6.1%	\$0.25	\$0.19	\$0.17	\$0.94	\$0.93	\$0.92	61.1x	68.0x	7.9%	7.9%
TransAlta Renewables Inc.	RNW	\$12.63	190.1	\$2,401	\$0.77	6.1%	\$0.43	\$0.47	\$0.50	\$1.12	\$1.13	\$1.17	26.7x	25.4x	9.0%	9.3%
Valener Inc.	VNR	\$16.80	38.0	\$639	\$1.04	6.2%	\$0.97	\$1.09	\$1.08	\$1.10	\$1.11	\$1.15	15.4x	15.6x	6.6%	6.8%
Average						4.9%							26.1x	26.4x	7.6%	8.0%

Notes:

1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities Inc.

**Justification of Target Price**

Our \$47.00 target price is predicated 75% and 25% on our financial estimates for 2016 and 2017, respectively, as follows:

**Exhibit 4. Target Price Derivation**

(25% Weight)			(25% Weight)			(50% Weight)			Blended Target Price
1. EV / EBITDA			2. Relative Dividend Yield			3. Free Cash Flow Yield			
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,518	10.5x	\$ 46.15	\$ 1.46	200%	\$ 48.67	\$ 3.08	6.5%	\$ 47.37	

10-Year Government of Canada Bond Yield Assumption **1.50%**

Source: TD Securities Inc.

**Key Risks to Target Price**

Key risks to target price include: 1) higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) acquisitions that do not create shareholder value; 5) sovereign risk; 6) escalating construction costs; 7) access to capital markets; and 8) foreign exchange.



## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	11,041	<b>Debt-to-Capitalization</b>	53.6%
<b>Recent Share Price</b>	\$38.89	<b>Net Debt (\$mm)</b>	11,386	<b>BVPS</b>	26.39
<b>52 Week Range</b>	\$31.26-\$42.23	<b>EV (\$mm)</b>	24,681	<b>Ex-div date</b>	05/14/15
<b>Dividend</b>	\$1.36	<b>Shares O/S (mm)</b>	283.9	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.5%	<b>Float O/S (mm)</b>	277.5		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2014A	2015E	2016E	2017E	Valuation	2014A	2015E	2016E	2017E
Operating EPS (f.d.)	1.71	2.05	2.16	2.25	P/E - EPS (f.d.)	22.8x	19.0x	18.0x	17.3x
Operating EPS (basic)	1.71	2.07	2.19	2.28	P/E - EPS (basic)	22.7x	18.8x	17.8x	17.1x
Free Cash Flow Per Share (AFFO)	2.12	2.69	3.00	3.32	AFFO Yield	5.5%	6.9%	7.7%	8.5%
Dividend Per Share	1.28	1.36	1.44	1.52	Dividend Yield	3.3%	3.5%	3.7%	3.9%

Income Statement (\$mm)	2014A	2015E	2016E	2017E	Ratios	2014A	2015E	2016E	2017E
FortisBC (Gas)	127	145	152	158	Payout Ratio (EPS - f.d.)	75%	66%	67%	68%
FortisAlberta	103	104	117	125	Payout Ratio (EPS - basic)	75%	66%	66%	67%
FortisBC (Electric)	46	53	55	57	Payout Ratio (AFFO)	60%	51%	48%	46%
Newfoundland Power	37	40	41	42	Debt-to-Capitalization	55%	54%	54%	53%
Other Canadian Electric Utilities	23	25	26	27					
Central Hudson	37	48	50	55					
UNS Energy	60	188	199	204					
Regulated Electric Utilities - Caribbean	27	31	34	34					
Non-Regulated Fortis Generation	20	35	38	40					
Other Non-Regulated Businesses	23	25	26	27					
Corporate and Other	(117)	(121)	(126)	(127)					
<b>Operating Income</b>	<b>386</b>	<b>573</b>	<b>612</b>	<b>642</b>					
Non-Recurring Items	(69)	10	0	0					
<b>Net Income</b>	<b>317</b>	<b>583</b>	<b>612</b>	<b>642</b>					

Segmented Breakdown ( % of Income)	2014A	2015E	2016E	2017E
FortisBC (Gas)	25%	21%	21%	21%
FortisAlberta	20%	15%	16%	16%
FortisBC (Electric)	9%	8%	7%	7%
Newfoundland Power	7%	6%	6%	5%
Other Canadian Electric Utilities	5%	4%	4%	4%
Central Hudson	7%	7%	7%	7%
UNS Energy	12%	27%	27%	27%
Regulated Electric Utilities - Caribbean	5%	5%	5%	4%
Non-Regulated Fortis Generation	4%	5%	5%	5%
Other Non-Regulated Businesses	5%	4%	4%	4%
	100%	100%	100%	100%

Cash Flow Statement (\$mm)	2014A	2015E	2016E	2017E	Free Cash Flow	2014A	2015E	2016E	2017E
Income	390	676	711	741	CF from Continuing Operations	1,106	1,733	1,846	1,955
Other Items Not Involving Cash	716	1,057	1,135	1,214	Preferred Dividends & Minority Interest	(72)	(93)	(99)	(99)
Change in Non-cash Working Capital	(124)	0	0	0	Maintenance Capital Expenditures	(555)	(895)	(909)	(918)
Cash from Operations	982	1,733	1,846	1,955	<b>Free Cash Flow</b>	<b>479</b>	<b>745</b>	<b>838</b>	<b>939</b>
Capital Expenditures & Acquisitions	(4,373)	(2,230)	(1,635)	(1,931)					
Other	174	70	70	70					
Cash from Investing	(4,199)	(2,160)	(1,565)	(1,861)					

Dividends Paid	(266)	(470)	(502)	(528)
Change in Debt	1,227	595	153	247
Common Shares	1,776	113	121	129
Preferred Shares	586	0	0	0
Other	38	0	0	0
Cash from Financing	3,361	238	(228)	(152)
<b>Total Cash Flow</b>	<b>144</b>	<b>(189)</b>	<b>53</b>	<b>(58)</b>

Balance Sheet (\$mm)	2014A	2015E	2016E	2017E
Cash and Cash Equivalents	230	41	94	36
Other Current Assets	1,733	1,575	1,575	1,575
Property, Plant and Equipment	20,046	21,314	21,909	22,721
Other Non-Current Assets	4,619	5,489	4,779	5,351
<b>Total Assets</b>	<b>26,628</b>	<b>28,419</b>	<b>28,357</b>	<b>29,683</b>

Other Liabilities	6,898	7,853	7,209	7,847
Debt	11,039	11,334	11,487	11,734
Total Liabilities	17,937	19,187	18,696	19,581
Non-Controlling Interests	421	421	421	421
Preferred Shares	1,820	1,820	1,820	1,820
Total Shareholders' Equity	6,450	6,991	7,420	7,861
<b>Total Liabilities &amp; Equity</b>	<b>26,628</b>	<b>28,419</b>	<b>28,357</b>	<b>29,683</b>

Source: TD Securities Inc.



## TD Securities Equity Research Disclosures

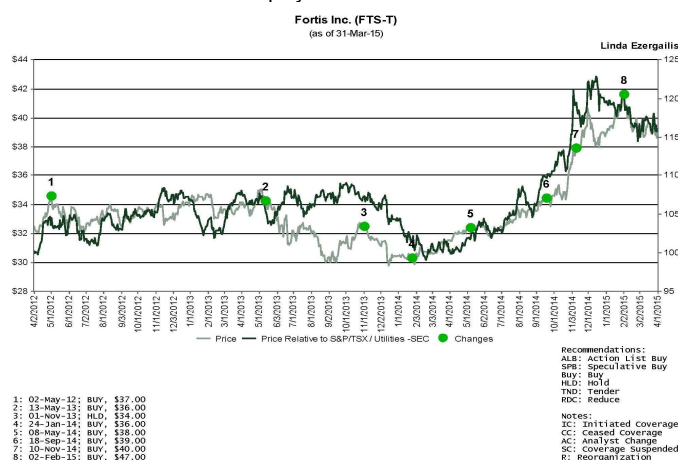
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

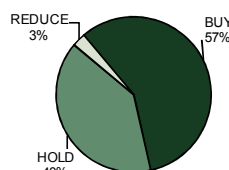
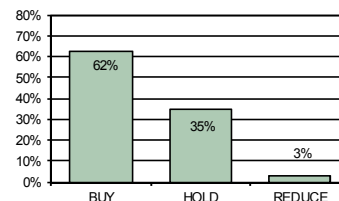
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Distribution of Research Ratings<sup>A</sup>Investment Banking Services Provided<sup>B</sup>

Current as of April 1, 2015

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>B</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (6.6% of coverage universe), Medium (31.3%), High (50.1%), Speculative (11.9%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2015 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**

**Pipelines, Power & Utilities**

**Recommendation:** **BUY**  
*Unchanged*

**Risk:** **LOW**

**12-Month Target Price:** **C\$46.00↓**

**Prior:** **C\$47.00**

**12-Month Dividend (Est.):** **C\$1.36**

**12-Month Total Return:** **26.5%**

**Market Data (C\$)**

Current Price \$37.45  
52-Wk Range \$32.98-\$42.23  
Mkt Cap (f.d.)(mm) \$10,669.5  
Current Dividend \$1.36  
Dividend Yield 3.6%  
Avg. Daily Trading Vol. (3M-All Exch) 595955

**Financial Data (C\$)**

Fiscal Y-E December  
Shares O/S (f.d.)(mm) 284.9  
Float Shares (mm) 278.6  
Net Debt/Tot Cap 50.8%  
BVPS (basic) \$26.80  
ROE 7.2%

**Estimates (C\$)**

Year	2014A	2015E	2016E	2017E
EPS (basic)	1.71	2.04	2.17	2.26
EPS (basic)(old)	1.71	2.07	2.19	2.28
EPS (f.d.)	1.71	2.02	2.15	2.23
EPS (f.d.)(old)	1.71	2.05	2.16	2.25
DIVIDEND	1.28	1.36	1.44	1.52

**EPS (f.d.) Quarterly Estimates (C\$)**

Year	2014A	2015E	2016E	2017E
Q1	0.70	0.68	--	--
Q2	0.30	0.44	--	--
Q3	0.26	0.43	--	--
Q4	0.44	--	--	--

**Valuations**

Year	2014A	2015E	2016E	2017E
P/E (f.d.)	21.9x	18.5x	17.4x	16.8x

Notes: 2013+ financials under US GAAP.

All figures in C\$, unless otherwise specified.

**Linda Ezergailis, P.Eng.**  
416 983 7784  
[linda.ezergailis@tdsecurities.com](mailto:linda.ezergailis@tdsecurities.com)

**Avery Haw (Associate)**  
416 983 9259  
[avery.haw@tdsecurities.com](mailto:avery.haw@tdsecurities.com)

## Fortis Inc.

(FTS-T) C\$37.45

**Strong Q2/15 Results****Event**

Fortis reported Q2/15 normalized EPS (f.d.) of \$0.44, generally in line with our \$0.45 estimate and the recent consensus of \$0.44, and above the Q2/14 normalized EPS (f.d.) of \$0.30.

**Impact: NEUTRAL**

We have updated our financial forecasts, primarily to reflect the recent asset sale announcements. Our target valuations compress slightly to reflect the slightly higher regulatory risk with some of the company's utilities pending regulatory processes, and we have rolled forward our target price derivation by a quarter to be half based off our 2017 estimates. The net result of these changes is a \$1.00 drop in our target price to \$46.00.

**TD Investment Conclusion**

Fortis is the largest highly regulated investor-owned gas and electricity distribution utility in Canada, and we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada and the U.S., and believe that investors will find the company's low-risk, utility-dominated business model attractive.

**Details**

**FortisBC Energy** Q2/15 earnings of \$7 million decreased \$5 million y/y, driven by the timing of regulatory flow-through deferral amounts and a decrease in the allowed ROE.

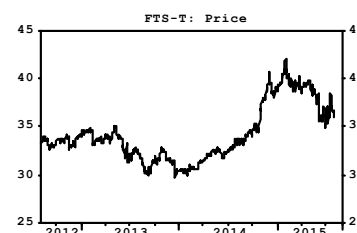
**Regulated Electric Utilities — Canadian** Q2/15 earnings of \$58 million were \$9 million higher than Q2/14 normalized results.

- **FortisAlberta** normalized earnings of \$32 million increased by \$6 million over Q2/14 results, largely a result of rate base growth, 2015 capital tracker revenue, and an increase in the number of customers.
- **FortisBC Electric** earnings of \$11 million were \$4 million higher y/y, largely driven by the timing of earnings as a result of regulatory deferral mechanisms.
- **Eastern Canadian Electric Utilities** earnings of \$15 million were down \$1 million y/y, primarily driven by business development costs in Ontario.

Please see the final pages of this document for important disclosure information.

**Company Profile**

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising gas distribution and electric utilities in Canada, the U.S., Turks and Caicos, and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electricity generation ventures in Canada and the U.S.



**Central Hudson (Regulated Utilities — U.S.)** earnings for Q2/15 were \$10 million. These results increased \$3 million versus Q2/14, driven by favourable F/X, a new gas contract in late-2014, and energy efficiency incentives earned, partially offset by higher operating expenses.

**UNS Energy (Regulated Utilities – U.S., acquired August 2014)** earnings for Q2/15 were \$52 million.

**Regulated Utilities — Caribbean** earnings of \$9 million were up \$1 million y/y as favourable F/X was mostly offset by higher depreciation.

**Non-regulated Fortis Generation** earnings of \$18 million increased by \$12 million y/y, primarily from contribution by the Waneta Expansion (in-service April 2015).

**Corporate and Other** normalized expenses of \$39 million in Q2/15 were \$15 million higher than Q2/14 results, primarily from increased preferred share dividends and finance charges associated with the UNS Energy acquisition.

**Exhibit 1. Segmented Earnings (\$mm, unless stated otherwise)**

	Q2/15	Q2/14	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian (FortisBC Energy)	\$7	\$12	(\$5)	-42%
FortisAlberta <sup>1</sup>	32	26	6	23%
FortisBC Electric	11	7	4	57%
Eastern Canadian Electric Utilities	15	16	(1)	-6%
Regulated Electric Utilities - Canadian	58	49	9	18%
Regulated Utilities - Central Hudson	10	7	3	43%
Regulated Utilities - UNS Energy	52	-	52	n.a.
Regulated Utilities - Caribbean	9	8	1	13%
<b>Total Regulated Utilities</b>	<b>136</b>	<b>76</b>	<b>60</b>	<b>79%</b>
<b>Non-Regulated Fortis Generation<sup>2</sup></b>	<b>18</b>	<b>6</b>	<b>12</b>	<b>200%</b>
<b>Other Non-Regulated Businesses<sup>3</sup></b>	<b>8</b>	<b>7</b>	<b>1</b>	<b>14%</b>
<b>Corporate<sup>4,5,6</sup></b>	<b>(39)</b>	<b>(24)</b>	<b>(15)</b>	<b>63%</b>
<b>Operating Earnings</b>	<b>123</b>	<b>65</b>	<b>58</b>	<b>89%</b>
Adjustments	121	(18)	139	-772%
<b>Reported Earnings</b>	<b>244</b>	<b>47</b>	<b>197</b>	<b>419%</b>
<b>Operating EPS (f.d)</b>	<b>\$0.44</b>	<b>\$0.30</b>	<b>\$0.14</b>	<b>47%</b>
<b>Reported EPS (f.d)</b>	<b>\$0.87</b>	<b>\$0.22</b>	<b>\$0.65</b>	<b>295%</b>

Notes: Earnings have been normalized for the following items:

- 1) (\$1)mm of capital tracker revenue related to 2013 and 2014 in Q2/15.
- 2) \$27mm of earnings from gain on sale of generation assets in Q2/15.
- 3) \$96mm of earnings from net gain on sale of real-estate assets in Q2/15.
- 4) (\$1)mm and (\$4)mm of foreign exchange loss in Q2/15 and Q2/14, respectively.
- 5) (\$13)mm of convertible debt interest related to the pending UNS Energy acquisition in Q2/14.
- 6) (\$1)mm of costs related to the pending UNS Energy acquisition in Q2/14.

Source: Company reports, TD Securities Inc.



**Outlook**

**Strategic Review of Properties Wrapping Up; Sale of Non-regulated Generation Assets:** As a result of activity in Q2/15, the divestiture of non-core assets (uncontracted merchant power and real estate) is substantially complete. The \$430-million sale of the commercial real-estate properties closed on June 30, 2015. The \$365-million sale of the hotel properties is expected to close sometime in Fall 2015. Finally, in June 2015, Fortis sold its non-regulated generation assets in Upstate New York and Ontario for combined proceeds of \$93 million. Subsequent to the closing of the hotel disposition, virtually all of Fortis' assets will comprise either regulated utilities or long-term contracted energy infrastructure.

**Target Geographic Mix:** Currently, U.S. assets make up approximately 40% of the total business. Management indicated that this is unlikely to change much and it is not actively looking at U.S. acquisitions at this time. Fortis' two large U.S. acquisitions were timely when the Canadian dollar was strong, in our view, and now its earnings should benefit from the recent strengthening of the U.S. dollar. Management would like to capitalize on its utility franchise regions by finding some incremental investments in non-regulated contracted energy infrastructure (e.g. Waneta expansion) and grow that asset class to approximately 10% of the company over time.

**Regulatory Updates:**

- **UNS Energy:** In June 2015, Tucson Electric Power Company ("TEP", UNS Energy's largest utility) announced its intention to file a general rate application (GRA) by Q4/15. In the GRA, TEP will be requesting new retail rates effective 2017 and reflect the US\$0.8-billion increase in rate base since the last rate order. In June 2015, management injected equity into TEP, increasing the equity thickness to 50% from 43%.
- **CH Energy Rate Order:** In June 2015, Central Hudson received a Rate Order for a three-year period effective July 1, 2015. A delivery rate freeze had been in place for two years following Fortis' acquisition of CH Energy during which time approximately US\$250 million was invested into energy infrastructure. The new Rate Order provides an allowed ROE of 9%, 48% equity thickness, and allows for approximately US\$490 million of additional capital investments. CH and customers will also equally split any excess return between 9.5% and 10% ROE. For context, the 12-month trailing ROE, pre-decision, was approximately 7.3%, according to management.
- **Cost-of-capital Hearings:** FEI is required to file an application (by November 30, 2015) to review the 2016 benchmark allowed ROE and equity thickness, which could also affect FortisBC Electric. In Alberta, a generic cost-of-capital (GCOC) proceeding has commenced for 2016–2017, and the next generation of performance based regulation (PBR) plan (the current PBR expires in 2017) will be established in another proceeding.
- **Newfoundland Power GRA:** The Newfoundland and Labrador regulator denied Fortis' request to defer the filing of its next GRA to on or before June 1, 2016, with a 2016 cost recovery deferral of \$4 million. Therefore, Fortis will file the GRA on or before October 16, 2015.

**Exhibit 2. Upcoming Regulatory Decisions**

Utility	Application / Proceeding	Filing Date	Expected Decision
TEP	GRA	Q4/15	TBD
Central Hudson	Reforming the Energy Vision	n.a.	TBD
FEI	2016 Cost of Capital Application	Q4/15	TBD
Newfoundland Power	GRA	Q4/15	TBD
FortisAlberta	Capital Tracker Compliance Filing	Apr-15	H2 / 2015
	Capital Tracker Application - 2016/2017	May-15	Q1 / 2016

Source: Company reports, TD Securities Inc.

**Q3/15 Preview:** We are forecasting Q3/15 EPS of \$0.43, above the Q3/14 EPS of \$0.26, largely driven by earnings accretion from a full contribution from the UNS Energy acquisition, along with the commissioning of the Waneta Expansion project.



**Valuation****Exhibit 3. Valuation**

Power & Utility Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
							2014A	2015E	2016E	2014A	2015E	2016E	2015E	2016E	2015E	2016E
Fortis Inc.	FTS	\$37.45	284.9	\$10,670	\$1.36	3.6%	\$1.71	\$2.02	\$2.15	\$2.12	\$2.67	\$2.98	18.5x	17.4x	7.1%	8.0%
ATCO Ltd.	ACO.X	\$39.25	115.4	\$4,529	\$0.99	2.5%	\$3.35	\$2.88	\$3.15	\$3.94	\$3.36	\$3.95	13.6x	12.5x	8.6%	10.1%
Canadian Utilities Ltd.	CU	\$36.74	265.2	\$9,745	\$1.18	3.2%	\$2.28	\$1.94	\$2.15	\$2.52	\$2.19	\$2.58	18.9x	17.1x	6.0%	7.0%
Capital Power Corp.	CPX	\$21.89	101.7	\$2,226	\$1.46	6.7%	\$0.72	\$1.21	\$1.19	\$2.80	\$2.79	\$3.07	18.1x	18.4x	12.7%	14.0%
Emera Inc.	EMA	\$43.62	148.8	\$6,491	\$1.60	3.7%	\$2.16	\$2.33	\$2.46	\$3.29	\$2.68	\$2.71	18.7x	17.7x	6.1%	6.2%
TransAlta Corp.	TA, TAC	\$8.29	279.0	\$2,313	\$0.72	8.7%	\$0.25	\$0.16	\$0.18	\$0.94	\$0.88	\$0.93	53.4x	45.1x	10.6%	11.2%
TransAlta Renewables Inc.	RNW	\$12.50	190.8	\$2,385	\$0.84	6.7%	\$0.43	\$0.47	\$0.50	\$1.12	\$1.13	\$1.17	26.4x	25.1x	9.1%	9.4%
Valener Inc.	VNR	\$16.96	38.2	\$648	\$1.04	6.1%	\$0.97	\$1.12	\$1.13	\$1.10	\$1.26	\$1.30	15.1x	15.0x	7.4%	7.7%
Average						5.5%							24.2x	22.3x	8.4%	9.1%

Source: Thomson, TD Securities Inc.

**Justification of Target Price**

Our \$46.00 target price is predicated 50% each on our financial estimates for 2016 and 2017, as follows:

**Exhibit 4. Target Price Derivation**

(25% Weight)			(25% Weight)			(50% Weight)			Blended Target Price
1. EV / EBITDA			2. Relative Dividend Yield			3. Free Cash Flow Yield			
EBITDA (\$ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	
2,555	10.0x	\$ 45.60	\$ 1.48	200%	\$ 49.33	\$ 3.15	7.0%	\$ 44.94	
	(prior 10.5x)			(prior 200%)			(prior 6.5%)		
10-Year Government of Canada Bond Yield Assumption					1.50%				

Source: TD Securities Inc.

**Key Risks to Target Price**

Key risks to target price include: 1) higher-than-expected long-bond yields; 2) operational disruptions; 3) regulatory surprises; 4) acquisitions that do not create shareholder value; 5) sovereign risk; 6) escalating construction costs; 7) access to capital markets; and 8) foreign exchange fluctuations.



## Exhibit 5. Financial Summary

<b>Ticker</b>	FTS-T	<b>Market Cap (\$mm)</b>	10,670	<b>Debt-to-Capitalization</b>	50.8%
<b>Recent Share Price</b>	\$37.45	<b>Net Debt (\$mm)</b>	10,906	<b>BVPS</b>	26.80
<b>52 Week Range</b>	\$32.98–\$42.23	<b>EV (\$mm)</b>	23,856	<b>Ex-div date</b>	08/17/15
<b>Dividend</b>	\$1.36	<b>Shares O/S (mm)</b>	284.9	<b>Fiscal Year-End</b>	December
<b>Dividend Yield</b>	3.6%	<b>Float O/S (mm)</b>	278.6		

**Company Profile:** Fortis Inc. is a diversified infrastructure holding company, primarily comprising of gas distribution and electric utilities in Canada, US, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary, and has interests in electric generation ventures in Canada and the U.S.

Key Metrics	2014A	2015E	2016E	2017E	Valuation	2014A	2015E	2016E	2017E
Operating EPS (f.d.)	1.71	2.02	2.15	2.23	P/E - EPS (f.d.)	21.9x	18.5x	17.4x	16.8x
Operating EPS (basic)	1.71	2.04	2.17	2.26	P/E - EPS (basic)	21.9x	18.3x	17.2x	16.6x
Free Cash Flow Per Share (AFFO)	2.12	2.67	2.98	3.31	AFFO Yield	5.7%	7.1%	8.0%	8.8%
Dividend Per Share	1.28	1.36	1.44	1.52	Dividend Yield	3.4%	3.6%	3.8%	4.1%
Income Statement (\$mm)	2014A	2015E	2016E	2017E	Ratios	2014A	2015E	2016E	2017E
FortisBC (Gas)	127	145	152	158	Payout Ratio (EPS - f.d.)	75%	67%	67%	68%
FortisAlberta	103	104	117	125	Payout Ratio (EPS - basic)	75%	67%	66%	67%
FortisBC (Electric)	46	53	55	57	Payout Ratio (AFFO)	60%	51%	48%	46%
Newfoundland Power	37	40	41	42	Debt-to-Capitalization	55%	53%	52%	51%
Other Canadian Electric Utilities	23	25	26	27	Segmented Breakdown ( % of Income)	2014A	2015E	2016E	2017E
Central Hudson	37	48	50	55	FortisBC (Gas)	25%	21%	21%	21%
UNS Energy	60	188	199	204	FortisAlberta	20%	15%	16%	17%
Regulated Electric Utilities - Caribbean	27	31	34	34	FortisBC (Electric)	9%	8%	8%	8%
Non-Regulated Fortis Generation	20	35	38	40	Newfoundland Power	7%	6%	6%	6%
Other Non-Regulated Businesses	23	9	0	0	Other Canadian Electric Utilities	5%	4%	4%	4%
Corporate and Other	(117)	(111)	(104)	(105)	Central Hudson	7%	7%	7%	7%
<b>Operating Income</b>	<b>386</b>	<b>567</b>	<b>608</b>	<b>638</b>	UNS Energy	12%	28%	28%	27%
Non-Recurring Items	(69)	10	0	0	Regulated Electric Utilities - Caribbean	5%	5%	5%	5%
<b>Net Income</b>	<b>317</b>	<b>577</b>	<b>608</b>	<b>638</b>	Non-Regulated Fortis Generation	4%	5%	5%	5%
					Other Non-Regulated Businesses	5%	1%	0%	0%
Cash Flow Statement (\$mm)	2014A	2015E	2016E	2017E		100%	100%	100%	100%
Income	390	663	700	730	Free Cash Flow	2014A	2015E	2016E	2017E
Other Items Not Involving Cash	716	1,057	1,135	1,214	CF from Continuing Operations	1,106	1,720	1,835	1,944
Change in Non-cash Working Capital	(124)	0	0	0	Preferred Dividends & Minority Interest	(72)	(86)	(92)	(92)
Cash from Operations	982	1,720	1,835	1,944	Maintenance Capital Expenditures	(555)	(895)	(909)	(918)
					<b>Free Cash Flow</b>	<b>479</b>	<b>739</b>	<b>835</b>	<b>934</b>
Capital Expenditures & Acquisitions	(4,373)	(2,230)	(1,635)	(1,931)	Degree of Regulation				
Other	174	865	70	70	Highly Regulated				
Cash from Investing	(4,199)	(1,365)	(1,565)	(1,861)	Loosely Regulated				
					Unregulated				
Dividends Paid	(266)	(463)	(495)	(521)	Business Mix				
Change in Debt	1,227	(200)	153	247	Natural Gas Distribution				
Common Shares	1,776	113	121	129	Electricity Transmission & Distribution				
Preferred Shares	586	0	0	0	Power Generation				
Other	38	0	0	0	Marketing and Other				
Cash from Financing	3,361	(550)	(221)	(145)					
<b>Total Cash Flow</b>	<b>144</b>	<b>(195)</b>	<b>49</b>	<b>(63)</b>					
Balance Sheet (\$mm)	2014A	2015E	2016E	2017E					
Cash and Cash Equivalents	230	35	84	21					
Other Current Assets	1,733	1,575	1,575	1,575					
Property, Plant and Equipment	20,046	20,650	21,245	22,057					
Other Non-Current Assets	4,619	5,351	4,634	5,199					
<b>Total Assets</b>	<b>26,628</b>	<b>27,611</b>	<b>27,538</b>	<b>28,852</b>					
Other Liabilities	6,898	7,853	7,209	7,847					
Debt	11,039	10,539	10,692	10,939					
Total Liabilities	17,937	18,392	17,901	18,786					
Non-Controlling Interests	421	421	421	421					
Preferred Shares	1,820	1,820	1,820	1,820					
Total Shareholders' Equity	6,450	6,978	7,396	7,825					
<b>Total Liabilities &amp; Equity</b>	<b>26,628</b>	<b>27,611</b>	<b>27,538</b>	<b>28,852</b>					



## TD Securities Equity Research Disclosures

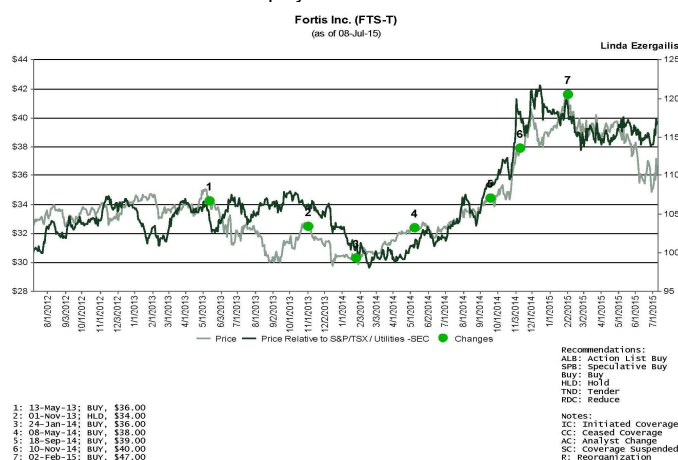
Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company.
2. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company.
3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
4. TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company.
5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
6. A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
7. A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
9. TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company.
10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. This security has Subordinate voting shares.
13. This security has Restricted voting shares.
14. This security has Non-voting shares.
15. This security has Variable voting shares.
16. This security has Limited voting shares.

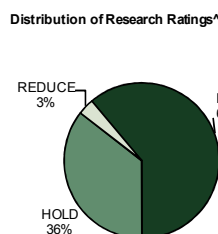
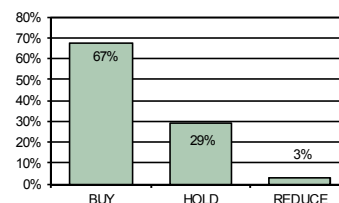
## Additional Important Disclosures

## Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



## Distribution of Research Ratings

Investment Banking Services Provided<sup>\*</sup>

Current as of July 2, 2015

<sup>^</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

## Research Dissemination Policy

TD Securities makes its research products available in electronic and/or printed formats and simultaneously distributes them to its institutional clients who are entitled to receive them. The Action Notes are distributed by email, and are available in PDF form on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. Research Reports are distributed by email; they are also printed and distributed by courier to our entitled clients. PDFs of Reports are available on Thomson Reuters, Bloomberg, S&P Capital IQ and FactSet. All research is available by password to entitled institutional clients at <https://www.tdsresearch.com/equities>

**Research Ratings**

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (6.7% of coverage universe), Medium (32.3%), High (50.0%), Speculative (11.0%)

**Analyst Certification**

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

**Disclaimer**

This report is produced entirely by TD Securities Inc. Although the information contained in this report has been obtained from sources that TD Securities Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice. TD Securities Inc. will furnish upon request publicly available information on which this report is based. TD Securities (USA) LLC has accepted responsibility in the United States for the contents of this research. TD Securities Limited has accepted responsibility in Europe for the contents this report. Canadian clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Inc. Canadian retail investors are served by TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. U.S. clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities (USA) LLC. European clients wishing to effect transactions in any security discussed should do so through a qualified salesperson of TD Securities Limited. Insofar as the information on this report is issued in the U.K. and Europe, it has been issued with the prior approval of TD Securities Limited and only to persons falling within Articles 19 and 49 of the Financial Services & Markets Act 2000 (Financial Promotion) Order 2001, namely persons sufficiently expert to understand the risks involved. This report has been distributed in Hong Kong through The Toronto-Dominion Bank (Hong Kong Branch), which is regulated by the Hong Kong Monetary Authority. TD Securities Limited is providing financial services to wholesale clients in Australia in reliance on Class Order CO 03/1099. No recipient may pass on the information contained in this report to any other person without the prior written consent of TD Securities Inc. TD Securities Inc., TD Securities (USA) LLC and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. TD Securities Limited is authorised and regulated by the Financial Conduct Authority. Copyright 2015 by TD Securities. All rights reserved.

**Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.**